

Entrepreneurial Orientation and Business Performance: A Review of Studies for Promising Research Direction

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ABSTRACT :

Business organizations are facing extreme competition and are operating in a changing and difficult environment in the present global scenario. The organizations, therefore, oblige to be proactive and competitive enough to survive in today's business world. In order to outperform competitors, firms need to achieve superior performance and gain competitive advantage. Firms strive to improve performance by developing and implementing effective business strategies that proactively exploit opportunities in the market place while capitalizing on the available resources and capabilities. Firm's strategy can have a major impact on its business model, organizational structure, processes, activities, investment, relation to the market, and performance. Among others, entrepreneurial orientation is one of the most significant orientations that direct and influence the firm's performance and viability. This paper introduces a brief review of this orientation literature especially the source and consequence of entrepreneurial orientation and measurements of the various components. This paper aimed at providing insights in three dominant areas: entrepreneurial orientation conceptualization, entrepreneurial orientation's measurement challenges and possibilities, and entrepreneurial orientation's effect on firm's performance.

Key Words: Performance, Entrepreneurial Orientation, Research Review.

INTRODUCTION :

Business organizations are facing intense competition and are operating in a changing and challenging environment in the present global scenario. They need to be proactive and competitive enough to survive in today's business world. In order to outperform competitors, firms need to achieve superior performance and gain competitive advantage (Peter and Melissa, 2015). Firms strive to improve performance by developing and implementing effective business strategies that proactively exploit opportunities in

the market place while capitalizing on the available resources and capabilities. Firm's strategy can have a major impact on its business model, organizational structure, processes, activities, investment, relation to the market, and performance (Chan et al., 1997; Valos and Bednall, 2010; Vanhaverbeke and Peteers, 2005). Hence, the strategic orientations elaborate how firms' management perceives the changes in the operating business environment and according to this perception, firms engage in building organizational capabilities and respond to the changing environment (Peter and Melissa, 2015).

The topic of entrepreneurial orientation (EO) continues to receive a considerable research attention from different streams of literature and it is strongly recommends that entrepreneurial orientation (EO) remains a crucial research topic (Covin and Wales 2018; Martens, C. D. P., Lacerda, F. M., Belfort, A. C., & Freitas 2016). Entrepreneurial orientation can be defined as the "entrepreneurial strategy-making processes that key decision makers use to enact their firm's organizational purpose, sustain its vision, and create competitive advantage" (Rauch et al. 2009).

The components, measurement and effects of entrepreneurial orientation are matters of ongoing discussion and debates. The present paper attempts to assess these issues on the light of previous studies and suggest insights for future researches. It begins with clarifying the concepts of entrepreneurial orientation and its source and components. The main purpose of this paper revolve around addressing these matters in a new fashion and assessing the conversation rather than proposing definitive answers to these issues as they should rightfully remain open to discussion and debate.

ENTREPRENEURIAL ORIENTATION: THE CONCEPT :

In order to define the concept of entrepreneurial orientation, the meaning of the word entrepreneur should be clarified. The term entrepreneur was derived from a French entrepreneur literally meaning 'undertaker' and used to refer to those who undertake self-employment for an uncertain return (Certo et al. 2009). The term entrepreneurship in management and strategy literature is mostly revolving around the process of starting a new business, entering a new market, developing a new product (Lumpkin and Dess 1996). Despite the absence of a universally accepted definition and the exact role of entrepreneur, this study adopt the definition given by Venkatraman 1997 which state: "entrepreneurship is a field of study on understanding 'how opportunities to bring into existence 'future' goods and services are discovered, created, and exploited, by whom, and with what consequence". This definition reflexes the French term entrepreneur and elaborates it with the technical meaning associated with that term in strategy literature.

Lumpkin and Dess (1996) state that entrepreneurship is concerned about the exploits of a new business entering the market, starting a new company or product, whereas entrepreneurial orientation is concerned about how the new entry is undertaken. While some scholars focus on the establishment of a new entry (Zhang 2008), others refer to entrepreneurial orientation as the sum of strategy-making processes that enable the entrepreneur to enact his business plans and run his organisation accordingly (Lumpkin and Dess 1996, Wiklund and Shepherd 2003).

The concept of entrepreneurial orientation has received a lot of attention from researchers and has become a central concept in the domain of entrepreneurship (Covin et al. 2006). Covin and Wales (2012) point out that entrepreneurial orientation has been a main subject in entrepreneurship literature for more than 30 years. Entrepreneurial orientation has been used in more than 100 studies leading to a worldwide acceptance of the conceptual meaning and relevance of the concept (Rauch et al. 2009).

