



Journal of Applied Sciences

ISSN 1812-5654

science
alert

ANSI*net*
an open access publisher
<http://ansinet.com>

Revealing the Effects of Entrepreneurial Orientation on Firm Performance: A Conceptual Approach

¹Kai-Ping Huang, ¹Karen Yuan Wang, ²Kuo-Hsiung Chen and ³Jui-Mei Yien

¹School of Management, University of Technology, Sydney, Australia

²Department of Business Administration, Cheng Shiu University, Taiwan

³Department of Leisure Management, University of Kang Ning, Taiwan

Abstract: The study aims to investigate the effects of entrepreneurial orientation on firm performance. Entrepreneurial orientation has emerged as an important construct within the strategic management and entrepreneurship literatures over the past two decades. In recent times, especially with the growth of globalization and other such factors, the performance measurement standards and parameters have changed. This has also led to a significant change in the factors that are now used within the operational sphere of an organization in order to affect the firm performance. Empirical studies on the determinants of firm performance have identified that the entrepreneurial orientation of the firm's senior management has a significant positive influence. However, the study suggests that the performance implications of entrepreneurial orientation might vary depending on the firm's circumstances.

Key words: Entrepreneurial orientation, firm performance, risk-taking, innovativeness, proactiveness

INTRODUCTION

The Entrepreneurial Orientation (EO) takes place on the basis of the strategic business plan. This plan for any organization depends on its resource base as well as its capabilities. A strategic business plan is an integration of various elements that propel a business towards overall goal achievement. The strategic business plan depends on effective practice of sustainability theories as well as those of competitive advantage. Thus, it may be seen that EO has various aspects and elements when applied within the operational sphere of the organization (Tang *et al.*, 2007, 2008). EO has emerged as an important concept in the strategic management and entrepreneurship literature over the past two decades. As originally proposed by Miller (1983) EO involves an organization's willingness to innovate and rejuvenate its market offerings. It also takes risks by trying out new and uncertain products and services and to be more proactive than its competitors in seeking out new marketplace opportunities. The study attempts to investigate the extent to which the dimensions of entrepreneurial orientation are positively associated with firm performance.

LITERATURE REVIEW

Entrepreneurial Orientation: Entrepreneurship research has been widely conducted and discussed (Lumpkin and Dess, 1996, 2001; Baker and Sinkula, 2009; Soriano and

Dobon, 2009; Kuratko and Audretsch, 2009; Huang *et al.*, 2010). Nonetheless, because of the changing focus of entrepreneurship, there is still no common definition for it. In early research, entrepreneurship was associated with great men with an innate ability to bring "new" combinations to the market (Schumpeter, 1934). Later research was mainly aimed at discovering the specific characteristics of entrepreneurial individuals such as an internal locus of control (Begley and Boyd, 1987; Soriano and Dobon, 2009; Kuratko and Audretsch, 2009). However, after limited success in identifying the key characteristics of entrepreneurs, the focus turned to the study of entrepreneurial behavior and processes in the organization. As Gartner (1988) has argued, the focus should be on what entrepreneurs do in the organization rather than on what they are (Baker and Sinkula, 2009; Huang *et al.*, 2010).

The term 'entrepreneurial orientation' has been used to refer to the strategy-making processes and styles adopted by firms in their entrepreneurial activities (Lumpkin and Dess, 2001; Huang, 2008). Miller (1983) considers that an entrepreneurial firm is one that engages in product market innovation, undertakes risky ventures and is the first firm to come up with 'proactive' innovations ahead of competitors. Following Miller's definition, numerous scholars have adopted the term 'entrepreneurial orientation' to describe a fairly consistent set of related activities or processes (Morris and Paul, 1987). Although, Lumpkin and Dess

(1996) consider entrepreneurial orientation to have five dimensions, there is widespread agreement amongst researchers that this construct has three core dimensions: innovativeness, proactiveness and risk-taking (Hughes and Morgan, 2007; Wiklund and Shepherd, 2003). Although, these three dimensions may vary independently from one another (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005; Hughes and Morgan, 2007; Rauch *et al.*, 2009), in this study, EO will be regarded as a combination of innovativeness, proactiveness and risk-taking.

