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Organizational capabilities mediates between organizational culture, entrepreneurial orientation, and organizational performance of SMEs in Pakistan

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ABSTRACT

Objective: Our purpose was to determine the mediating role of organizational capabilities between organizational culture, entrepreneurial orientation, and organizational performance of small and medium-sized enterprises (SMEs) in Pakistan.

Research Design & Methods: A total of 384 questionnaires were used for analysis using SmartPLS 3.0. Partial least square structural equation modelling was used for hypotheses testing. The area cluster sampling technique was used for data collection.

Findings: Organizational culture and entrepreneurial orientation are positively associated with organizational capabilities that lead to organizational performance. Organizational capabilities significantly mediate between organizational culture, entrepreneurial orientation, and organizational performance.

Implications & Recommendations: Future researchers can use business strategy, market orientation, leadership, and knowledge management to determine organizational performance. Corporate governance and market orientation can use the mediating or moderating effect between entrepreneurial orientation, organizational culture, knowledge management, and organizational performance.

Contribution & Value Added: We used organizational capabilities with entrepreneurial orientation and organizational culture to measure organizational performance using resource-based view (RVB).

Article type: research article

Keywords: organizational culture; entrepreneurial orientation; organizational capabilities; organizational performance; small and medium enterprises

JEL codes: L26

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INTRODUCTION

The textile sector faces issues regarding entrepreneurial orientation (EO), organizational culture, and organizational capabilities that influence business performance. In a previous study, researchers found that small and medium-sized enterprises' (SMEs') long-range endurance depends on their capability to deliberately plan business operations (Lyon, Lumpkin, & Dess, 2000) and this process involves a long-range plan regarding their products, competitors, operations, and employees. Prior literature refers to this as entrepreneurial orientation. Researchers have paid considerable attention to entrepreneurial orientation over the last few years (Boukis, Gounaris, & Lings, 2017) to increase the performance of SMEs. To respond to this research question, some critical factors for the performance of SMEs have been identified. Entrepreneurial orientation is a significant factor for measuring business performance (Real, Roldán, & Leal, 2014). A recent study concluded that entrepreneurial orientation and organizational capabilities play an important role in examining business performance (Monteiro, Soares, & Rua, 2017). Prior literature regarding entrepreneurial orientation demonstrated that entrepreneurial orientation is significant for the survival and performance of organizations (Hughes & Morgan, 2007; Lumpkin & Dess, 2001). The connection between dimensions of entrepreneurial orientation and business performance is inconclusive and needs to be studied further. For example, entrepreneurial orientation was found to enhance business performance in one study (Covin & Lumpkin, 2011), but reduced business performance in another (Rauch, Wiklund, Lumpkin, & Frese, 2009). Here, we measured entrepreneurial orientation from the following three dimensions: pro-activeness, innovativeness, and risk-taking.

Organizational culture is considered the most significant determinant for any type of organization and a vital determinant of firm success (Rehman, Mohamed, & Ayoup, 2019a). Organizational culture plays an important role in an organization's survival in the market (Rehman *et al.*, 2019). Despite this, organizational culture (hierarchy, clan, adhocracy, market culture, and hierarchy culture) does not predict organizational performance (Yesil & Kaya, 2013). In addition, the relationship between dimensions of organizational culture and performance is inconclusive and needs to be studied further. In this study, we examined organizational culture from three dimensions: supportive culture, innovative culture, and bureaucratic culture. Our aim was to determine the application of organizational culture, entrepreneurial orientation, and organizational capabilities in the Pakistan textile industry. We also provided exposure to general managers to the execution of organizational culture, entrepreneurial orientation, and organizational capabilities in specific organizations. Therefore, the current research was directed by the following objectives:

1. To examine the relationship between entrepreneurial orientation and organizational capabilities;
2. To examine the relationship between organizational culture and organizational capabilities;
3. To determine the mediating role of organizational capabilities between organizational culture, entrepreneurial orientation, and organizational performance; and
4. To examine the relationship between organizational capabilities and organizational performance.

The sector of micro-, small and medium-sized enterprises (SMEs) in Pakistan is considered the backbone of the national economy. Researchers and policymakers have paid considerable attention to SMEs. SMEs provide benefits to the economy in terms of gross domestic product, provide employment opportunities, and enhance the income level of individuals (Bianchi, Glavas, & Mathews, 2017). Research on small-scale businesses is considered a new field, especially in developing countries, despite the significance and dominance of this sector.