ENTREPRENEURIAL ORIENTATION: SOURCES AND CONSEQUENCES :

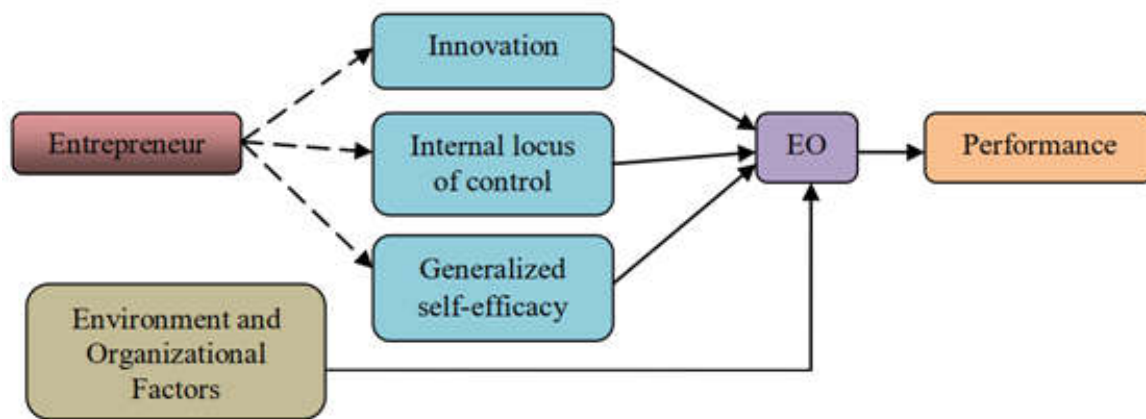
Researcher mostly focused on the role of entrepreneur and entrepreneur's characteristics for understand the sources of entrepreneurial orientation. Johnson (1990) advocates that entrepreneurs are the energizers of the entrepreneurial process and Zahra (1993) claims that an entrepreneur's characteristics lead to entrepreneurial orientation. Entrepreneurial orientation is premised on the assumption that the individual (entrepreneur) possesses certain characteristics of pro activeness, innovativeness, risk-taking, autonomy and competitive aggressiveness. These characteristics along with other organizational and environmental factors constitute the nature of entrepreneurial orientation of the firm. Poon et al. (2006) suggest that the entrepreneurial orientation is produced from internal locus of control and generalised self-efficacy, while Zhang (2008) names several factors, such as innovativeness, entrepreneurship behaviour and environmental factors. On the other hand, On the other hand, Lumpkin and Dess (1996) suggest that entrepreneurial orientation is derived from the characteristics of the individual firm and it may vary depending on the specific influences both internal and external to a firm.

Combining these different perspectives, this thesis considers entrepreneurial orientation is derived from the innovativeness of entrepreneurs, internal locus of control and generalised self-efficacy. Innovativeness can be labelled as the tendency of a firm or entrepreneur to engage in a new way of doing that most probably resulted into new product or services (Lumpkin and Dess 1996).

Although the previous studies seem to be quite similar in their understanding of the sources of entrepreneurial orientation, the consequences of entrepreneurial orientation

are fraught with some uncertainties and divergence in opinion. Rauch et al. (2009) suggest that entrepreneurial strategy-making processes is the key decision maker which could be used to enact a firm's organizational purpose, sustain its vision and create competitive advantage. This study is premised on a direct effect of entrepreneurial orientation on superior firm performance. Figure 1.1 below shows the sources and effects of entrepreneurial orientation based on suggestions of previous studies (Zhang 2008, Poon et al. 2006, Lumpkin and Dess 1996).

Figure 1.1 Source and Consequence of Entrepreneurial Orientation



Source : Zhang 2008

Entrepreneurial Orientation: Components and Measurement :

Entrepreneurial orientation was first conceptualized by Miller (1983) as a construct of three components or dimensions: innovativeness, risk taking and proactiveness. These three dimensions were later labelled by Covin and Slevin (1989) as making up 'a basic, one-dimensional strategic orientation', and supported by Zhang (2008) when the study gave a concrete evidence that the three original components of entrepreneurial orientation are positively correlated with each other and support a convergent validity. The hierarchical relationship between the three original dimensions of entrepreneurial orientation was further researched. Tang et al. (2009) proposed that the three unique dimensions of entrepreneurial orientation are not separate autonomous constructs, but antecedents or consequences depending on the internal and external context of the firm. The following sections will briefly discuss the three dimensions of entrepreneurial orientation.

Proactiveness :

Market proactiveness refers to the extent to which a company anticipates and acts on future needs, (Lumpkin and Dess 1996, Miller 1983). Proactive companies are often the first firms to introduce new products, engage in new projects or enter new markets. According to Venkatraman (1989), proactiveness is the process of anticipating and acting on future needs by: "seeking new opportunities which may or may not be related to the present line of operations, introduction of new product, and brands ahead of competition, strategically eliminating operations which are mature or declining stage of the life cycle".

Innovativeness :

Previous studies found that innovativeness results from the achievement made by the firm in developing new products, services and processes. It is believed that innovative firms are better performing than their competitors (Certo et al. 2009). Lumpkin and Dess (1996) define innovativeness as the propensity of a firm to adopting new ideas, creative processes and experimentation which lead to new products, services or technological processes. Lumpkin and Dess (1996) note that the idea of innovativeness was first associated with entrepreneurship by Schumpeter (1942) who emphasized the role of innovation in the entrepreneurial process. Certo et al. (2009) say that an innovative entry by a firm is able to disrupt existing market conditions and stimulate new demand by enacting Schumpeter's idea of the process of creative destruction which argues that the old technology is replaced by new technology through innovation and economic revolution.