Proactiveness: Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace, thereby creating a first-mover advantage vis-à-vis competitors (Lumpkin and Dess, 2001). Proactiveness basically describes an opportunity-seeking, forward-looking perspective involving the introduction of new products or services ahead of the competition. It also acts in anticipation of future demand to create change and shape the environment. With such a forward-looking perspective, proactive firms are able to capitalize on emerging opportunities (Chow, 2006; Keh *et al.*, 2007). Proactive firms can create first-mover advantages, target premium market segments and 'skim' the market ahead of competitors (Lumpkin and Dess, 2001). Therefore, proactiveness is expected to be valuable in securing superior firm performance (Baker and Sinkula, 2009; Hughes and Morgan, 2007; Lumpkin and Dess, 2001).

Innovativeness: Innovativeness refers to a firm's tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services, or technological processes (Li *et al.*, 2008). In other words, innovativeness can be seen as a willingness to support creativity and experimentation in introducing new products and services, novelty, technological leadership and R and D in developing new processes. Although, innovations may vary according to the degree of 'radicalness' (Lumpkin and Dess, 2001; Hughes and Morgan, 2007; Wiklund and Shepherd, 2005; Rauch *et al.*, 2009), innovativeness represents a basic willingness to find methods that differ from existing technologies or practices and venture beyond the current state of the art (Lumpkin and Dess, 2001; Hughes and Morgan, 2007; Rauch *et al.*, 2009).

In creating and introducing new products and technologies, innovative firms can generate extraordinary firm performance and have even been described as the engines of economic growth (Brown and Eisenhardt, 1995). Research has also shown that firm innovativeness has a positive influence on firm performance and

enhances the firm's competitive advantage (Lumpkin and Dess, 2001; Hughes and Morgan, 2007).

Risk-Taking: Risk-taking refers to a tendency to take bold steps such as venturing into unknown new markets (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005). It is associated with a willingness to commit large amounts of resources to projects for which the cost of failure may be high (Keh *et al.*, 2007; Baker and Sinkula, 2009). Firms with an EO are often characterized by risk-taking behavior, such as taking on large debts or making large resource commitments with a view to securing high returns by seizing opportunities in the marketplace.

DISCUSSION

The literature treats entrepreneurial orientation as a construct that differs from entrepreneurship itself. Entrepreneurship generally refers to new entries in markets (Lee *et al.*, 2001). Entrepreneurial orientation, on the other hand, is related to the entrepreneurial process and concerns issues involved in entrepreneurial action (e.g., particular practices and decision-making styles). Furthermore, entrepreneurial orientation results in the destruction of old business practice stereotypes and the establishment of new, innovative, risk-tolerating patterns of economic behavior. There is also reason to believe that entrepreneurial orientation can have positive performance implications that are universal. A general tendency in today's business environment is the shortening of product and business model life cycles (Hamel, 2000; Henry, 2009). Future profit streams from existing operations are consequently uncertain and businesses need to maintain a search for new opportunities. Several empirical studies find support for the view that entrepreneurial orientation has a positive impact on performance (Tang *et al.*, 2008; Keh *et al.*, 2007; Rauch *et al.*, 2009) and anecdotal evidence supporting the value of entrepreneurship abounds (Hamel, 2000). In other words, entrepreneurial orientation plays an important role in organizational success and leads to better firm performance. Research has suggested that risk-oriented firms tend to seek new resources (Hughes and Morgan, 2007; Lumpkin and Dess, 1996). The goal of proactive firms is to maintain first-mover advantage in the short term and shape the direction of the market environment in the long term (Hughes and Morgan, 2007; Lumpkin and Dess, 1996, 2001; Slater and Narver, 1995). Therefore, proactive firms seek specific and valuable resources to enhance their competitive advantage. Furthermore, to introduce new products and services, innovative firms are likely to explore unique

resources and new possibilities to undermine their competitors. Thus:

- **Proposition 1:** Entrepreneurial Orientation (proactiveness) is positively relates to firm performance
- **Proposition 2:** Entrepreneurial Orientation (innovativeness) is positively relates to firm performance
- **Proposition 3:** Entrepreneurial Orientation (risk-taking) is positively relates to firm performance

The study investigates the dimensions of EO and how they link to firm performance. However, research on the influence of EO on firm performance has usually focused on large enterprises (Zahra, 1996). Despite the importance of SMEs for most of the world's economies, a very limited number of studies have investigated the influence of EO on SMEs performance (Salavou and Lioukas, 2003; Wiklund and Shepherd, 2005) and the underlying causes of this relationship in small and mediums enterprises (SMEs) have gone largely unexplored.