This study was conducted in the textile industry of Pakistan for multiple reasons, mainly:

1. The textile industry of Pakistan is the leading exporting and manufacturing industry in Pakistan earning 1446.86 INR or 8.86 billion USD annually (Rehman *et al*., 2019a).
2. This industry is considered the backbone of Pakistan and contributes more than 63% of exports, 8.5% to the gross domestic product, and is the biggest manufacturing industry in Pakistan (Rehman *et al*., 2019a).
3. The textile industry of Pakistan has a market share of less than 1% in the whole world, and there is a large possibility that this industry will grow in the future (Ataullah, Sajid, & Khan, 2014).

In Pakistan, the textile industry faces challenges regarding organizational capabilities (Rehman *et al*., 2019a) and entrepreneurial orientation (Aziz, Hasnain, Awais, Shahzadi, & Afzal, 2017), which influence organizational performance. Hence, we attempted to highlight some factors that influence the organizational performance. Our findings significantly contribute to the research examining the mediating effect of organizational capabilities between entrepreneurial orientation organizational culture and organizational performance. Prior researchers studied organizational capabilities (external stakeholder relations capability, operational capability, and strategic management capability) in large organizations, but is limited in small organizations (Koufteros, Verghese, & Lucianetti, 2014; Rehman *et al*., 2019a); this study covers this gap. In this paper, a resource-based view theoretical model is developed.

LITERATURE REVIEW

Entrepreneurial Orientation and Organizational Capabilities

Entrepreneurial orientation (EO) was initially developed and defined by Miller (1983) as well as Miller and Friesen (1983). Since then, several studies on entrepreneurial orientation across cultures, countries, and industries have been conducted. For instance, entrepreneurial orientation is defined as the process, managerial activity, and practices that are directed to the latest entry (Lumpkin & Dess, 1996). EO is produced from strategy-making choices where latest chances are lucratively employed by determined enactment (Van de Ven & Poole (1995)) and is mainly determined by the vacant chances in the market (Abebe, 2014). Despite this, a new entry can only be accomplished in a situation where some of these indicators are working (Lumpkin & Dess, 1996). Others measured that EO in terms of risk-taking, pro-activeness, and innovativeness (Miller, 1983). Some researchers concluded that entrepreneurial orientation has no dimension and it is a one-dimensional variable (Covin & Wales, 2012). According to Lumpkin and Dess (1996), EO is measured in terms of five dimensions; autonomy, aggressiveness, innovativeness, risk-taking, and pro-

activeness. Other researchers have recommended the same dimensions to measure the construct entrepreneurial orientation (Lee & Lim, 2009; Miller, 1983).

Dimensions of entrepreneurial orientation are interconnected and might differ autonomously (George & Marino, 2011) depending on cultural, environmental, and organizational perspectives in a situation where an organization engages in a new entry (Zhao, Li, Lee, & Bo Chen, 2011). For instance, one study concluded that entrepreneurial orientation is exemplified by cultural variations and the intensity of these variations is very high in the Netherlands and the USA (Kemelgor, 2002). Due to this reason, many researchers use the following three dimensions to measure EO: pro-activeness, risk-taking, and innovativeness (Semrau, Ambos, & Kraus, 2016). In this context, risk-taking refers to the brave move into an unfamiliar business field in the conditions of uncertainty (Lumpkin & Dess, 1996). Innovativeness refers to the level at which an organization encourages fresh thoughts, experiments, originality, and ingenuity that might lead to a new market, process, product, or service (Wang, 2008). Pro-activeness refers to a situation where an organization enters in a new market by taking initiative over their competitor. Hence, EO is considered a significant firm procedure that assists organizations in enhancing business performance (Khalili, Nejadhussein, & Fazel, 2013). Despite this, entrepreneurship does not play a positive role in economic development (Dvoulety *et al*., 2018). The entrepreneurial orientation impact on organizational performance is based on more than national culture and organization size (Rauch *et al*., 2009). Organizational capabilities play a significant role in determining organizational performance (Chang, Liao, & Wu, 2017; Shurafa & Mohamed, 2016). The influence of EO on organizational capabilities could likely enhance business performance. The proposed hypotheses are as follows:

H1: Entrepreneurial orientation significantly influences organizational capabilities.

H2: Organizational capabilities significantly mediate the relationship between entrepreneurial orientation and organizational performance.

There have been various empirical studies on entrepreneurial orientation conducted in various regions of the world. Table 1 highlights how two recent studies measuring entrepreneurial orientation, used in this study.

Table 1. Selected studies related to entrepreneurial orientation (EO)

No.	Authors	Year	Country	Sample	EO Measured
1	Głodowska, Maciejewski, and Wach	2019	Poland	355 businesses	Risk-taking, pro-activeness, innovativeness
2	Teles and Schachtebeck	2019	South Africa	342 respondents	Risk-taking, innovation, pro-activeness, autonomy

Source: own study based on (Głodowska, Maciejewski, & Wach, 2019; Teles & Schachtebeck, 2019).

