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## The Genesis of the Entrepreneurial Orientation and the Proposed Model

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### **Abstract:**

*Entrepreneurial Orientation (EO) today has graduated from being a small construct to the much researched construct in the research domain. Many academicians have penned down their research on the basis of their understanding about the construct. From earlier researchers who started to coin about the concept of entrepreneurship to later theorists, all have added to some extension to the existing legacy of literature. This article throws light on the literature status of EO and also proposes a proposed model of EO which is a slight extension on the previous model. Entrepreneurial orientation (EO) has received substantial conceptual and empirical attention, representing one of the few areas in entrepreneurship research where accumulative body of knowledge is developing. The time is therefore ripe to document, review, and evaluate the cumulative knowledge on the relationship between EO and business performance. This paper develops a theoretical model of the relationship between firm-level entrepreneurship and firm performance. This model is intended to further clarify the consequences of an 'entrepreneurial orientation,' paying particular attention to the differential relationship that exists between the three sub-dimensions of entrepreneurial orientation and firm performance. Included in the theoretical model are other important variables (such as organizational structure and environmental characteristics) that may impact the EO-performance relationship. Propositions are developed regarding the various configurations of the sub-dimensions of EO and organizational structure that would be most appropriate in a given environmental context. Future research may also benefit from considering the important role that organizational strategy and life cycle stage play in this model. The implications of this model for both researchers and managers are discussed.*

**Keywords:** Entrepreneur, Entrepreneurship, Strategy, Entrepreneurial Orientation

### **1. Genesis of EO**

Among the earliest researches, one was related to defining the key characteristics of an Entrepreneur by Schumpeter (1934) when he termed the characteristics of Entrepreneurship by calling it inseparable and innovative in nature. Thereafter, Mintzberg (1973) opined about the three modes of making strategy namely- Entrepreneurial mode, Adaptive mode and Planning mode<sup>i</sup>. More the entrepreneurial acts are done with the motive of exploring new opportunities, more the wealth is created (Lumpkin and Dess, 1996).<sup>ii</sup> In the similar context, entrepreneurship plays a key role in the development of any economy (Jantunen et al., 2013)<sup>iii</sup>. In this world increasingly driven by accelerating change, entrepreneurial behavior is essential if the companies are to survive (Lyon et al., 2000).<sup>iv</sup> Wiklund et.al (2001), developed a scale on the six dimensions mentioned in the opportunity based view of the concept entrepreneurship (Stevenson 1983).<sup>v</sup>

The literature available on EO is fragmented. (Jantunen et al., 2013). The concept of EO has its roots in the strategic management literature (Lumpkin and Dess, 1996). Miller (1983) christened three kinds of firms namely Simple, Planning and Organic firms and prescribed that entrepreneurship can be a boon for these kinds of firms.<sup>vi</sup> Also Miller (1983) opined that an entrepreneurial firm is the one that engages itself in innovation, take risky steps and is also proactive by taking the lead in beating the competitors to the punch. Stevenson (1983) has shed some light on Entrepreneurship by defining it as the pursuit of opportunity without regard to resources currently controlled.<sup>vii</sup> Stevenson (1983) refined the dimension of entrepreneurial behavior by examining six critical dimensions of business practice, namely-Strategic Orientation, Commitment to opportunity, Commitment of resources, and Control of resources, Management structure, and Compensation/reward policy.

Venkatraman (1989)<sup>viii</sup> framed the earlier multidimensional framework of STROBE (Strategic Orientation of Business Enterprises) like Aggressiveness, Analysis, Defensiveness, Futurity, and the Proactiveness and Riskiness. Miller (1988) theorized that product innovation is generally more prevalent and useful in dynamic environments than in stable environments<sup>ix</sup>. Then two researchers have talked about the strategic posture of a small firm in hostile and benign environment, while sampling 161 small manufacturers of USA and mentioned the variables that relate to hostile and benign environments (Covin and Slevin, 1989)<sup>x</sup>.