The strengthening of entrepreneurship is an important objective for any enterprise that seeks to enhance its responsiveness to a globalised and changing environment. Today's enterprises will not survive the rapid mutation and innovation they will experience if they do not maintain an entrepreneur's proficiency (Aloulou and Fayolle, 2005). SMEs lack the capabilities, market power and other resources of large firms. To a great extent, their success depends on their ability to formulate and implement competitive strategies that respond to challenges posed by the business environment (Miles and Snow, 2003; Soriano and Dobon, 2009; Peter and Inegbenebor, 2009; Asikhia, 2009; Kessy and Temu, 2010). One important area for SMEs that has received little attention to date is the strategic management of these firms, especially of the kind that leads to improved mobilization and resources. Significant research has been conducted on the aspects of entrepreneurial orientation that SMEs should embrace, including innovativeness, risk-taking and proactiveness (Miller, 1983; Miller and Friesen, 1984; Keh *et al.*, 2007; Soriano and Dobon, 2009). These key dimensions together represent an entrepreneurial orientation strategy which reflects a firm's propensity to engage in entrepreneurial behavior to achieve its strategic objectives (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2003; Keh *et al.*, 2007; Rauch *et al.*, 2009).

From SMEs perspective, it is important to note that internationalization is an entrepreneurial activity and that entering new geographic markets on a large scale can be regarded as adopting new practices (Cheng and Yu, 2008;

Knight, 2001). In other words, entrepreneurial orientation is a fundamental corporate posture that contributes strongly to the international performance of SMEs. It emphasizes innovation, risk-taking and a generally proactive approach to business in foreign markets (Knight, 2001). It is associated with managerial vision, innovativeness and a proactive competitive position in operating business overseas (Merlo and Auh, 2009; Tang *et al.*, 2007; Liu and Tsai, 2007).

CONCLUSION

The study provides thoroughly literature review illustrating the relationship between entrepreneurial orientation and firm performance. Several propositions are developed to identify the link of each construct. Firms with high levels of entrepreneurial orientation tend to scan and monitor their operating environment constantly to find new opportunities and increase their competitive advantage.

REFERENCES

- Aloulou, W. and A. Fayolle, 2005. A conceptual approach of entrepreneurial orientation within small business context. *J. Enterprising Culture*, 13: 21-45.
- Asikhia, O.U., 2009. Marketing decisions and small businesses in lagos state: A case study of furniture making business. *Res. J. Bus. Manage.*, 3: 85-94.
- Baker, W.E. and J.M. Sinkula, 2009. The complementary effects of market orientation and entrepreneurial orientation on profitability in small businesses. *J. Small Bus. Manage.*, 47: 443-464.
- Begley, T.M. and D.P. Boyd, 1987. Psychological characteristics associated with performance in entrepreneurial firms and smaller businesses. *J. Bus. Venturing*, 2: 79-93.
- Brown, S.L. and K.M. Eisenhardt, 1995. Product development: Past research, present findings and future direction. *Acad. Manage. Rev.*, 20: 343-378.
- Cheng, H.L. and C.M.J. Yu, 2008. Institutional pressures and initiation of internationalization: Evidence from Taiwanese small- and medium-sized enterprises. *Int. Bus. Rev.*, 17: 331-348.
- Chow, I.H., 2006. The relationship between entrepreneurial orientation and firm performance in China. *SAM Adv. Manage. J.*, 71: 11-20.
- Gartner, W.B., 1988. Who is an entrepreneur? Is the wrong question. *Am. J. Small Bus.*, 12: 11-32.
- Hamel, G., 2000. *Leading the Revolution*. Harvard University Press, Cambridge, MA.
- Henry, O., 2009. Organizational conflict and its effects on organizational performance. *Res. J. Bus. Manage.*, 2: 16-24.

