The Effect of Entrepreneurial Orientation on the Organizational Performance: A Study on the Islamic Banks in Yemen Using the Partial Least Squares Approach

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Abstract
This study used the partial least squares (PLS) approach to examine the effect of entrepreneurial orientation on the organizational performance of the Islamic banks in Yemen. The data for this study were collected from the Yemeni banking sector employing the responses obtained from the branch managers. Out of 56 distributed questionnaires to the Islamic banks’ branches, 44 usable questionnaires were returned. Before examining the effect of entrepreneurial orientation (EO) on the organizational performance of Islamic banks, the validity and reliability of the measurement, outer, model was investigated and confirmed in line with the standardized reporting style of PLS structural equation modeling. The results of the study pertaining to the impact of entrepreneurial orientation on the performance of Islamic banks was confirmed in line with the premises of the resource based view of the firm theory that looks at the organizational capabilities as a source of the competitive advantage. The last section of the study discusses the findings and provides further insights into the future research venues.

Key words: Entrepreneurial Orientation (EO), Organizational Performance, Islamic banks, Yemen.

1.0 INTRODUCTION
The global current business environment has been characterized as hyper-competitive and being very much affected by the emerging easily accessible technologies worldwide. This business environment forces organizations to be innovative and show fast responses to all the environmental changes. More specifically, organizations, to keep pace with the new technological advancements and be able to keep in business, have to adopt innovative strategies that results in high level of customers’ satisfaction (Al-Swidi & Mahmood, 2012).

Due to many growing challenges in the global business environment, all organizations have to adopt entrepreneurial strategies to keep in pace with the speed changes and rapid challenges. Apparently, the current business environment has been characterized as hyper-competitive especially for innovation-sensitive products and services. Therefore, banks have been facing an increasing competition with rapidly changing customers’ demand. This situation urged banks to develop their entrepreneurial culture that encourages innovation and foresee future business opportunities (Al-Mansour, 2007; Peschel, 2008). In other words, banks in order to survive and grow have to incorporate all the customers’ needs, feedback, and expectations as the bases of any products and services design processes (Al-Swidi & Mahmood, 2011a). Moreover, they are required, like never before, to ensure that their services and products to be of high quality and satisfactory innovation profile.

A close look at the literature review investigating the effect of entrepreneurial orientation (EO) and organizational performance, one can come across inconsistent findings (Davis, 2007; George & Marino, 2011). This situation calls for more research to be conducted in this regard (Macaes, Farhangmehr, & Pinho, 2007).
Thus, this paper was set up to examine the effect of entrepreneurial orientation on the performance of Islamic banks in Yemen as the Islamic banking sector has been growing to be one of the main players in the Yemeni economic environment. More importantly, since banks are very sensitive for any risks due its financial implications, this study aims to explore to what extent the Yemeni Islamic banks are entrepreneurial.

2.0 ORGANIZATIONAL PERFORMANCE

In the field of strategic management and organizational studies, organizational performance has been attracting the scholar attention as one of the most important constructs (Combs, Crook, & Shook, 2005). This is why, over the last few decades, practitioners as well as researchers conducted huge attention to explore the determinants of the organizational performance and what are the mechanisms that through which some variables can affect, positively or negatively, the organizational performance (Jing & Avery, 2008).

Nevertheless the extensive research work related to the organizational performance, there is no universal definition of the construct (Ford & Schellenberg, 1982; Johannessen, Olaisen, & Olsen, 1999). One of the most recent definitions was provided by Antony and Bhattacharyya (2010) who defined the organizational performance as the measure of organizational success with regards to the value it creates and deliver to internal as well as external customers.

Traditionally, the organizational performance has been measured using the cost and account-based measures (Demirbag, Tatoglu, Tekinus, & Zaim, 2006). Due to the differences of the organizational performance definitions, there has been a continuous debate regarding which is the best measure of the organizational performance (Jusoh, Ibrahim, & Zaimuddin, 2008). The proponents of each financial and non-financial performance measures tried to support their point of view. Although the majority of the studies measuring organizational performance used the account-based measure, this study chooses the non-financial measures due to the following reasoning. First, the financial measures of organizational performance are not stable and might be so sensitive to changing of the industry-related factors. Second, the financial measures can be easily manipulated and hence do not reflect the real performance. Third, the financial measures, as argued by Kaplan and Norton (1996), lack the strategic focus (Kaplan & Norton, 1996) since they describe the past performance and they might be misleading when used to predict the future performance. Last but not least, the financial performance measures might be so difficult to obtain, especially in developing countries which do not have stock market like Yemen. This may justify why this study used the perceptual measures to measure the organizational performance.

