Entrepreneurial Orientation And Firm Performance : A Critical Examination

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I. Introduction

Entrepreneurs of a country play a critical role in the overall economic development and growth of a nation. Entrepreneurship is a multidimensional task and essentially a creative activity which needs team-building, leadership, and management ability. Many research studies have shown that the advancement of entrepreneurship as a collective body of knowledge has been limited, because there is lack of agreement on many points in question regarding what constitutes entrepreneurship(Shane & Venkataraman, 2000; Rauch, Wiklund, Frese, & Lumpkin, 2009) because researchers fail to build upon each other’s results(Davidsson & Wiklund, 2001; Rauch, Wiklund, Frese, & Lumpkin, 2009), and because measurements of key variables are typically weak. Reviews and assessments of entrepreneurship research show that definitions of entrepreneurship typically change between the economic and management perspectives. The concept of Entrepreneurial Orientation and the dimensions that constitute entrepreneurial orientation was developed during 1980s and 1990s.(Miller & Friesen, 1982)(Burgelman, 1983)(Galbraith & Kazanjian, 1986)(Miller, Toulouse, & M., 1986)(Covin & Slevin, 1988)(Zahra S. A., 1993)(Covin, Slevin, & Schultz, 1994)(Lumpkin & Dess, 1996)(Dess, Lumpkin, & Covin, 1997)(Barringer & Bluedorn, 1999)(Sandep & Harpreet, 2012). In recent years the concept of Entrepreneurial Orientation has attracted considerable attention in the field of entrepreneurship research (Rauch, Wiklund, Frese, & Lumpkin, 2009). Entrepreneurial Orientation can be viewed as a characteristic of a firm which can be measured by looking at top management’s specific entrepreneurial aspects of decision-making styles, methods and practices. It refers to a firm’s strategic orientation capturing the extent of propensity to be innovative, takes risks to compete aggressively and acts autonomously and proactively. A majority of EO studies so far have found that adopting EO dimensions in firms will help them to create or sustain a high level of performance.

The objective of this article is to do a review of literature on the dimensions of entrepreneurial orientation i.e. innovativeness, risk-taking, proactiveness, autonomy and competitive aggressiveness and also to examine the relationship between entrepreneurial orientation and business performance. It is envisioned that this study will help scholars to gain a deeper understanding of the relationship between entrepreneurial orientation and performance.

II. Entrepreneurship

Defining Entrepreneurship is the basis for understanding the concept of entrepreneurial orientation. French economist Richard Cantillon in 18th century was the first person who gave a reference in the field of entrepreneurship. In his work “Essaisur la nature du commerce enGénéral”, he defined entrepreneurship as “a process of self-employment with an uncertain return (Higgs, 1935). Over the years many scholars have given different definitions for the term. In recent years, the concept of entrepreneurship has received rising attention in terms of scholarly research (Wiklund, Davidsson, Audretsch, & Karlsson, 2011; Filser & Eggers, 2014). This concept has become a hot topic of debate within the field of strategic management and has become popular areas of research in management studies. From a review of the various definitions it can be concluded that the essence of entrepreneurship is the ability to detect an opportunity in the market place, along with the willingness to pursue and exploit it by conducting innovation to obtain higher rewards.