- Huang, K.P., 2008. Firm performance-the role of entrepreneurial orientation. *J. Overseas Chin. Inst. Technol.*, 30: 1-6.
- Huang, K.P., C.H. Wang, M.C. Tseng and K.Y. Wang, 2010. A study on entrepreneurial orientation and resource acquisition: The effects of social capital. *Afr. J. Bus. Manage.*, 4: 3226-3231.
- Hughes, M. and R.E. Morgan, 2007. Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. *Ind. Marketing Manage.*, 36: 651-661.
- Keh, H.T., T.T.M. Nguyen and H.P. Ng, 2007. The effects of entrepreneurial orientation and marketing information on the performance of SMEs. *J. Bus. Venturing*, 22: 592-611.
- Kessy, S. and S.S. Temu, 2010. The impact of training on performance of micro and small enterprises served by microfinance institutions in Tanzania. *Res. J. Bus. Manage.*, 4: 103-111.
- Knight, G.A., 2001. Entrepreneurship and strategy in the international SME. *J. Int. Manage.*, 7: 155-171.
- Kuratko, D.F. and D.B. Audretsch, 2009. Strategic entrepreneurship: Exploring different perspectives of an emerging concept. *ETP*, 33: 1-17.
- Lee, C., K. Lee and J.M. Pennings, 2001. Internal capabilities, external networks and performance: A study on technology-based ventures. *Strategic Manage. J.*, 22: 615-640.
- Li, Y., Y. Zhao, J. Tan and Y. Liu, 2008. Moderating effects of entrepreneurial orientation on market orientation-performance linkage: Evidence from Chinese small firms. *J. Small Bus. Manage.*, 46: 113-133.
- Liu, P.L. and C.H. Tsai, 2007. The influence of innovation management on new product development performance in Taiwan's Hi-tech industries. *Res. J. Bus. Manage.*, 1: 20-29.
- Lumpkin, G.T. and G.G. Dess 1996.. Clarifying the entrepreneurial orientation construct and linking it to performance. *Acad. Manage. Rev.*, 21: 135-172.
- Lumpkin, G.T. and G.G. Dess, 2001. Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle. *J. Bus. Vent.*, 16: 429-451.
- Merlo, O. and S. Auh, 2009. The effects of entrepreneurial orientation, market orientation and market subunit influence on firm performance. *Marketing Lett.*, 20: 295-311.
- Miles, R.E. and C.C. Snow, 2003. *Organizational Strategy, Structure and Process*. Stanford Business Books, California.
- Miller, D., 1983. The correlates of entrepreneurship in three types of firms. *Manage. Sci.*, 29: 770-791.
- Miller, D. and P. Friesen, 1984. *Organizations: A Quantum View*. Prentice-Hall, Englewood Cliffs, New Jersey.
- Morris, M.H. and G.W. Paul, 1987. The relationship between entrepreneurship and marketing in established firms. *J. Bus. Vent.*, 2: 247-259.
- Peter, E.O. and A. Inegbenebor, 2009. Capacity of SMEs in Nigeria to access institutional equity finance. *Res. J. Bus. Manage.*, 2: 1-5.
- Rauch, A., J. Wiklund, G.T. Lumpkin and M. Frese, 2009. Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future. *Entrepreneurship Theory Practice*, 33: 761-787.
- Salavou, H. and S. Lioukas, 2003. Radical product innovations in SMEs: The dominance of entrepreneurial orientation. *Creativity Innovation Manage.*, 12: 94-108.
- Schumpeter, J.A., 1934. *The Theory of Economic Development*. Harvard University Press, Oxford.
- Slater, S.F. and J.C. Narver, 1995. Market orientation and the learning organization. *J. Market.*, 59: 63-74.
- Soriano, D.R. and S.R. Dobon, 2009. Linking globalization of entrepreneurship in small organizations. *Small Bus. Econ.*, 32: 233-239.
- Tang, J., Z. Tang, Y. Zhang and Q. Li, 2007. The impact of entrepreneurial orientation and ownership type on firm performance in the emerging region of China. *J. Dev. Entrepreneurship*, 12: 383-397.
- Tang, J., Z. Tang, L.D. Marino, Y. Zhang and Q. Li, 2008. Exploring an inverted u-shape relationship between entrepreneurial orientation and performance in Chinese ventures. *Entrepreneurship Theory Practice*, 32: 219-239.
- Wiklund, J. and D. Shepherd, 2003. Knowledge-based resources, entrepreneurial orientation and the performance of small and medium-sized business. *Strategic Manage. J.*, 24: 1307-1314.
- Wiklund, J. and D. Shepherd, 2005. Entrepreneurial orientation and small business: A configurational approach. *J. Bus. Venturing*, 20: 71-91.
- Zahra, S.A., 1996. Technology strategy and new venture performance: A study of corporate-sponsored and independent biotechnology ventures. *J. Bus. Venturing*, 11: 289-321.