3.0 ENTREPRENEURIAL ORIENTATION (EO)

Entrepreneurial Orientation construct has enjoyed the popularity due to the development of Covin and Slevin (1989;1990) as an extension for the previous work initiated by Miller and Khandwala’s (1977) and Miller’s (1983). As a result of that, the concept of entrepreneurial firm was introduced. Since then, EO construct and its measurements have been used in a variety of fields ranging from management, to marketing (e.g., Luo, Sivakumar, & Liu, 2005) to health care (e.g., Davis, Marino, & Aaron, 2006).

In their efforts to further develop the entrepreneurial orientation concept, many researchers attempted to identify the characteristics of entrepreneurial organization. Some characteristics such as the differentiation of organization over its rivals (Miller & Friesen, 1978, 1982); increasing rate of growth (Miller & Friesen, 1982); knowledge of the organizational strategy (Miller & Friesen, 1982; Mintzberg, 1979) are considered as among the most characteristics that differentiate the entrepreneurial organizations. Based on that, Miller and Friesen (1982) provided a comparison between the entrepreneurial organizations and the conservative ones.

It has been argued by George and Marino (2011) and further discussed by Dess, Pinkham, and Yang (2011) that nonetheless the scholarly attention given to the entrepreneurial orientation (EO) construct, it has not yet been clearly defined and its dimensional structure is still ambiguous (Knight, 1997; Lumpkin & Dess, 1996; Zahra, 1993). However, despite the various versions of definitions proposed for the EO construct, all these definitions have an agreement regarding the use of the EO concept either from strategy-making practices, organizational strategic orientation, or from the process of decision making point of views (Davis, 2007).
As mentioned earlier, in general, the literature of management and entrepreneurship shows that various definitions of the EO construct were offered. While the definition of the EO construct as provided by Miller (1983) applied to a wide of organizational processes, the definition offered by some other authors (such as Lumpkin & Dess, 1996) constrained the construct to new entry and enterprises. In their attempt to define the EO construct, Lumpkin and Dess (1996) defined the EO as the set of organizational practices that show the entrepreneurial approach and abilities of that particular organization that differentiate its decision making processes (Covin et al., 2006). More generally, Covin et al. (2006) defines the EO construct as the construct that represent the overall organizational entrepreneurial abilities.

A close look at the literature of entrepreneurship reveals that the EO construct was operationalized differently by different researchers. While some researchers used five dimensions to explain the EO construct namely, innovativeness; proactiveness; risk taking; autonomy; and competitive aggressiveness, many others used only the first three dimensions. The majority of the studies related to the EO construct have utilized the innovativeness, proactiveness, and risk-taking as the dimensions to account for the variance in the EO construct (George & Marino, 2011; Morris & Sexton, 1996; Zahra, 1993).

4.0 ENTREPRENEURIAL ORIENTATION (EO) AND ORGANIZATIONAL PERFORMANCE

In today’s changing and challenging business environment, it has been widely argued that innovativeness of the organization; its proactiveness nature; and its readiness to tolerate risks are the weapons that should be used to survive and grow (Al-Swidi & Mahmood, 2011b, and c; Barrett & Weinstein, 1998; Covin & Miles, 1999; Covin & Slevin, 1991; Lumpkin & Dess, 1996; Zahra et al., 1999; Zahra & Covin, 1995). In addition, the massive technological revolution has challenged all the traditional methods of solving customers’ problems and urged for new effective approaches to be sought (Ramachandran et al., 2006). That is why there always a need for the innovativeness in offering products and services and continuous improvement to revolve with the customers’ needs and to meet their expectations (Dess et al., 1999).