III. Entrepreneurial Orientation

The phenomenon of EO has become a central focus of the entrepreneurship literature and strategic management for more than three decades of research (Covin & Lumpkin, 2011; Miller D., 2011; Covin & Wales, 2012). The EO construct has received considerable attention from researchers, even though there are some controversies in its dimensions.(Lyon, Lumpkin, & Dess, 2000; Zahra & Covin, 1995; Lumpkin & Dess, 1996). The last two decades have witnessed the developments in the area of EO-performance relationship and adoption of
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Entrepreneurial Orientation is a higher order construct with a multidimensional measure of firm level entrepreneurship, comprising of innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy. EO refers to the strategy making processes that provide organizations with a basis for entrepreneurial decisions and actions, i.e., it reflects the methods, practices and decision-making styles managers use to act entrepreneurially (Lumpkin & Dess, 1996). Lumpkin and Dess (1996) made a real break from the previous use and definition of the concept by arguing that the various dimensions of EO need not co-vary for a firm to be considered entrepreneurial (Basso & Fayolle, 2009; Wales & Gupta, 2011). According to Lumpkin and Dess (1996) the key dimensions that characterize an EO include a propensity to act autonomously, a willingness to innovate and take risks, and tendency to be aggressive toward competitors and proactive relative to market place opportunities.

Lumpkin and Dess (1996) conceptualization of EO is more domain focused that is specified where to look for EO whereas the Miller (1983) conceptualization of EO is more phenomenon focused that is what EO looks like (Covin & Wales, 2012). As the usefulness of EO has been identified by academics, there has been a continuously increasing stream of literature concentrating on the concept EO (Covin & Lumpkin, 2011; Covin, Green, & Slevin, 2006; Covin & Wales, 2012; Dess, Lumpkin, & McFarlin, 2005; Filser & Eggers, 2014; Lumpkin & Dess, 2001; Wales & Gupta, 2011; Wiklund J., 1999). But there has been no significant or widely acknowledged adaptations as to how EO construct can or should be conceptualized since the publication of Lumpkin and Dess’s work. Researchers have strongly associated the unidimensional view of EO with Miller (1983) and Covin and Slevin (1986) and the multidimensional view of EO is associated most strongly with Lumpkin and Dess (1996). Amid all these differences, we can generalize that EO represents specific organizational level behavior that provides a basis for entrepreneurial actions.

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V. Dimensions Of Entrepreneurial Orientation

The pertinent dimensions of EO can be derived from a review and assimilation of the strategy from the rich entrepreneurship literature available. Entrepreneurial Orientation has been operationalized in terms of three dimensions articulated by Covin and Slevin (1989) based on the earlier work of Miller (1983) viz., ‘innovativeness’, ‘risk-taking’ and ‘proactiveness’, to reflect how firms implicitly and explicitly choose to compete. Later, Lumpkin and Dess (1996) advanced EO into a larger construct through the inclusion of two more dimensions: ‘autonomy’ and ‘competitive aggressiveness’.

VI. Innovativeness

Schumpeter (1934; 1942) was among the first to accentuate the importance of innovation in the entrepreneurial process. Innovation was described as a process of “creative destruction” where wealth creation occurs by disruption of existing market structures, by introduction of new goods and services that triggers a resource shift (Schumpeter, 1942). The mechanism of creative destruction is first triggered by the entrepreneur, enacting innovation within the concept of entrepreneurial orientation as an indispensable success factor (Lumpkin & Dess, 1996). It is the inclination to commit creativity and experimentation through technological leadership, research and development (R&D) to generate unique products, services and processes. Innovativeness is the proclivity of the firm’s readiness to explore and support new conceptions. In today’s dynamic business conditions, where rapid changes are happening, efficaciously producing, comprehending and utilizing innovations can be an important channel for accomplishing competitive advantage.

According to (Dess & Lumpkin, 2005), innovations are classified into three: - Technological innovativeness, Product-market innovativeness and Administrative innovativeness. Technological innovativeness encompass primarily of research and engineering efforts aimed at developing new products and processes. Product-market innovativeness refers to market research, product design, and innovations in advertising and promotion. Administrative innovativeness include novelty in management systems, control techniques, and organizational structure.