Organizational Culture and Organizational Capabilities

Organizational culture includes norms, values, and beliefs that are shared between organization employees to help perform their duties as a social collective unit. The literature shows that some researchers measured culture in terms of the personality of an organization (Balkaran, 1995), whereas others measure organizational culture in terms of purpose, spirit, and foundation (Gutknect & Miller, 1990). Organizational culture has various dimen-

sions as well as variations, including innovative culture, bureaucratic culture, and supportive culture (Wallach, 1983). Ernest Chang and Lin (2007) measured organizational culture in terms of effectiveness, cooperativeness, consistency, and innovativeness.

In this research, we adopted three dimensions of organizational culture: innovative, supportive, and bureaucratic, as presented by Wallach (1983). Innovative culture is also known as an exciting and dynamic culture. Entrepreneurial and determined persons succeed in circumstances that provide a stable and creative work place, filled with risks and challenges. Employees compatible in an innovative organization enjoy working in risky and challenging situations. Employees that have creative minds, take risks regularly, and are result-oriented accept this culture. Bureaucratic culture means hierarchical as well as compartmentalized culture. In this culture, employees receive clear tasks and authority is known, and the employees are expected to work in an organized and systematic way. Bureaucratic culture is hierarchical, structured, and suitable for the organization with a higher portion of a stable market. Supportive culture refers to a comfortable place for doing a job. In this culture, the employees are friendly, fair, and helpful to others while working in an open and pleasant setting. Innovative culture, supportive culture, and bureaucratic culture influence organizational performance (Kuo & Tsai, 2017). Predictors other than organizational culture influence organizational performance, e.g., organizational capabilities (Shurafa & Mohamed, 2016). Organizational culture is the most significant factor in examining organizational capabilities and performance (Mania, 2016). We, therefore, hypothesized the following:

H3: Organizational culture significantly influence organizational capabilities.

H4: Organizational capabilities significantly mediate the relationship between organizational culture and organizational performance.

Organizational Capabilities and Organizational Performance

Organizational capabilities refer to an organization's ability to organize its tangible and intangible resources to execute an activity to improve its performance. According to Barney (1991), organizational resources have some characteristics such as being unique, rare, valuable, and non-substitutable, leading to the achievement of competitive advantage. Organizations need distinctive and/or unique capabilities to obtain an advantage over their competitors (Wernerfelt, 1984). Koufteros *et al*. (2014) used organizational capabilities in their studies and measured organizational capabilities in terms of external stakeholder relations capability, strategic management capability, and operational capability. Strategic management capabilities refer to the capacity of the organization to manage its internal and external resources that have been acquired intentionally for the fulfillment of organizational objectives. Operational capabilities refer to the mixture of difficult tasks performed by an enterprise to increase results from using technology efficiently, production capabilities, and the flow of materials (Dutta, Narasimhan, & Rajiv, 1999). External stakeholder relations capabilities refer to the organized relationship with organizations' external stakeholders like suppliers, customers, and government organizations to improve organizational performance. Organizational capabilities are considered a significant indicator in determining organizational performance (Shurafa & Mohamed, 2016). Figure 1 shows the theoretical framework of the study. We, therefore, hypothesized the following:

H5: Organizational capabilities have a positive and significant influence on organizational performance.

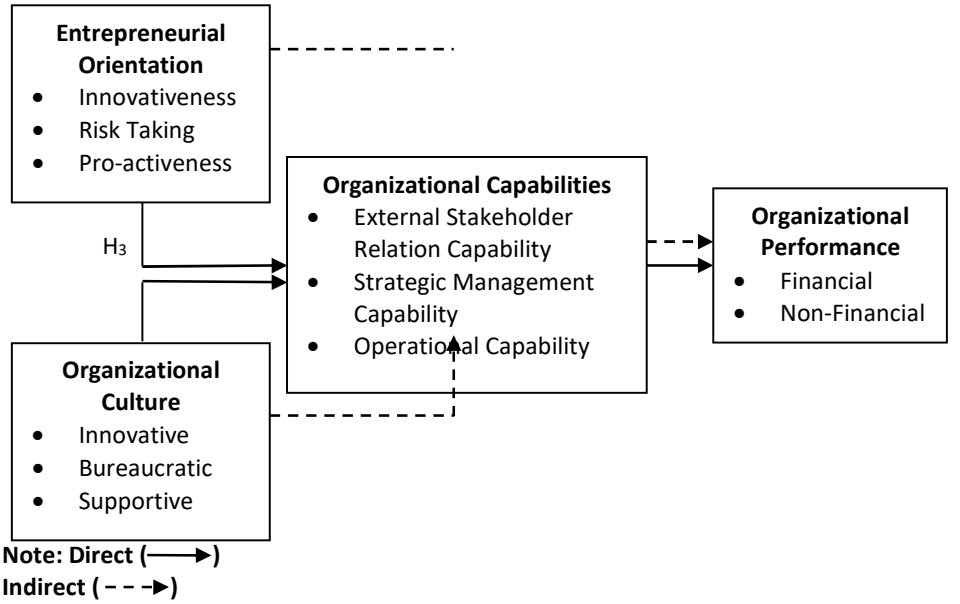

Figure 1. Theoretical framework
Source: own elaboration.