Due to the increasing importance of the EO concept, a great attention has been given by researchers to explore the impact of the entrepreneurial orientation on the organizational performance. The attention given to the EO construct due to its potentiality to help organizations to lead the market and attract and retain loyal customers through its capabilities to innovatively revolve with their needs and expectations (Zahra, 1991; Zahra et al., 1999). The success of banks, like other business organizations, is heavily based on the customers’ satisfaction with the products and services offered. Therefore, the success of banks can be a result of their ability to institutionalize and encourage the entrepreneurial behavior among all the employees in exploring the customers’ related business opportunities (Ramachandran et al., 2006). In other word, the core business of banks is based on the satisfied and loyal customers that can be generated by offering innovative and of high quality products and services. That is why EO, as the base of innovative environment formulation, is expected to sustain the organizational growth (Miller, 1983; Lumpkin & Dess, 1996) and enhance the process of wealth generation (Drucker, 1985) through adding values to the organization (Al-Swidi & Mahmood, 2011b; Ramachandran, 2003) and customers as well.

Nonetheless the fact that the majority of the literature concerning the effect of EO on organizational performance confirmed the positive effect, some studies reported opposite results (Li et al., 2009; Wiklund & Shepherd, 2005). More importantly, it was pointed out that entrepreneurial organizations can always overweight their rivals in exploring and exploiting the business opportunities and can be far better in their ability to create the competitive advantage towards having a better strategic position in the marketplace than other conservative organizations (Keh et al., 2007; Lumpkin & Dess, 1996).

Based on the previous arguments and other supporting ones, the following hypothesis is to be empirically tested.

**H1: There is a significant positive effect of entrepreneurial orientation (EO) on the organizational performance**

5.0 Research Methodology

5.1 Sampling and Data Collection
The data used for this study was collected employing the survey questionnaire research design. The questionnaire as the tool of the data collection was distributed to the branch managers of four Yemeni Islamic banks namely, Saba Islamic Bank, Tadhamoon International Islamic Bank, Shamil Bank of Yemen & Bahrain and Islamic Bank of Yemen for Finance and Investment. Out of 56 questionnaires distributed, 44 usable questionnaires were returned and used for the statistical data analysis and hypothesis testing. Bank branch managers are in the executive positions and are the best to describe the level of strategy implementation (Al-Swidi & Mahmood, 2011a).

5.2 Variables and Measurements

The measure of the organizational performance variable was derived from the literature. Specifically, the variables used to measure the organizational performance were adapted from the work of Fuentes-Fuentes (2004), Jaworski and Kohli (1993), Kaplan and Norton (1996) and Narver and Slater (1990). These variables used to measure the nonfinancial performance as this measure is more reliable than the financial performance measure in predicting the future performance (Kaplan & Norton, 1996). The managers of bank branches were in the position to respond to the questionnaire as they can efficiently describe the strategies implemented in the Strategic Business Unit level. The measure of organizational performance has an acceptable internal consistency level reflected by the Cronbach’s alpha coefficient as 0.835 (Hair et al., 2010).

For measuring the entrepreneurial orientation construct, the first scale developed was introduced by (Khandwalla, 1977). Later a five-item scale was proposed by Miller and Friesen (1983). Following that, an extensive research has been done by many researchers such as Covin and Slevin (1986; 1989) to well develop the measure of the EO construct. As the dimensions developed to measure the entrepreneurial orientation construct were named to be innovativeness, proactiveness, risk taking, autonomy, aggressive competitiveness, the majority of the studies related to the EO used only the first three dimensions (George & Marino, 2011) as the version of the scale suggested by the Covin and Slevin (1989). This study, therefore, used the measure of Covin and Slevin (1989) to achieve the objective of the research conducted. The internal consistency value of each one of the three dimensions of EO construct namely innovativeness, proactiveness and risk taking were 0.884, 0.875 and 0.558 indicating an acceptable internal consistency level according to Hair et al. (2010).

5.3 Analysis and Results

As discussed earlier, this study aims to examine the relationship between EO and organizational performance. To be able to obtain valid and reliable results, this study followed the two steps approach as suggested by (Chin, 1998).

![Figure 1](The Research Model)
Therefore, the process was to confirm the construct validity before proceeding to test the hypothesis.

**5.3.1 The Measurement, outer, Model**

The goodness of measurement, outer, model has been established through the content validity and the construct validity.

**5.3.1.1 The Content Validity**

As suggested by Hair *et al.* (2010) and Chin (1998), factor loading of the items could be used to confirm the content validity of the measurement model. More specifically, all the items meant to measure a particular construct should load highly on the construct they were designed to measure. If some items load on some other factors higher than their respective construct, these items will be candidate for deletion. Further, all the measures of the construct should be significantly loaded on their respective construct. As illustrated in Table 1 and Table 2, all the items load highly and significantly on the constructs they were designed to measure. Thus, the content validity of the measurement, outer, model was confirmed.