VII. Risk-Taking

Strategic risk-taking means actions such as venturing into the unknown, heavy borrowing, and/or committing substantial portions of corporate assets in uncertain environments (Baird & Thomas, 1985). Risk-taking is normally associated with entrepreneurship because the concept of entrepreneurship in its original form includes the assumption of personal risk-taking. Lumpkin and Dess (1996) argued that entrepreneurially oriented firms are often characterized by risk-taking behavior, such as incurring heavy debts or making significant resource commitments, in the interests of obtaining high returns by seizing opportunities in the marketplace. Risk-taking entails the willingness to pursue opportunities that have a substantial likelihood of producing losses or significant performance discrepancies (Morris, Kuratko, & Covin, 2008). On firm level, risk-taking refers to a firm’s propensity to support projects with uncertain expected returns (Walter, Auer, & Ritter, 2006) such as moving into unfamiliar new markets and committing substantial resources to ventures with vague outcomes (Lumpkin & Dess, 2001). This dimension represents the aspect of a firm’s strategic posture that refers to the firm’s willingness and ability to devote increased resources to projects whose outcome is difficult to predict. In the context of business, in practice all business endeavors entail some degree of risk (Lumpkin and Dess, 1996). (Dess, Lumpkin, & McFarlin, 2005). But in the context of EO, this risk-taking is not gambling, but moderated and calculated risk (Morris, Kuratko, & Covin, 2008). Thus, risk taking does not refer to extreme and completely uncontrolled risky endeavors (Morris, Kuratko, & Covin, 2008) even though the consequences of an act cannot be known (Dess, Lumpkin, & McFarlin, 2005).

VIII. Proactiveness

Proactiveness is described as an opportunity-seeking, forward-looking perspective characterized by the launching of new products and services in advance of the competition and acting in expectation of future demand (Miller D., 1983; Lumpkin & Dess, 2001; Rauch, Wiklund, Frese, & Lumpkin, 2009). A first-mover strategy is the best strategy for capitalizing on a market opportunity and proactiveness relates to efforts associated with being the first mover. If a firm spots an opportunity in the market and is the first to act upon it, it can make abnormal profits and benefit from brand recognition (Lumpkin & Dess, 1996). Early studies in entrepreneurship also identified the proactive nature of an organization as an important contributor to the entrepreneurial nature of an organization (Mintzberg, 1973; Miller & Friesen, 1983). Proactive firms act on future needs actively seeking new opportunities
and furthermore they are often pioneer firms that are first to enter the new markets (Nazdrol & Breen, 2011). Hence, proactiveness, which refers to taking initiative, anticipating and creating new markets or participating in emerging ones, is also associated with entrepreneurship and is an important dimension of entrepreneurial orientation (Entrialgo, Fernandez, & Vazquez, 2000; Walter, Auer, & Ritter, 2006).

Lumpkin and Dess (1996) argued that other than the much used dimensions of Innovativeness, Risk taking and Proactiveness, dimensions such as competitive aggressiveness and autonomy should also be considered as essential components of EO.

IX. Competitive Aggressiveness

Competitive aggressiveness is said to emulate the magnitude of a firm’s effort to outrun its industry rivals, distinguished by a strong offensive posture and a forceful reaction to competitor’s actions to achieve or improve position. (Lumpkin & Dess, 2001; Kraus, Harms, & Schwarz, 2005; Covin & Slevin, 1991). Firms with this behavior tend to assume an antagonistic posture towards rivals in an attempt to outdo competitors that threaten its survival or market position in the industry (Lyon, Lumpkin, & Dess, 2000). A firm’s aggressiveness can be identified by its willingness to be unconventional rather than rely on traditional methods of competing. This can be implemented through responsive or reactive behavior. Responsiveness may take the form of head-to-head competition or direct attack on competitors, such as when a firm enters a market where a competitor is already present. In contrast, reactiveness involves a direct reaction to a competitor’s action; for example, a firm might slash prices and sacrifice profitability to maintain its market share when a competitor introduces a new product to the chosen market. (Lumpkin & Dess, 1996). Thus we can say that Competitive Aggressiveness is the driver to face the intense acute competition posed by rivals. It is the firm’s strategic response to competitions in an effort to protect its competitive market position.