Covin and Slevin (1991)<sup>xi</sup> have opined about Entrepreneurship as a dimension of strategic posture represented by a firm's risk taking ability, proactiveness and innovation. They have proposed a model to establish a link between Entrepreneurship posture and the firm performance, in light of the three types of moderating variables like the external environment, strategic and internal variables.

Zahra S.A.(1991), opined that growth oriented strategies positively associated to entrepreneurship, clearly defined organizational values increase the corporate entrepreneurship, and also that environmental dynamism, hostility and heterogeneity increase the entrepreneurship in a firm.<sup>xii</sup>

In dynamic or growth environments, companies will emphasize new business creation and innovation (Zahra S.A, 1993).<sup>xiii</sup> A company should think about reframing its Vision, Mission and reorganization in benign environments (Zahra S.A., 1993).

EO has a positive impact on the finance performance of a firm and also that long-term time horizon is recommended to measure that impact.(Zahra and Covin, 1995).<sup>xiv</sup> Risk-taking, Innovation and Competitive aggressiveness help in identifying and pursuing lucrative products or markets. (Zahra and Covin, 1995). More hostile the external environment of a company is, more effective entrepreneurship will be (Zahra and Covin, 1995).

There is a difference between Entrepreneurship and Entrepreneurial Orientation Lumpkin and Dess (1996). The dimensions of EO construct were identified by Lumpkin and Dess(1996). In addition to Miller's(1983) three components of EO, some other dimensions of EO were also coined competitive aggressiveness and autonomy (Lumpkin and Dess,1996). EO may be viewed as strategy-making process that is used to execute the firm vision and mission (Rauch et al., 2004).<sup>xv</sup>

EO refers to the decision-making activities, practices and processes that lead to new entry (Lumpkin and Dess, 1996). Entrepreneurship can play at the individual level, business level and also corporate level. (Lumpkin and Dess, 1996). Wiklund (1998) did two studies, one was that EO leads to entrepreneurial behavior and second was a longitudinal study of whether EO impact the firm performance.<sup>xvi</sup> Wiklund(1999) examines long-term validity of the construct of EO and disapproves that EO is just a quick fix.<sup>xvii</sup>

According to Shane and Venkatraman(2000) entrepreneurship is related to opportunities.<sup>xviii</sup> Shane and Venkatraman(2000) define the term Entrepreneurship in all the possible perspectives and then suggest a framework which provides a starting point for the field of Entrepreneurship. The various conceptualizations and dimensions of entrepreneurship inevitably give rise to questions of operationalization and measurement (Lyon et al., 2000).

## 2. Other Major EO Researches and Conventional EO model

Wiklund and Shepherd (2003) have tested the relationship between knowledge-based resources and firm performance, EO being the moderating variable. Also they concluded about VRIO (valuable, rare, inimitable, and organized) framework that VRI and O conjointly provide a more complete explanation of firm performance than if these variable are being considered independently.<sup>xix</sup>

Wiklund and Shepherd (2003) sampled a sample size of 384 Swedish firms and their findings indicate that the knowledge-based resources which are applicable to discovery and using of opportunities are directly linked to the performance of the firm, EO being the moderating variable.

Analysis of 51 studies was done and high correlation was found between EO and FP(firm performance). In 2005, Wiklund and Shepherd, have included the two variables "Access to capital" and "Dynamism of the environment" while proving the impact of EO on firm performance. EO do affect small business performance (Wiklund and Shepherd,2005). So, on the basis of all the theory that could be culled from the literature, Figure 1 shows the link between the five illustrious components of EO.