**Table 1:**

Cross-Loading of the items

<table>
<thead>
<tr>
<th>Items</th>
<th>Organizational Performance</th>
<th>Innovativeness</th>
<th>Proactiveness</th>
<th>Risk Taking</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP1</td>
<td>0.784</td>
<td>0.326</td>
<td>0.373</td>
<td>0.19</td>
</tr>
<tr>
<td>BP2</td>
<td>0.823</td>
<td>0.402</td>
<td>0.432</td>
<td>0.167</td>
</tr>
<tr>
<td>BP3</td>
<td>0.782</td>
<td>0.315</td>
<td>0.318</td>
<td>0.105</td>
</tr>
<tr>
<td>BP4</td>
<td>0.753</td>
<td>0.449</td>
<td>0.337</td>
<td>0.456</td>
</tr>
<tr>
<td>BP5</td>
<td>0.744</td>
<td>0.333</td>
<td>0.291</td>
<td>0.143</td>
</tr>
<tr>
<td>BP6</td>
<td>0.577</td>
<td>0.441</td>
<td>0.45</td>
<td>0.376</td>
</tr>
<tr>
<td>I1</td>
<td>0.475</td>
<td>0.891</td>
<td>0.783</td>
<td>0.703</td>
</tr>
<tr>
<td>I2</td>
<td>0.511</td>
<td>0.904</td>
<td>0.825</td>
<td>0.74</td>
</tr>
<tr>
<td>I3</td>
<td>0.439</td>
<td>0.914</td>
<td>0.788</td>
<td>0.618</td>
</tr>
<tr>
<td>P1</td>
<td>0.517</td>
<td>0.694</td>
<td>0.859</td>
<td>0.608</td>
</tr>
<tr>
<td>P2</td>
<td>0.463</td>
<td>0.874</td>
<td>0.908</td>
<td>0.699</td>
</tr>
<tr>
<td>P3</td>
<td>0.407</td>
<td>0.819</td>
<td>0.939</td>
<td>0.751</td>
</tr>
<tr>
<td>R1</td>
<td>0.284</td>
<td>0.609</td>
<td>0.635</td>
<td>0.795</td>
</tr>
<tr>
<td>R2</td>
<td>0.3</td>
<td>0.435</td>
<td>0.423</td>
<td>0.605</td>
</tr>
<tr>
<td>R3</td>
<td>0.207</td>
<td>0.604</td>
<td>0.588</td>
<td>0.773</td>
</tr>
</tbody>
</table>

**Table 2:**

T value results

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>Loadings</th>
<th>Standard Error</th>
<th>T Value</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational</td>
<td>BP1</td>
<td>0.784</td>
<td>0.165</td>
<td>4.739</td>
<td>0.000</td>
</tr>
<tr>
<td>Performance</td>
<td>BP2</td>
<td>0.823</td>
<td>0.163</td>
<td>5.048</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>BP3</td>
<td>0.782</td>
<td>0.157</td>
<td>4.984</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>BP4</td>
<td>0.753</td>
<td>0.117</td>
<td>6.454</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>BP5</td>
<td>0.744</td>
<td>0.136</td>
<td>5.476</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>BP6</td>
<td>0.577</td>
<td>0.156</td>
<td>3.688</td>
<td>0.000</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>I1</td>
<td>0.891</td>
<td>0.03</td>
<td>29.413</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>I2</td>
<td>0.904</td>
<td>0.032</td>
<td>27.873</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>I3</td>
<td>0.914</td>
<td>0.031</td>
<td>29.746</td>
<td>0.000</td>
</tr>
<tr>
<td>Proactiveness</td>
<td>P1</td>
<td>0.859</td>
<td>0.052</td>
<td>16.510</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>P2</td>
<td>0.908</td>
<td>0.03</td>
<td>30.634</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>P3</td>
<td>0.939</td>
<td>0.019</td>
<td>50.420</td>
<td>0.000</td>
</tr>
</tbody>
</table>
5.3.1.2 The Convergent Validity

The convergent validity is defined to be the degree to which a set of variables converge in measuring the concept on construct (Bagozzi & Yi, 1988; Hair et al., 2010). It is, therefore, confirmed using the items reliability, composite reliability and average variance extracted. This means that if all the items are significantly important in measuring their constructs, composite reliability values are at least 0.7 and the average variance extracted (AVE) are at least 0.5 then the convergent validity can be confidently confirmed (Bagozzi & Yi, 1988; Hair et al., 2010).