RESEARCH METHODOLOGY

Scales and Items

Entrepreneurial orientation was determined using pro-activeness, risk-taking, and innovativeness, and items were adapted from previous studies (Covin & Slevin, 1989; Chang, Lin, Chang, & Chen, 2007; Hughes & Morgan, 2007). Organizational culture was determined using innovative culture, bureaucratic culture, and supportive culture, and items were adapted from Wallach (1983). Organizational capabilities were determined using external stakeholder relations capability, strategic management capability, and operational capability, and were adapted from Koufteros *et al*. (2014). The organizational performance was determined using financial performance and non-financial performance, and items were adapted from Henri (2006), Teeratansirikool, Siengthai, Badir, and Charoenngam (2013). The questionnaire used in this study (Appendix 1) included two main parts: the first part consisted of 6 questions related to the demographics of respondents; the second part consisted of 66 items of organizational culture, entrepreneurial orientation, organizational capabilities, and organizational performance. Every item was measured using a 5-point Likert scale (1 for strongly disagree, 5 for strongly agree). There are several advantages of the 5-point Likert scale (Rehman, Bhatti, & Chaudhry, 2019b): frustration level among respondents is reduced, respondents fill out the questionnaire with honesty and devotion, and respondents feel more at ease and comfortable using a 5-point Likert scale.

Data Collection

We collected data from a structured questionnaire that was adopted from prior research in the area of organizational culture, entrepreneurial orientation, organizational capabilities, and organizational performance. Questionnaires were distributed personally among textile industry managers/owners of small- and medium-scale textile units. When managers/owners did not want personal visits, data were collected through mail-delivered questionnaires. A common method bias was used because data were collected from a single source. For this purpose, Harman's single factor was used and results revealed that the single factor accounted for 47.023% of the total variance. The value is less than 50%; therefore, there was no issue of a common bias method in the data.

Population and Sampling

These data were collected from small textile industries (weaving, woven, and finishing) performing business in Pakistan. A total of 3500 small units in Pakistan were used (Economic Survey of Pakistan 2017-18). We used area cluster sampling for data collection because textile units are situated in a wide area in Pakistan. Formation of clusters was based on provinces in Pakistan. There are five provinces in Pakistan: Punjab, Baluchistan, Khyber Pakhtunkhwa, Sindh, and Gilgit-Baltistan. Two clusters were chosen for data collection because most of the textile units are located in Punjab and Sindh. After choosing the specific clusters, the next step was to randomly select respondents to fill out questionnaires from each cluster. Area cluster sampling was used as it minimizes data collection cost, is a suitable technique in cases where the population is spread in a wider area, and covers the maximum population (Sekaran & Bougie, 2006). This technique was more appropriate in the current research because the population spread was in a wider area.

Sample Size

Roscoe (1975) stated that as a rule of thumb, there should be a minimum of 30 and a maximum of 500 respondents required for a good sample size and more than this range will give better results. Respondents were managers/owners that had a high rank in the organization and had a knowledge of the study variables. These respondents were well-educated and fill out the questionnaires giving expected results. A total of 346 units were selected (Krejcie & Morgan, 1970). According to Salkind and Rainwater (2003), increasing the sample size by at least 40% is necessary to achieve a better response rate. We increased the sample size by 50% to get a better response rate, and therefore distributed 525 questionnaires. Of the total, 410 were completed and returned, out of which 26 had misleading values; therefore, only 384 questionnaires were used for the final analysis. This study meets the above-mentioned rule of thumb for sample selection. Five major cities were selected for data collection: four in Punjab (Faisalabad, Multan, Lahore, and Gujranwala) and one in Sindh (Karachi). In Sindh, most of the textile units are in located in Karachi. In Punjab, four cities were selected because majority of the textile units are spread out in these cities. All respondents represented the textile industry. The data were collected between June and August 2019. Table 2 represents the organization profile of the respondents. The organizations had 100 to 1000 employees.