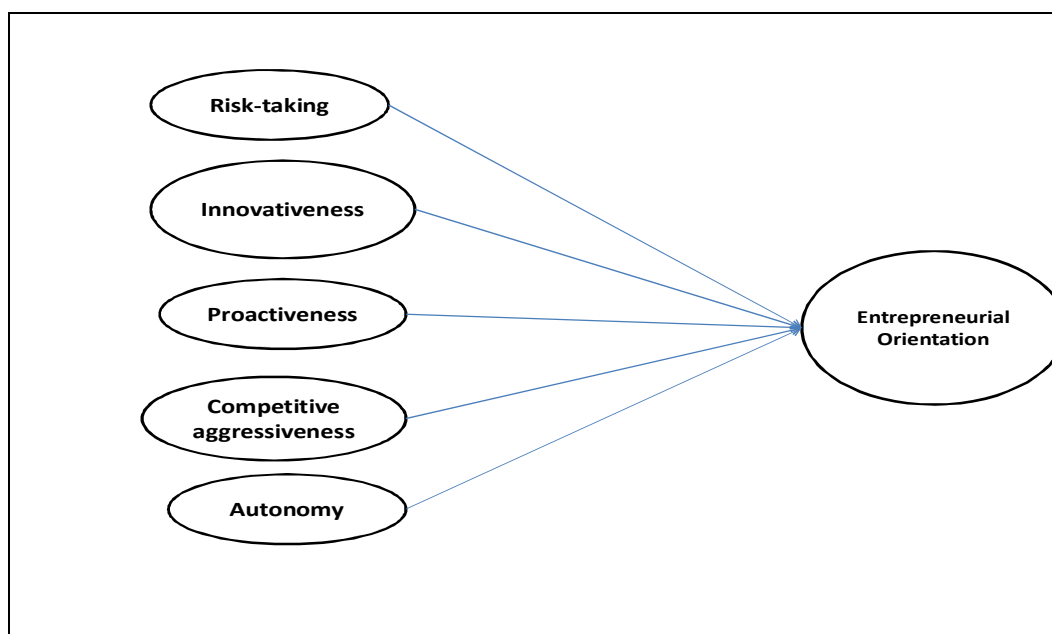


Figure 1: Theoretical Model of five components of EO

SMEs in developed countries having high EO levels are better able to innovate and allocate the resources (Taylor, 2013)<sup>xx</sup>. It is not a unidirectional construct, but a multidirectional concept which have the components as risk-taking, innovativeness and proactiveness (Jantunen et al., 2013) Taylor in 2013, opined that the link between EO and the export performance of any company (internationalization), is moderated by the domestic market environment conditions, like economic instability, political instability, government policy framework etc.

Tang Z et al. (2009), did an innovative study to prove that there exists a hierarchical relation between the components of EO, and he concluded that proactiveness was at the top which creates such an environment in an organization that the companies is more likely to be more innovative by such initiatives which can create differentiated value for the products and services of the organization, and also more risk taking by undertaking into unreliable activities to exploit external opportunities.

Wang (2008) also tested the link between EO and FP, the intervening variable chosen by him was learning organization. Then there are two aspects of learning—knowledge acquisition or value acquisition. This study reckoned the second view. He took a sample of 213 medium-to-large UK firms. The author has concluded that in medium-to-large firms EO is important for performance, and also that Entrepreneurial firms must nurture the organizational learning which is a moderating variable in the EO FP relation.<sup>xxi</sup>

In 2006, Covin et.al have done a study to conclude the impact of EO on FP, while considering three moderating variables like strategic decision-making participativeness, strategy formation mode and strategic learning from failure. More and more as the business environments are developing, the life-cycles are becoming more and shorter, so the companies constantly should seek to exploit new vistas of opportunities.<sup>xxii</sup>

In 2010, Kreiser and Davis have proposed a model for EO-FP relationship, while considering only the impact of three components of EO (risk taking, innovativeness proactiveness), along with two moderating variables such as organizational structure (organic or mechanistic) and also the environmental characteristics like the dynamism and munificence. This model also suggests that EO is not a lone solace for the entrepreneurs, ie- it should not be practiced in the stable/hostile environments. The different forms of EO and structure will result in increased firm performance in different environmental contexts.