Referring to Table 3, the composite reliability value of all the constructs exceeded the cutoff value of 0.7 and all the values of AVEs are more than 0.5. Thus, one can confirm that the measurement, outer, model possesses an adequate level of convergent validity.

Table 3:
The results of convergent validity analysis

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>Loadings</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability&lt;sup&gt;a&lt;/sup&gt;</th>
<th>AVE&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Performance</td>
<td>BP1</td>
<td>0.784</td>
<td>0.841</td>
<td>0.883</td>
<td>0.560</td>
</tr>
<tr>
<td></td>
<td>BP2</td>
<td>0.823</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP3</td>
<td>0.782</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP4</td>
<td>0.753</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP5</td>
<td>0.744</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP6</td>
<td>0.577</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovativeness</td>
<td>I1</td>
<td>0.891</td>
<td>0.887</td>
<td>0.930</td>
<td>0.816</td>
</tr>
<tr>
<td></td>
<td>I2</td>
<td>0.904</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I3</td>
<td>0.914</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactiveness</td>
<td>P1</td>
<td>0.859</td>
<td>0.886</td>
<td>0.929</td>
<td>0.815</td>
</tr>
<tr>
<td></td>
<td>P2</td>
<td>0.908</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>P3</td>
<td>0.939</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Taking</td>
<td>R1</td>
<td>0.795</td>
<td>0.557</td>
<td>0.771</td>
<td>0.532</td>
</tr>
<tr>
<td></td>
<td>R2</td>
<td>0.605</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>R3</td>
<td>0.773</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup>: CR = (Σ factor loading)<sup>2</sup> / (Σ (factor loading)<sup>2</sup>) + Σ (variance of error)

<sup>b</sup>: AVE = Σ (factor loading)<sup>2</sup> / (Σ (factor loading)<sup>2</sup> + Σ (variance of error))

5.3.1.3 The Discriminant Validity

The discriminant validity shows to which degree a set of items differentiate a construct from other
constructs in the model. This means that the shared variance between between each construct and its measures is greater than the variance shared among distinct constructs (Compeau et al., 1999). To examine the discriminant validity of the measurement model, this study followed the criterion suggested by Fornell and Larcker (1981). As in correlation matrix illustrated in Table 4 below, the diagonal elements are the square root of the average variance extracted of all the latent constructs. The discriminant validity is assumed if the diagonal elements are higher than other off-diagonal elements in their rows and columns. This situation is apparently the case in the correlation matrix and thus the discriminant validity is confirmed.

Table 4:
Correlations among constructs and discriminant validity

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Innovativeness</td>
<td>0.903</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Organizational</td>
<td>0.526</td>
<td>0.748</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Proactiveness</td>
<td>0.885</td>
<td>0.509</td>
<td>0.903</td>
<td></td>
</tr>
<tr>
<td>(4) Risk Taking</td>
<td>0.761</td>
<td>0.354</td>
<td>0.763</td>
<td>0.729</td>
</tr>
</tbody>
</table>

5.3.2 The Structural, Inner, Model and Hypothesis Testing

Having established the validity and the reliability of the measurement model, the next step was to test the hypothesized relationship by running PLS algorithm and Bootstrapping algorithm in SmartPLS 2.0.
As indicated in Figures 2 and 3 and Table 5, the path coefficient between Entrepreneurial Orientation and the Organizational Performance was found to be significant at the 0.001 level of significance (β=0.512, t= 4.799, p<0.001). This result showed the importance of EO for an enhanced organizational performance and thus supported H1 of the study.

5.3.2.1 Predictive Relevance of the Model

The quality of the structural model can be assessed by $R^2$ which shows the variance in the endogenous variable that is explained by the exogenous variables. Based on the results reported in Table 6, the $R^2$ was found to be 0.262 indicating that EO can account for 26% of the variance in the organizational performance. Based on the assessment criterion suggested by Cohen (1988), 0.26 substantial, 0.13 moderate and 0.02 weak; our $R^2$ here is considered substantial indicating the power of EO in explaining the organizational performance.