Table 2. The profile of respondents

Construct	Category	Number of cases	%age
Position	Managers	129	33.60
	Owners	255	66.40
Qualification	Diploma	11	2.86
	Bachelor Degree	57	14.84
	Master Degree	238	61.97
	M. Phil.	59	15.36
	Others	19	4.95
Field of study	Accounting	89	23.17
	Business Administration	111	28.91
	Finance	119	30.99
	Others	51	13.28
		14	3.65
Experience	Less than 6 years	98	25.52
	6-11 years	149	38.80
	12-16 years	107	27.86
	17-21 years	14	3.64
	More than 21 years	16	6.17
Number of employees	100-300	92	23.96
	301-700	193	50.26
	701-1000	71	18.49
	More than 1000	28	7.29
Average annual revenue	Less or equal to 100	103	26.82
	101-300	184	47.92
	301-600	67	17.44
	More than 600	30	7.81
Location	Multan	26	6.77
	Gujranwala	18	4.68
	Lahore	65	16.92
	Faisalabad	128	33.33
	Karachi	110	28.64
	Others	37	9.64

Source: own study.

Data Analysis

In this study, SmartPLS 3.0 was used to determine the theoretical model because this is one of the recommended growing second-generation techniques. Partial least square structural equation modeling (PLS-SEM) was used to test the hypotheses. To determine the significant values of factor loadings and path coefficients, a bootstrapping of 5000 subsamples was run. SmartPLS has some of benefits over other techniques such as there is no need to conduct a normality test and multicollinearity. This technique is better for estimation as compared to regression, and it is appropriate for both complex and simple theoretical models. In PLS-SEM, researchers estimate two models—measurement and structural models. Here, we used convergent validity and discriminant validity to measure the measurement model.

Three things must be calculated to measure convergent validity: factor loadings, composite reliability (CR), and average variance extracted (AVE). As Table 3 shows, factor loadings, AVE, CR, and Cronbach's α were above the standardized value. Figure 2 shows that we have conceptualized entrepreneurial orientation, organizational culture, and organizational capabilities as second-order variables. We used the repeated indicator approach, as recommended in the literature, in the PLS to model the second-order indicators during analysis (Hair, Hult, Ringle, & Sarstedt, 2013). Factor loadings and AVE values should be above the standardized value (0.50) and CR value should be at least 0.70 (Hair *et al*., 2013). As suggested by Bhatti and Rehman (2019), there is a need to delete all items that have factor loadings below 0.50 to obtain better results of AVE and CR. Table 3 shows items that had factor loadings more than 0.50. This action helped to establish a sound theoretical model. Cronbach's α must be at least 0.60, as suggested by (Nunnally, 1978). Table 3 highlights that the Cronbach's α of all variables was more than the standardized value.

Discriminant validity is determined by comparing the diagonal above values with the below values as mentioned in Table 4 (Fornell & Larcker, 1981). It refers to the level that items are distinguished amongst variables. Discriminant validity is found by comparing AVE square root values with the correlations or by AVE with squared correlation. In this study, we first compared the AVE square root with correlation, as shown in Table 4. According to Fornell and Larcker (1981), AVE square root values in the diagonals must be higher than other values in the same column and row of that specific variable. Table 4 shows these calculations met the discriminant validity criterion.

Table 3. Convergent validity

First-Order Constructs	Second-Order Construct	Items	Factor Loading	AVE	CR	α
Innovativeness		INV1 INV2	0.900 0.852	0.768	0.869	0.700
Risk Taking		RT1 RT2 RT4	0.887 0.898 0.638	0.667	0.854	0.734
Pro-activeness		PRA2 PRA4	0.913 0.885	0.809	0.894	0.764
	Entrepreneurial Orientation	Innovativeness Risk Taking Pro-activeness	0.852 0.917 0.765	0.717	0.883	0.852
Innovative Culture		INVCUL1 INVCUL3 INVCUL4 INVCUL5 INVCUL6	0.701 0.783 0.782 0.752 0.703	0.555	0.862	0.800
Bureaucratic Culture		BURCUL1 BURCUL2 BURCUL3 BURCUL4 BURCUL5	0.706 0.829 0.800 0.758 0.763	0.596	0.880	0.830

First-Order Constructs	Second-Order Construct	Items	Factor Loading	AVE	CR	α
Supportive Culture		SUPCUL1 SUPCUL2 SUPCUL3 SUPCUL4	0.882 0.877 0.787 0.868	0.730	0.915	0.759
	Organizational Culture	Innovative Culture Bureaucratic Culture Supportive Culture	0.901 0.922 0.933	0.844	0.942	0.906
External Stakeholder Relations Capability		ESCR1 ESCR2 ESCR3 ESCR4	0.830 0.855 0.710 0.695	0.602	0.857	0.790
Strategic Management Capability		SMC1 SMC2 SMC3	0.873 0.884 0.830	0.744	0.897	0.827
Operational Capability		OPC1 OPC3 OPC4	0.881 0.924 0.889	0.807	0.926	0.880
	Organizational capabilities	External Stakeholder Relations Capability Strategic Management Capability Operational Capability	0.798 0.798 0.871	0.677	0.862	0.870
Organizational Performance		OP2 OP4 OP5 OP6 OP7	0.712 0.823 0.714 0.803 0.720	0.572	0.869	0.816

Notes: CR – composite reliability, AVE –average variance extracted
Source: own study.