X. Autonomy

Organizational autonomy is a rooted concept within the management literature and has been expressed using an array of frameworks. Autonomy refers to the ability to make decisions and to proceed with independent action by an individual or a team directed at bringing about a new venture, a business concept or vision and seeing it to fruition, without any restrictions from the organization (Lumpkin & Dess, 1996; Lumpkin, Cogliser, & Schneider, 2009; Rauch, Wiklund, Frese, & Lumpkin, 2009). Autonomy can empower organizational members the freedom and flexibility to establish and enact entrepreneurial initiatives. It affords a team (or individual) to not only solve the problems, but to actually define the problem and the goals that will be met in order to solve that problem. In the framework of EO, therefore, autonomy is crucial to the processes of leveraging a firm’s current strengths, identifying opportunities that are beyond the organizations current capabilities and supporting the development of new ventures and improved business practices. Therefore it has been suggested that autonomy should exist at the strategic level to achieve a high level of EO (Lumpkin, Cogliser, & Schneider, 2009).

XI. Unidimensionality Versus Multidimensionality

There are two dominant perspectives on Entrepreneurial Orientation in the past research. (Covin & Lumpkin, 2011; George & Marino, 2011; Wales & Gupta, 2011; Covin & Wales, 2012). These are (i) the composite, uni-dimensional approach most commonly associated with the works of Miller (1983) and Covin and Slevin (1989) in which EO is represented by firms that possess all three qualities of risk taking, innovative and proactive behaviors to a similar extent or (ii) as a multi-dimensional approach associated with Lumpkin and Dess’ (1996) work in which risk taking, innovativeness, proactiveness, competitive aggressiveness and autonomy are treated as independent behavioral dimensions that defines EO’s conceptual space (Covin & Miller, 2014). These conceptualizations differ from each other on whether the EO dimensions vary independently or not (Covin, Green, & Slevin, 2006). Covin et al. (2006) asserted that one of the most important decision among researchers is about the extent to which EO dimensions need to be present for a firm to be considered entrepreneurial. The underlying idea behind the composite or uni-dimensional approach to EO is that in order to have an EO, a firm needs to concurrently be risk-taking, innovative and proactive and all of these dimensions need to equally contribute to a firm’s overall EO (Miller D., 1983; Covin & Slevin, 1991; Krieser, Weaver, & Marino, 2002). This means that when EO is considered unidimensional, its dimensions co-vary with each other, and an increase in EO requires an increase in all of the dimensions (George & Marino, 2011). Furthermore, this indicates that the construct of EO cannot be decomposed into its dimensions, because if that would be done, EO would cease to exist (Covin, Green, & Slevin, 2006). In examining EO as a one-dimensional construct, many past researchers have found support for a positive relationship between EO and firm performance. Overall, under the unidimensional conceptualization, EO can be
understood as a sustained firm-level attribute represented by the singular quality that risk taking, innovative and proactive behaviors have in common.

A construct is multidimensional when it consists of a number of interrelated attributes and exists in multidimensional domains. In contrast to a set of interrelated unidimensional constructs, the dimensions of a multidimensional construct can be conceptualized under an overall abstraction, and it is theoretically meaningful to use this overall abstraction as a representation of the dimensions (Law & Wong, 1998; Covin & Wales, 2012). Lumpkin and Dess’s (1996) article changed the viewpoint by explicitly advocating that EO can be viewed as a multidimensional construct with autonomy and competitive aggressiveness recognized as additional important dimensions of the construct. They asserted that the dimensions of EO vary independently of each other because firms can be high on some dimensions and low on others. I.e., it is an idiosyncratic configuration of multiple dimensions that describe the phenomenon (Wales & Gupta, 2011). Thus, they may also vary independently. Therefore, based on this view, EO exists either as a set of independent behavioral scores with a range from low to high across the dimensions, or as a collective profile or composition formed by these dimensions (Covin & Lumpkin, 2011). Clearly, research adopting a multidimensional conceptualization of EO has been increasing in recent years, indicating greater acceptance of the notion that EO dimensions may manifest unique contributions to firm outcomes (Wales & Gupta, 2011). But it is also premature to suggest a multidimensional rather than unidimensional conceptualization of Entrepreneurial Orientation based on how the dimensions relate to performance (Rauch, Wiklund, Frese, & Lumpkin, 2009).