Another criterion to assess the quality of the model is using the Blindfolding procedure to generate the cross-validate communality and cross-validated redundancy. Blindfolding procedures is designed to remove amount of the data and handle them as missing values to estimate the model parameters. These parameters are used later to reconstruct the assumed missing data. Based on that, the comparison will be held to assess how close the real from the implied results and the $Q^2$ values will be calculated.

A cross-validated communality $Q^2$ is obtained when the data points are predicted using the underlying latent variable scores. Whereas, if the prediction of the data points is obtained by the LVs that predict the block in question, then a cross-validated redundancy $Q^2$ is the output.
Table 6

 Prediction Relevance of the Model

<table>
<thead>
<tr>
<th>Endogenous</th>
<th>R Square</th>
<th>Cross-Validated Redundancy</th>
<th>Cross-Validated Communality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Performance</td>
<td>0.262</td>
<td>0.107</td>
<td>0.559</td>
</tr>
</tbody>
</table>

As suggested by Fornell and Cha (1994), the model will have predictive quality if the cross-redundancy value was found to be more than 0, otherwise the predictive relevance of the model can not be concluded. Based on the SmartPLS 2.0 results, the obtained cross validated redundancy was found to be 0.107. This result supports the claim that the model has an adequate prediction quality.

5.3.2.2 Goodness of Fit (GoF) of the Model

Dislike the CBSEM approach; PLS Structural Equation Modeling has only one measure of goodness of fit which was defined by Tenenhaus et al. (2005) as the global fit measure (GoF). This measure is the geometric mean of the average variance extracted and the average $R^2$ for the endogenous variables. GoF is calculated by the following formula

$$Gof = \sqrt{(R^2 \times AVE)}$$

Based on the results obtained, the GoF value was 0.698 which was calculated as in the following

$$Gof = \sqrt{(0.715 \times 0.681) = 0.698}$$

The comparison was made with the baseline values of GoF as suggested by Wetzels et al. (2009) (small =0.1, medium =0.25, large =0.36). The results showed that the model goodness of fit measure is large an adequate of global PLS model validity.

6.0 Discussion and conclusions

The results of this study have confirmed the important effect of entrepreneurial orientation (EO) on the organizational performance. Specifically, EO has proven to have a significant positive effect of the organizational performance ($\beta=0.512$, $t=4.799$, $p<0.001$) at the 0.001 level of significance. In other word, entrepreneurial orientation can account for 26% of the variance in the organizational performance. This result confirmed the importance of EO to the organizational performance as widely acknowledged in the existing literature (see for instance Keh et al., 2007; Li et al., 2009; Miller, 1983; Wiklund & Shepherd, 2005; Wiklund. 1999; Zahra & Covin, 1995; Zahra & Gravis, 2000). The need for banks to be entrepreneurial is to be able to response fast and quickly to the unexpected changing of the business environment. Without the ability of organizations, including banks, to revolve around their customers and satisfy them anyway, it is impossible for them to grow or even to survive (Dess et al., 1999).

Dimension wise, based on the data collected and consequently the results obtained innovativeness and proactiveness have shown to be very important in reflecting the entrepreneurial orientation concept when compared to the risk taking dimension. Being innovative in offering services and products will help banks to lead the innovation trend seeking the best ways to serve their customers. Relatedly, banks have also to foresee the customers’ future needs and react accordingly. On the other hand, risk taking dimension of the EO construct could be described to be not suitable for the banks’ operations due to its financial sensitivity. Risk taking in the banks nature of work does not necessary mean that the bank will undertake the enterprise without being able to foresee the future potential profitability. It
mostly imply how initiative the bank in serving the customers following unprecedent approach.

One major limitation of this study was related to research design that is based on examining the relationship between EO and organizational performance at one point of time. This type of relationship might be clearer if investigated on the long run. In addition to that, due to the difficulty to get the exact financial performance measures of banks in Yemen, this study chose to measure the organizational performance based on the perceptions of the managers. Non-financial performance measures can also give clear insights into the future performance.

Future research related to the performance implication of EO should consider some other factors that can explain further the mechanism through which this effect can be explained. As it has been widely emphasized in the organizational change and the contingency theory literature, some other organizational and environmental factors should further investigated in order to gain a clear understanding of the underlying hypothesized relationships in the context of uncertain business environment.

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