Table 4. Discriminant validity

Variables	EO	OCUL	OCAP	OP
EO	**0.847**			
OCUL	0.278	**0.919**		
OCAP	0.198	0.521	**0.822**	
OP	0.242	0.122	0.316	**0.756**

Notes: EO – entrepreneurial orientation; OCUL – organizational culture; OCAP – organizational capabilities; OP – organizational performance
Source: own elaboration.

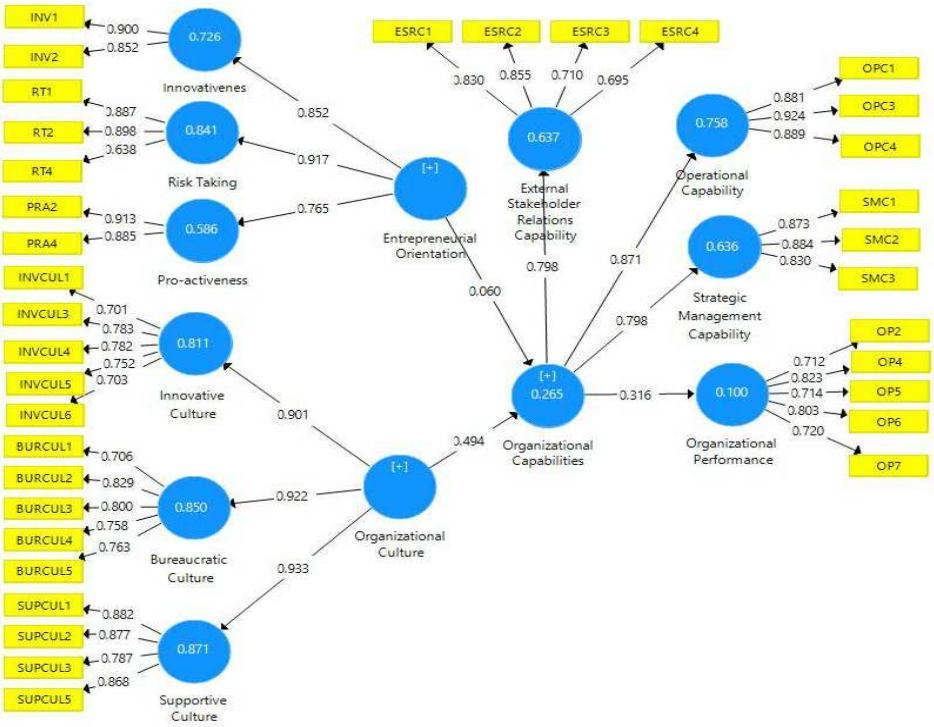

Figure 2. Measurement model
Source: own elaboration.

RESULTS AND DISCUSSION

We used a PLS algorithm and bootstrapping technique to run a structural model. Table 5 demonstrates that entrepreneurial orientation has a positive and significant influence on organizational capabilities (β = 0.060, *t*-value = 1.416, and *p*-value < 0.10), which supports H1. Entrepreneurial orientation is therefore considered a good predictor of organizational capabilities and enhances organizational capabilities. In addition, organizational culture significantly influences organizational capabilities (β = 0.494, t-value = 9.657, and *p*-value < 0.01), which supports H3. Organizational culture is deemed a significant predictor of organizational capabilities and strongly enhances organizational capabilities. Organizational capabilities are significantly related to organizational performance (β = 0.316, t-value = 6.576, and *p*-value < 0.01), which supports H5. Next, we determined the mediating influence of organizational capabilities between organizational culture, entrepreneurial orientation, and organizational performance. In this study, a bootstrapping technique was used to test the mediating effect, as recommended in the literature, and findings revealed that organizational capabilities significantly mediate between entrepreneurial orientation and organizational performance (β

= 0.053, t-value = 1.460, and *p*-value < 0.10), which supports H2. Organizational capabilities significantly mediate between organizational culture and organizational performance (β = 0.156, t-value = 5.817, and *p*-value < 0.01), which supports H4.