In 2007, Tang et.al did a EO-FP study in Northern China and found this relationship to be more positive among the state-owned enterprises (SOEs) than the privately-owned enterprises (POEs). In their growth path, today, family firms are facing lots of challenges (Zainol et.al, 2012). Also since most of the literature available is only of the Western context, where the external and internal environments are different, so Zainol et. al have done the research on EO in the indigenous context of Malaysian SMEs. The F-pec scale proposed by Klien(2005)<sup>xxiii</sup> states that family influence has three parts, namely Power, Experience and Culture. Keeping these three dimensions central, Zainol et.al. first tries to establishes the link between family influence and Entrepreneurial Orientation. Secondly, as another hypothesis, Zainol et.al. gain try to prove the link between the Family influence and EO, with the moderating variable of Government aided programme.

Based on using the sample size of 155 Spanish firms (from Dun and Bradstreet database 2002), Maria et al.(2007) proved four hypothesis namely-international activity positively affects the EO level, the speed of the first international market entry affects the EO level, a firm's EO positively influences the increase in the degree of internationalization and the last being that EO positively affect the international scope in the companies. The control variables used in this study were Firm Size, International Experience, Sector (Manufacturing or Family) and the last one being or not a Family business. Out of these only the hypothesis numbered two (speed of the first international market entry affects the EO level) could not be statistically supported, unlike the other three which were statistically proven.

According to previous authors, an EO consists of processes, structures, and/or behaviors that can be described as aggressive, innovative, proactive, risk taking, or autonomy seeking (Lyon et al., 2000).

A real "Entrepreneurial" firm would exude high levels of each dimension (Kreiser and Davis, 2010)<sup>xxiv</sup>. Kreiser and Davis(2010) took two measures of firm performance(profitability and growth). Environmental attributes such as dynamism and munificence may moderate the relationship between the three sub-dimensions of EO and performance.

EO is directly related to firm performance, though some academicians (Arief et al., 2013) opine that there is always a moderating variable which moderates the relationship.<sup>xxv</sup> The strategic flexibility also moderates the relationship between EO and firm performance (Arief et al., 2013).

Some cultural variables like uncertainty avoidance and power distance impact the firm's EO (Krieser et al., 2010).<sup>xxvi</sup> Kreiser et al.(2010) utilized four moderating variables for his study namely type of industry, firm size, age and gender of the respondents.<sup>xxvii</sup>

The small business performance is highly positively influenced by EO in the case of more dynamic environments. The small business performance is highly positively influenced by EO in the case of greater access to financial capital.

A configurational approach, with the interplay of EO, access to capital, and environmental dynamism sheds more light on the critical nature of the link between the EO and firm performance behavior( Wiklund and Shepherd, 2005).The pursuit of entrepreneurial strategies require optimum allocation of resources (Wiklund and Shepherd, 2005).

Configurations of EO, access to capital and dynamic environment together explain the performance of small firm (Wiklund and Shepherd, 2005). Both entrepreneurial behavior and firm's dynamic capabilities can be a source of competitive advantage (Jantunen et al., 2013).

### 3. EO in India

Most of the EO researches have been done in context to the US. So, it will nice to see the influence of EO on firm performance in other regions of the world. Very fewer researches can be found in Indian context, though India is among the fastest growing economy

today and with second largest population in the world. In India, since the independence in 1947 from the British, some corporate houses have been the torchbearers of entrepreneurship. Founded by Jamshedji Tata in 1868, the salt-to-steel corporation has now entered aviation too. Another firm Reliance group started by Dhirubhai Ambani also exuded EO in their endeavor. They have subtle essence of EO in all of their journeys but no concrete study has been done for the compilation of the literature of EO in Indian context.

#### 4. Knowledge and Entrepreneurship

Knowledge spillovers help the entrepreneurs exploit new opportunities (Zoltan et al., 2009).<sup>xxviii</sup> In the words of Block et al.(2013), entrepreneurial actions are a result of continuous knowledge enrichments.<sup>xxix</sup> Today, knowledge is one of the very important factors which cause growth (Liagovas and Repousis, 2013).<sup>xxx</sup> The most effective pathway in improving entrepreneurship in students was to promote knowledge in them regarding the same (Scuotto and Morellato, 2013)<sup>xxxi</sup>. It is very important to monitor the knowledge resources and their relationships with the entrepreneurial activity in an economy (Vasile and Camelia, 2013). So there is a gap in the theory of EO, wherein the component of knowledge is not considered as the component of EO. So, as a result we propose the following model of EO.