Risk-taking :

Miller (1983) defines risk-taking as the tendency of a firm to engage in high-risk products, projects or process with the aid of managerial preferences who choose bold actions to achieve a firm's objective. However, Lumpkin and Dess (1996) argue that it is significant to note that risk can have several meanings conditional to the context in which it is applied. As Baird (1985) argues, risk-taking action in the face of serious uncertainty may or may not necessarily lead to advantageous result. The unpredictability of results from risk-taking means that it does not necessarily act as a positive dimension of entrepreneurial orientation. Rauch et al. (2009) observations showed that the most adaptable and useful measurement scale for entrepreneurial orientation is the one proposed by Covin and Slevin (1989). Other measurement scales are those proposed by Naman and Slevin (1993), Lumpkin and Dess (1996) and Miller (1983). It's of interest to note that these measurement scales were mixed by the researchers according to the suitability of their studies.

Entrepreneurial orientation and business performance :

The growing challenges in both global and domestic business environment call for the adoption of entrepreneurial strategies to boost up business performance and organizational challenges and changes (Peter and Melissa, 2015). Entrepreneurial orientation can be defined as the “entrepreneurial strategy-making processes that key decision makers use to enact their firm’s organizational purpose, sustain its vision, and create competitive advantage” (Rauch et al. 2009). Even though entrepreneurial orientation has been conceptualized in different ways there seems to be a growing consensus that entrepreneurial orientation reflects three basic components – risk taking, proactiveness, and innovation (Baker and Sinkula, 1999; Kropp, Lindsay, and Shoham, 2006; Matsuno, Mentzer and Ozsomer, 2002; Verhees and Meulenbergh, 2004; Wiklund, 1999; Wiklund and Shepherd, 2005). Based on meta-analysis, Rauch et al. (2009) had reported a correlation of 0.242 between firm’s entrepreneurial orientation and firm’s performance. The theoretical basis for this correlation is that risk taking, proactiveness, and innovation are very essential for dealing with complex environments (Dess, Lumpkin and Covin, 1997). In the same way, for developing sustainable advantages firms have to re-examine the fundamental processes and introduce new products before competitors. The benefits of first-mover help the firm to earn monopoly, attain higher profits and achieve superior financial performance (Lumpkin and Dess, 1996; Wang, 2008).

Nonetheless, other researchers have examined that entrepreneurial orientation may not necessarily lead to superior performance because entrepreneurial orientation processes are both costly and time consuming (Dess, Lumpkin and Covin, 1997; Pelham, 2000; Wiklund, 1999). Further, some researchers had distinguished between large firms and small firms and noted that focusing on entrepreneurial orientation may lead to misallocation of the available resources since these scarce resources may be more effectively deployed in other endeavours. Under this scenario, the sub-optimal deployment of resources causes firm’s performance to suffer (Lumpkin and Dess, 2001; Merlo and Auh, 2009; Rauch et al. 2009). To explain these conflicting results findings, researchers have postulated that entrepreneurial orientation acts on firm’s performance in different ways according to the firm’s size because of the financial constraints that are associated with small and medium firms. In other words, research and development processes require a huge budget which cannot be afforded by small and medium enterprises. (Verhees and Meulenbergh, 2004; Wang, 2008). More specifically, small and medium enterprises prefer to avoid taking risks or funding uncertain initiatives because they are not able to recover from financial losses. As such, an entrepreneurial orientation may be less useful for firms with small size since they are less able to pursue expected risks as compared to firms with large size. Finally, the impact of entrepreneurial orientation on firm performance may also depend on other

organizational orientations that are included in any given analysis. For example, Matsuno, Mentzer and Ozsomer (2002) found that the impact of entrepreneurial orientation on firm's performance disappeared when market orientation was jointly examined. Wang (2008) explained this outcome by suggesting that simply examining the direct entrepreneurial orientation-performance relationship provides an incomplete picture of performance. In short, although entrepreneurial orientation generally exhibits a positive effect on firm's performance, the significance of this effect may vary according to firm's size, resources constraints and the inclusion of other orientations in the analysis.

CONCLUDING NOTE :

Several recent reviews of the EO literature, including those of Gupta and Gupta (2015), Martens et al. (2016), and Wales (2016), have offered valuable insights and suggestions on matters within the EO research domain worthy of future study. The reader is referred to these reviews as inspiration for identifying the types of EO research that are likely to add significant value to the current knowledge base. Future researches need to be integrated with other types of strategic ordination such as market orientation, technology orientation and brand orientation. There is a need for adopting configurational approach for analyzing the impact of entrepreneurial orientation on business performance. The recent calls of orientation literature need to be considered for the purpose of any empirical investigation.

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