

Performance and its Link to Entrepreneurial Behavior

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Abstract: Problem statement: This study investigates the effects of Entrepreneurial Orientation (EO) on firm performance. 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. **Approach:** The literature review illustrates the relationship between EO and firm performance. **Results:** Firms with high levels of EO tend to enhance firms' abilities find new opportunities and increase their competitive advantage. **Conclusion:** Although research has shown a fairly consistent positive relationship between EO and firm performance, there has been limited research on the mechanisms that might moderate the influence of EO on firm performance.

Key words: Entrepreneurial orientation, firm performance, risk-taking, innovativeness, managerial vision, strategic management, various elements

INTRODUCTION

The organization, in the modern day context, has become a body that is made up of its human resource and the quality that this resource base imbues into the operational sphere of the organization. The modern day organization depends to a great extent on the contribution and quality of its human capital. The human capital may be defined as that element of the organization's operational sphere that is a living, breathing part of the activities that put the innate resources and factors of production into application. This application results in profits arising out of the activities of the human capital and the efficiency with which this resource carries out its tasks. This in turn, has a bearing on the achievement of the organization's goals in the sense that the organization is structured according to the quality of the human resource within it. Also, it shows the principles that are followed by the management in manning the organization. The study aims to investigate the entrepreneurial orientation and performance relationship. Future research directions regarding this relationship are also provided.

MATERIALS AND METHODS

Entrepreneurship is a topic that has been widely discussed to date (Lumpkin and Dess, 1996; Dess *et al.*,

1997; Lumpkin and Dess, 2001; Baker and Sinkula, 2009; Soriano and Dobon, 2009; Kuratko and Audretsch., 2009). 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, 1982). Later research was mainly aimed at discovering the specific characteristics of entrepreneurial individuals such as an internal locus of control (Begley and Boyd, 1987). 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.

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, 1996; Lumpkin and Dess, 2001). 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

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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, 2005; Zahra 1991; Miller 1983). Although these three dimensions may vary independently of one another (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005, Hughes and Morgan, 2007; Rauch *et al.*, 2009), entrepreneurial orientation will be regarded as a combination of innovativeness, proactiveness and risk-taking in the proposed study. Innovativeness is a firm's ability to conceive and implement new ideas and methods that may result in new products, services or processes (Li *et al.*, 2008). It implies willingness to support creativity and experimentation. Proactiveness is an insight into the likelihood of a future action that leads to anticipation and action. In the marketplace it can generate a first-mover advantage vis-à-vis competitors (Lumpkin and Dess, 2001). Proactive firms look to what may well be about to happen and are thus able to capitalize on emerging opportunities (Chow, 2006; Keh *et al.*, 2007).

RESULTS

The literature treats entrepreneurial orientation as a construct that differs from entrepreneurship itself. Entrepreneurship generally refers to new entries in markets (Mantell, 2009; Lee *et al.*, 2001). Entrepreneurial orientation, on the other hand, is related to the entrepreneurial process and 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 (Lillis and Tian, 2010; Hamel, 2002). 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 (Wiklund, 1999; Zahra, 1991; Zahra and Covin, 1995; Tang *et al.*, 2007; 2008; Keh *et al.*, 2007; Rauch *et al.*, 2009; Lusk *et al.*, 2010), and anecdotal evidence supporting the value of

entrepreneurship abounds (Hamel, 2002). In other words, entrepreneurial orientation plays an important role in organizational success and leads to better firm performance.

CONCLUSION

Previous research has shown a fairly consistent positive relationship between EO and firm performance. Studies aimed at understanding this relationship have primarily focused on the analysis of the separate dimensions of EO (Lumpkin and Dess, 1996; Hughes and Morgan, 2007) or on the isolation of contingency variables that moderate this relationship. These moderating variables include environmental factors (Lumpkin and Dess, 1996; Chow, 2006; Alexandrova, 2004), social network factors (Madsen, 2007; Stam and Elfring, 2006) and resource factors (Wiklund and Shepherds, 2005; Keh *et al.*, 2007). However, to date there has been limited integrated research on the mechanism through which these factors might moderate the relationship between EO and firm performance.

Further, research on the influence of EO on firm performance has usually focused on large enterprises (Zahra, 1996). Despite the importance of small and medium-sized enterprises (SMEs) for most of the world's economies, a very limited number of studies have investigated the influence of EO on SME performance (Salavou and Lioukas, 2003; Wiklund and Shepherd, 2005) and the underlying causes of this relationship in SMEs have gone largely unexplored.

Future research would also focus on the effects of social capital on the EO and SMEs relationship. Research has shown that one of the important advantages of social networks is an increased ability to acquire valuable resources (Knoke, 2009; Chisholm and Nielsen, 2009; Francis *et al.*, 2009; Runyan *et al.*, 2007; Tsai, 2000; Barney, 1991; Nahapiet and Ghoshal, 1998; Gulati, 1999). The resource acquisition benefits derived from a social network are important for SMEs because they can help firms to overcome market information hurdles and develop new capabilities in an efficient manner. Gulati and Gargiulo (1999) note that social networks are an important intelligence web for SMEs in that they allow participants to share resources through network exchange activities. Social networks may offer an efficient means for firms to overcome deficiencies in their organizational capabilities. Jarillo (1995) points out that firm in a network can specialize in value chain activities that are essential to their competitive advantages (AL-Shubiri, 2010). By specializing in a specific part of the value chain that serves a number of

customers, SMEs can achieve scale economies to a certain degree in spite of their size disadvantage. Finally, it has been recognized that long-term relationships SMEs form with network partners offer strategic benefits because they provide direct and indirect access to key resources, skills and knowledge controlled by other members within the network (Tan *et al.*, 2011; Roy *et al.*, 2004). Such resource advantages are sustainable because they are difficult for firms outside the network to appropriate or copy.

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