#### 5. The proposed model for EO

Figure 2 shows the proposed model of EO where, knowledge should also be a component of the EO in addition to the other five components.

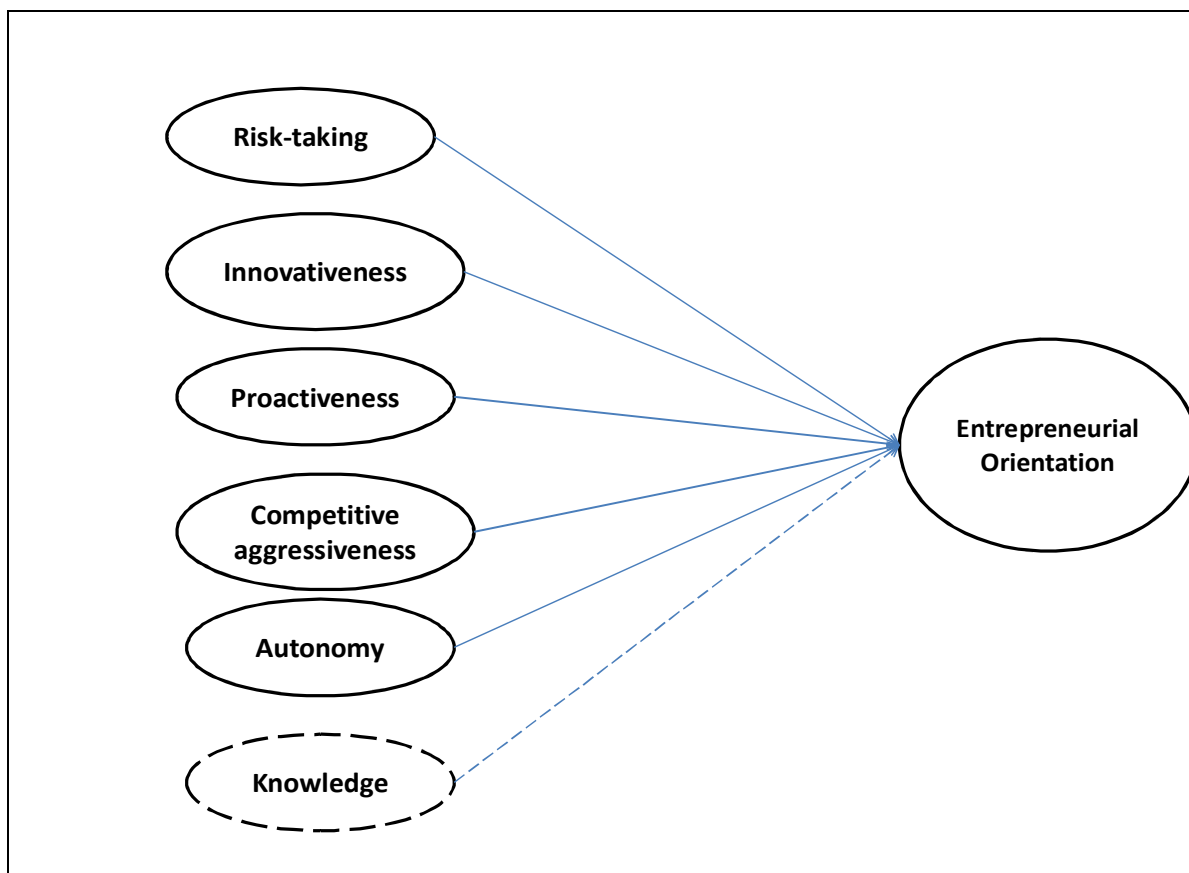


Figure 2: Proposed Model of EO components

As per the above model in addition to the older model which includes Risk taking, Innovativeness ,Proactiveness, Competitive,Agressiveness, Autonomy, also Knowledge should also treated as a construct under EO.

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