Entrepreneurial orientation was found to significantly influence organizational capabilities. This significant relationship demonstrates that the textile industry in Pakistan is using entrepreneurial orientation to measure organizational capabilities. The results are similar with the prior studies that reported that entrepreneurial orientation helps to determine dynamic capabilities (Monteiro *et al*., 2017). Organizational culture has a significant influence on organizational capabilities. This significant relationship demonstrates that the textile industry in Pakistan is using innovative culture, bureaucratic culture, and innovative culture in determining organizational capabilities. The outcomes are consistent with the outcomes of prior studies of organizational culture (innovative culture and collaborative culture) and organizational capabilities (product, process, market, and strategic innovation) (Chang, Liao, & Wu, 2017). Organizational capabilities have a significant influence on organizational performance. The findings are similar with the work of Shurafa and Mohamed (2016). Organizational capabilities have a significant mediating effect between entrepreneurial orientation, organizational culture, and organizational performance.

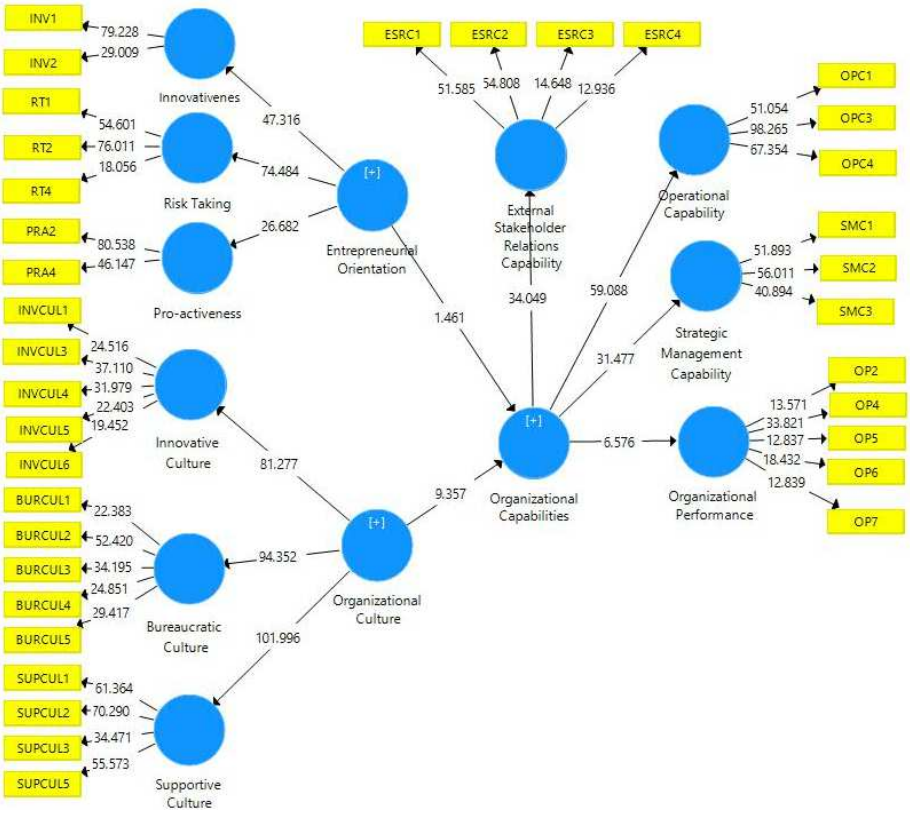

Figure 3. Structural model
Source: own elaboration.

Table 5. Direct relationships

Hypotheses	Paths	B-value	t-value	*p*-value	Results
H1	EO → OCAP	0.060	1.461	0.072	Supported
H2	EO → OCAP → OP	0.053	1.460	0.071	Supported
H3	OCUL → OCAP	0.494	9.357	0.000	Supported
H4	OCUL → OCAP → OP	0.156	5.817	0.000	Supported
H5	OCAP → OP	0.316	6.576	0.000	Supported

Notes: EO – entrepreneurial orientation; OCUL – organizational culture; OCAP – organizational capabilities; OP – organizational performance.
Source: own study.

CONCLUSIONS

The results of this study revealed that resource-based view (RBV) theory supports our theoretical model. In this study, organizational culture and entrepreneurial orientation were used as organizational resources. As RBV theory states, the organizational capabilities explain the relationship between resources and organizational performance. Thus, entrepreneurial orientation, organizational culture, and organizational capabilities enhance organizational performance.