XII. Firm Performance Measures

Performance is an extensively used concept in many areas. Usually, performance is a measure of how well a mechanism or a process accomplishes its objective. Performance is claimed to be a multidimensional and complex construct that has been measured using a variety of indicators (Lumpkin & Dess, 1996; Stam, Souren, & Elfring, 2013). In organizational point of view, performance means how well the organization is managed and the value the organization delivers for customers and other stakeholders (Wu & Zhao, 2009). There is no dispute that one of the basic purposes of both entrepreneurship and strategic management theory and research is the enhancement of organizational performance (Mithani, 2012). Venkatraman and Ramanujam (1987) empirically investigated the degree of concurrence across methods of measuring business economic performance and in so doing, established that sales growth, profit growth, and profitability were discriminate measures of different dimensions of business economic performance. Carton and Hofer (2006) described financial performance to be a combination of profitability, growth, efficiency, liquidity, size, and leverage, which are measured with relevant measures. The potential measures to assess the above-mentioned dimensions of performance are, for instance: return on assets, sales growth, sales per employee, current ratio, number of employees, and debt to equity.

Kraus et al. (2012) noted that performance is regularly measured in one or a combination of the following means: perceived financial, perceived non-financial, and archival financial. Several studies (Dess et al., 1997; Wiklund, 1999; Lumpkin and Dess, 2001; Wiklund and Shepherd, 2003; Madsen, 2007; Runyan et al., 2008; Kraus et al., 2012; Lechner and Gudmundsson, 2012; Messersmith and Wales, 2013) have used perceived performance indicators to assess firm performance. The items that were used to form the performance indicators typically were based on manager’s subjective views about firm’s profitability, growth, market share, in relative to its most important competitors. The overall performance measure is typically formed by merging several items measuring the different aspects of performance into one performance score or index (e.g., Lechner and Gudmundsson, 2012). The reasons for the use of perceived performance measures are commonly the lack of publicly available archival performance figures on SMEs (Kraus et al., 2012) or the fear of losing respondents if such accurate performance figures are requested in questionnaires as privately owned firms are often reluctant to disclose such financial information (Messersmith and Wales, 2013). This kind of subjective performance data may be prone to bias or inaccuracy as it relies on key informants, typically CEO’s, ability and willingness to report and rate firm’s objective performance accurately with subjective proxies (Kraus et al., 2012). Many studies on the other hand have shown that subjective and objective performance measures are typically strongly positively correlated (Wall et al., 2004; Jantunen et al., 2005; Stam and Elfring, 2008; Messersmith and Wales, 2013) and hence support the validity of the subjective performance measures.

