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# Just entrepreneurial enough: the moderating effect of entrepreneurship on the relationship between market orientation and performance

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**Abstract**

Within the literature of marketing and management, researchers have explored different models that examine the relationships between market orientation, entrepreneurship, and performance. In this paper, we offer a new model that includes curvilinearity in the moderating effect of entrepreneurship on the relationship between market orientation and performance. Utilizing structural equation modeling, we test our proposed model using a sample of 231 not-for-profit hospitals. The proposed model produces the best fit. The theoretical and managerial implications are discussed.


*Keywords:* Market orientation; Entrepreneurial orientation; Organizational performance

## 1. Introduction

For some time, management and marketing scholars have been investigating the nature of the relationship between market orientation and entrepreneurship and its implications for business performance. The first studies were concerned with the issue of whether or not entrepreneurship and market orientation drew from the same conceptual domain (Miles and Arnold, 1991; Morris and Paul, 1987). As researchers became more confident in distinguishing between the two, a range of studies began to investigate the various permutations and combinations of the constructs. Early research considered entrepreneurship as an antecedent to market orientation. The rationale for this was that by searching for product-market prospects, entrepreneurial firms tend to concentrate on customer needs and thereby become market oriented (e.g., Miles and Arnold, 1991; Morris and Paul, 1987). Subsequent research reconceptualized entrepreneurship as a mediator between a firm's market orientation and performance in an effort to explain inconsistencies in the relationship between the two variables (e.g., Barrett and Weinstein, 1998; Han et al., 1998; Jaworski and Kohli, 1993). Entrepreneurship was considered the means by which market orientation was translated into business performance (e.g., through development of new products, services, production process technology, organizational structure and/or administrative process). More recently, drawing on the resource-based view of the firm, Hult and Ketchen (2001) have suggested that market orientation and entrepreneurship are organizational capabilities that contribute to the creation of a unique resource, 'positional advantage', which positively affects performance. Finally, Atuahene-Gima and Ko (2001) argued that the maximum positive effect on performance is achieved when a firm's market orientation and entrepreneurship are aligned. In other words, performance is optimized when the organization is both highly market oriented *and* entrepreneurial.

The diversity of approaches in the literature indicates that the combinative effects of market orientation and entrepreneurship on firm performance are undoubtedly complex. Clearly, both orientations are important and potentially

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complementary (Atuahene-Gima and Ko, 2001). Based on developments in the resource-based view of the firm (e.g., Wernerfelt, 1984) and notions of organizational capabilities (Teece et al., 1997), we find the argument for an interactive relationship between the two constructs persuasive.

More recently, the entrepreneurship literature has drawn on a resource-based view to explore the contribution of entrepreneurship to organizational performance. Dess et al. (1999), for example, argue that entrepreneurship is a key driver of organizational transformation and strategic renewal through the creation and combination of organizational resources. Similarly, Zahra et al. (1999, p. 169) suggest that entrepreneurial activities can provide a ‘‘foundation for building new competencies or revitalizing existing ones’’. Indeed, Stevenson and Gumpert’s (1985) view of entrepreneurs as being skilled in the use of resources (e.g., financial capital, intellectual capital, skills, competencies) is consistent with this emerging perspective. Entrepreneurs, Stevenson argued, are concerned primarily with improving the firm’s ability to use, exploit and/or extract value from available resources.

In this paper, we consider entrepreneurship as an organizational capability, which has a modifying effect on market intelligence processing competence (i.e., market orientation) and its relationship with business performance. As such, we begin to explore the coordinating role of entrepreneurship on the collection and use of organization knowledge that leads to heterogeneous outputs and, ultimately, to a firm’s competitive advantage (Alvarez and Busenitz, 2001).

In the following sections, we provide a more detailed explanation of our theoretical rationale and discuss our hypothesized model in greater depth. We test a proposed model that focuses on the curvilinearity of the moderating effect of entrepreneurship on the market orientation–performance linkage. Finally, we provide a discussion of the results of our analysis and highlight some implications for managerial practice and future research.

## 2. Theoretical background and hypothesized model

Turning to the central constructs in this study, we adopt Jaworski and Kohli’s (1993) approach to market orientation. This views market orientation as the generation and organizationwide dissemination of market intelligence, and the firm’s responsiveness to this intelligence. This is a widely used approach and has been employed frequently in studies, which have incorporated entrepreneurship (e.g., Atuahene-Gima and Ko, 2001; Barrett and Weinstein, 1998). The market intelligence processes, which are central to a market orientation, we consider, meet the definition of an organizational competence, which describes the skills and assets spanning individuals and groups that enable the performance of distinctive activities (Teece et al., 1997).

We define entrepreneurship in terms of three components: innovativeness (i.e., introducing novel goods, services, or technology, and to develop new markets), proactiveness (i.e., seeking novel ways both to bring an entrepreneurial concept to fruition), and constructive risk taking (i.e., making reasonable decisions when faced with environmental uncertainties, systematically mitigating risk factors) (Covin and Slevin, 1991; Miles and Arnold, 1991). We view entrepreneurship as a dynamic capability, which allows the organization to ‘‘reconfigure internal and external competencies to address rapidly changing environments’’ (Teece et al., 1997, p. 516). Miles and Arnold (1991, p. 51) provide support for the view of entrepreneurship as a dynamic capability, suggesting that ‘‘without entrepreneurship, business ...would be neither dynamic nor adaptive’’. Similarly, Slater and Narver (1995) argue that entrepreneurial values are an important driver of product development and reformulation, innovation in manufacturing and channel design, and new approaches to competitive strategy.

We adopt Covin and Slevin’s (1991) behavioral view of entrepreneurship in preference to alternative cultural frameworks (e.g., Jelinek and Litterer, 1995) and cognitive frameworks (e.g., Shepherd and Krueger, in press) as it fits more securely within both a resource-based view of the firm (Wernerfelt, 1984) and the related concept of organizational capabilities (Teece et al., 1997). Market orientation, as the set of competencies underlying the enactment of the marketing concept, is also consistent with these theories of organizations. Furthermore, we consider it reasonable from a methodological point of view to investigate the interaction between two orientations that describe organizational capabilities (i.e., entrepreneurship orientation) and processes or competencies (i.e., market orientation).

Returning to the dimensions of market orientation described by Jaworski and Kohli (1993), it is apparent that these dimensions capture the amount or degree to which each market intelligence process is undertaken. There is little indication, however, as to whether the market information generated is guided by the firm’s strategic vision or not. Further, there is no indication whether information is selectively distributed (e.g., for a timely market response), or whether the information is ‘filtered’ by the entrepreneur’s perspective on where the firm is heading. In other words, the *quality* with which these processes are performed is unknown. To illustrate, a situation may occur where intelligence is disseminated broadly, but the team or department for whom it is most important is last to receive it. Similarly, organizations that generate large amounts of market data may still only develop incremental product innovations when a more substantial product innovation is required to compete in the market. Knowing what information to seek, and from whom, is more valuable than the capacity to generate simply a greater amount of information than competitors. Atuahene-Gima and Ko (2001, p. 56) contend that ‘‘several of the measures of market orientation . . .reflect a reactive approach to collecting, disseminating, and responding to market