Practical Implications

The outcomes of the current research have numerous practical contributions for managers/owners in the textile industry in Pakistan. The findings revealed that entrepreneurial orientation, organizational culture, and organizational capabilities play a significant role in determining organizational performance. For instance, organizational culture has a significant influence on organizational capabilities (mediator), which enhances organizational performance. This research suggests that managers/owners of the textile industry should focus on organizational culture (innovative culture, bureaucratic culture, and supportive culture) because organizational culture plays a significant role in enhancing organizational capabilities and organizational performance (Chang, Liao, & Wu, 2017; Shurafa & Mohamed, 2016). Cultural issues will result in decreasing if an organization ignores organizational culture. Hence, the findings of this study are useful for management in the Pakistan SMEs. We recommend that managers/owners pay attention to entrepreneurial orientation (innovativeness, risk-taking, and pro-activeness) because it plays a significant role in improving organizational capabilities and organizational performance (Monteiro *et al*., 2017). The findings of current research guide SME owners to work on entrepreneurial orientation because it is a significant factor that enhances organizational performance. Organizations that ignore entrepreneurial orientation face more issues regarding performance than organizations that focus on entrepreneurial orientation. According to the resource-based view (RBV) by Barney (1991), organizational capabilities significantly enhance the relationship between organization resources and organizational performance. In the current research, we used two organizational resources: entrepreneurial orientation and organizational culture.

Limitations and Suggestions

A limitations of the current study is that out of the 525 questionnaires, only 384 questionnaires could be used for analysis. There is a need to increase this sample size. We focused here on the textile industry of Pakistan. Even though the outcomes significantly contribute to the literature, the results of this research cannot be generalized to other areas. Further studies are needed on this theoretical model in the manufacturing sector to generalize the results. Furthermore, this model should be studied in both developed and developing countries despite the RBV theory and some other theories that support the theoretical framework. In addition, we used only entrepreneurial orientation and organizational culture; in future research, we could increase the independent variables to include business strategy, market orientation, leadership, and knowledge management to determine organizational performance. In the future, corporate governance and market orientation can be used as a mediating and moderating effect between entrepreneurial orientation, organizational culture, business strategy, market orientation, leadership, knowledge management, and organizational performance.

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Appendix A: Table Scale Items

Entrepreneurial Orientation (Chang *et al*., 2007; Covin & Slevin, 1989; Hughes & Morgan, 2007)

Innovativeness

1. In my firm, many new product lines or services have been marketed.
2. In my firm, changes in product or service lines have been mostly quite dramatic.
3. In my firm, there is a long-term commitment to invest in new technology, R&D, and continuous improvement.
4. My firm actively introduces improvements and innovations.
5. My firm is creative in its methods of operation.
6. My firm seeks out new ways to do things.

Risk Taking

1. My firm invests in high risk projects (with chances of very high return).
2. My firm adopts bold, wide-ranging acts necessary to achieve the firm's objectives.
3. My firm commits a large portion of its resources in order to grow.
4. My firm invests in major projects through heavy borrowing.
5. In my firm, people in our business are encouraged to take calculated risks with new ideas.
6. My firm emphasizes both exploration and experimentation for opportunities.

Pro-activeness

1. My firm typically initiates action which the competition then responds to.
2. My firm is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc.
3. My firm is closely monitoring technological trends and identifying future needs of customers.
4. My firm excels at identifying opportunities.

Organizational Culture (Wallach, 1983)

My organizations culture is…

Innovative Culture	Bureaucratic Culture	Supportive Culture
1. Challenging	1. Procedural	1. Safe
2. Creative	2. Ordered	2. Trusting
3. Enterprising	3. Regulated	3. Encouraging
4. Stimulating	4. Structured	4. Collaborative
5. Driving	5. Hierarchical	5. Relationship-oriented
6. Risk taking	6. Established, solid	6. Sociable
7. Result-oriented	7. Cautious	7. Personal freedom
8. Pressurized	8. Power-oriented	8. Equitable

Organizational Capabilities (Koufteros *et al*., 2014)

External Stakeholder Relations Capability

The ability to create a good relationship to external stakeholders improves…

1. Overall company leadership in the market.
2. Our relationship with suppliers.
3. Our relationship with customers.
4. Our relationship with regulators or government institutions.

Strategic Management Capability
Top management are capable…
1. To support the achievement of key strategic objectives.
2. To improve the prioritization of actions, projects, and objectives.
3. To give feedback related to company strategy and its strategic direction.
4. To give feedback on operational processes.
5. To improve the alignment of strategy and operations.
6. To enhance negotiation of capital expenditure, budget allocation, and financial support to projects.

Operational Capability
Managers are capable of…
1. Increasing the innovation of working practices.
2. Enhancing the development of integrated solutions.
3. Promoting operational improvements.
4. Increasing productivity.
5. Improving employee performance in their operations.

Organizational Performance
Financial Performance (Henri, 2006)
In my organization…
1. Profits increase.
2. Sales volumes increase.
3. Return on investments increase.

Non-financial performance (Teeratansirikool *et al*., 2013)
In my organization…
1. The number of new products increases.
2. Market share increases significantly.
3. Market development increases significantly.
4. Quality of product/services of organization increases.
5. Employee commitment or loyalty to the organization increases.
6. Employee productivity increases.
7. Personnel development increases.
8. Employee job satisfaction increases.

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