XIII. Entrepreneurial Orientation And Performance

Covin and Slevin (1991) suggest that the reason as to why there has been a growing interest in research in the area of entrepreneurship is because there is a notion that entrepreneurship can lead to enhanced performance in both new and established enterprises. Due to rapid changes in the current business environment, where both product
and business model life cycles get shorter and future profits from existing operations are uncertain, firms need to continuously look for new opportunities, and develop more entrepreneurial strategies (Rauch, Wiklund, Frese, & Lumpkin, 2009). The importance of entrepreneurial orientation and its influence on firm performance have been highlighted in both conceptual and empirical view points (Covin & Slevin, 1991; Lumpkin & Dess, 1996) and there are lot many empirical research (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2003; Wiklund & Shepherd, 2005) which are concerned with the positive implications that entrepreneurial orientation has on performance of a firm (Lumpkin & Dess, 1996; Wiklund, J., 1999). Therefore the relationship between entrepreneurial orientation and firm performance has become the central focus of interest for studying entrepreneurial orientation (Covin, Green, & Slevin, 2006). But EO literature offers no solid consensus on the appropriate measures of small firm performance (Wiklund J., 1999). To date, findings have been mixed. Various studies have shown that EO, directly or indirectly has a positive relationship with firm performance (Kraus, Harms, & Schwarz, 2005; Wiklund & Shepherd, 2005). At the abstract level entrepreneurial orientation is said to have positive effects on performance because firms with this strategy have first–mover advantage that ultimately translates into better financial results (Wiklund J., 1999). At the empirical level, past studies have shown positive relationship between entrepreneurial orientation and firm performance (Lee & Pennings, 2001; Wiklund, J., 1999; Wiklund & Shepherd, 2005). Thus, it may be beneficial to adopt an EO, because entrepreneurial strategies are regarded as being related to better firm performance and because of that the relationship between entrepreneurial orientation and firm performance has been at the forefront of entrepreneurship literature for many years. In line with Zahra and Covin (1995), Wiklund (1999) also found a positive impact of EO on performance that increased over time. Thus, he also argued for EO as a useful strategy and showed that it is not just a short-term means to improve performance. He further posited that because EO can have a positive impact on a long term, it is worthwhile also for SMEs to use their scarce resources in adopting it. However, Lumpkin & Dess (1996) suggested that the positive implications of the entrepreneurial orientation (EO) on firm performance are context specific and may change independently of each other in a given organizational context.

It has been found that each EO dimension affects firm performance differently (Krieser, Weaver, & Marino, 2002; Lumpkin & Dess, 1996; Lumpkin & Dess, 2001; Nazdrol & Breen, 2011). Covin and Miles (1999) argued that innovation is a crucial part of a strategy and that entrepreneurship cannot endure without it. Many scholars (Coulthard 2007; Prottas 2008; Lumpkin, Cogliser & Schneider 2009) suggested that giving autonomy improves firm performance as employees are motivated to act entrepreneurially. Despite the acknowledgement of autonomy’s role in improving firm performance, some studies were not able to demonstrate a positive effect of this relationship (e.g., Hughes & Morgan 2007). Therefore the firm should be able to gain a sustained rather than short-term competitive advantage and thus higher performance (Zahra and Covin, 1995). Furthermore, Zahra and Covin (1995) argue that because the learning from the product and market strategies accumulates over time, it might take some time to realize the full impact of EO on performance.

XIV. Conclusion

Entrepreneurial Orientation construct is intended to measure the extent to which an organization is entrepreneurial. The existence of EO in a firm as pointed out by various authors is the result of organizational processes, decision making methods and styles implemented by the firm in the pursuit of acting entrepreneurially. It is the combined presence of innovation, proactiveness, autonomy, competitive aggressiveness and risk-taking in a firm that leads an organization to have entrepreneurial orientation. While analyzing the reviews, we can see that concepts such as strategic posture, corporate entrepreneurship and EO have the same variables across measurements of concepts such as with the Miller, Covin and Slevin scale commonly referred to as the MCS scale as the most commonly utilized measurement tool. The consistent use of an agreed upon measure of EO construct have enabled quick progression of the field and an ease of comparisons across studies. While most of the studies in Entrepreneurial Orientation have used EO dimensions comprising of only innovativeness, proactiveness and risk-taking propensity, several researchers have suggested the addition of two more contributing variables viz., competitive aggressiveness and autonomy. Overall, most of the researchers have been able to find a positive EO–performance relationship that gets stronger over time and many moderating factors have been found to strengthen the relationship. We hope that the research insights in this review will provide a framework for further productive discussion and for more empirical studies on the EO Concept.
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