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The Simultaneous Influence of National Culture and Market Turbulence on Entrepreneurial Orientation: A Nine-country Study

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ABSTRACT

Building on research that has shown that a firm's entrepreneurial orientation (EO) depends on environmental factors, we argue that EO is a firm's reaction to its institutional environment and use the dimensions of individualism and uncertainty avoidance to investigate the single and combined effects on EO of market turbulence and national culture. We test our hypotheses by generating survey data from top management team members across a broad nine-country sample, which support our hypotheses regarding the direct effect of environmental turbulence and national culture on EO. We also find that the interplay of turbulent markets with individualistic cultures increases EO, while the interaction of market turbulence and uncertainty avoidance does not.

1. Introduction and objective

That the choice of entrepreneurial orientation (EO) as a firm's strategic behavior positively influences firm performance has been confirmed across a broad range of contingency contexts (Rauch et al., 2009; Saeed et al., 2014). Consequently, much research has been devoted to identify antecedents of EO (Wales et al., 2013). As such, Engelen et al. (2014) find that the CEO's personality drive EO. However, Miller and Friesen (1983, p. 222) note that the success of a firm's strategy depends on the nature of the environmental challenges the firm faces and stress the "importance of tailoring the content of strategies to the nature of the environment." Similarly, research has shown that firms are embedded in an institutional context (Ang et al., 2014) and that it is the environmental institutions that determine the strategy a firm adopts (Ingram and Silverman, 2002). In line with institutional theory research, Rosenbusch et al. (2013) show the need for a firm to adopt a strategic behavior that is consistent with its environment's requirements.

Researchers have identified two environmental institutional factors in particular as drivers of EO: environmental turbulence (Rosenbusch et al., 2013) and national culture (e.g., Jones and Davis, 2000; Kreiser et al., 2010). The importance of aligning a firm's strategic behavior with institutional factors is also reflected in business cases. For example, Microsoft's takeover of Nokia's cell phone business in 2013 can be attributed to Nokia's lack of innovation when consumer demand evolved toward smartphones, and the US retailer Walmart had to close its stores in Germany and South Korea after neglecting to adapt its strategy and leadership to the cultural differences in those countries.

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While the individual effect of both environmental turbulence and national culture has been examined empirically, to our knowledge their interaction effect has not, although studies have acknowledged that firms are influenced by multiple institutional factors simultaneously and that the concurrent presence of both factors may affect a firm's strategic behavior (Ang et al., 2014). Market turbulence creates opportunities to be entrepreneurial, but it is the national culture that determines whether a company can leverage those opportunities. Therefore, environmental turbulence and national culture are interdependent institutional factors that may be examined jointly.

Research has shown that the cultural dimensions of individualism and uncertainty avoidance are major drivers of EO (Kreiser et al., 2010; Shane, 1993). In addition, firms whose levels of these two cultural dimensions differ may deal with environmental turbulence differently, such as in how they address the risk associated with new opportunities. Therefore, we concentrate on these two cultural dimensions in our study.

The present study empirically re-examines the direct effect on EO of market turbulence and national culture, represented by individualism and uncertainty avoidance, as well as the interplay of these two institutional factors based on a survey of 905 small and medium-sized firms across nine national cultures (Australia, Austria, China, Germany, India, Singapore, Spain, the UK, and the US). Thus, we extend previous findings on the direct effect on EO of either environmental turbulence or national culture to an international setting.

Our study contributes to EO and institutional theory by providing insights into the interplay of two institutional factors that extant EO research has studied only separately. Since firms operate in environments with multiple institutional factors, the interplay of these factors affects the strategic behavior that firms must adopt if they are to realize fully the potential of those environments. Further, we re-examine the direct effect of the institutional factors of environmental turbulence and national culture across a broad international sample, thereby instilling confidence in the general applicability of our findings to both EO and institutional theory. These fields of study have called for broader international studies since many of their studies have examined single countries (Bruton et al., 2010).

Our paper proceeds as follows. First, we introduce institutional theory and provide an overview of environmental turbulence, national culture, and the conceptualization of EO. We continue by deriving our hypotheses and then introducing our study method and findings. We close with a discussion of our results, management implications, limitations, and avenues for future research.

2. Theory and hypotheses

Firms are rooted in the environment in which they operate, so they are influenced by environmental factors like the market's culture, dynamism, and competition and its legal, social, and political system (DiMaggio and Powell, 1983). Specifically, institutional factors have a “rule-like status” (Bruton et al., 2010, p. 423) that legitimizes certain actions while limiting others (Bruton et al., 2010; Kreiser et al., 2010). Consequently, firms either “play by the rules of the game” and conform to institutional factors or face eventual demise. This situation may affect various aspects of a firm, such as its organizational structure, its resource allocation, and its strategic orientation. Specifically, its internal and external resources may be allocated only to those projects that are in line with the institutional environment, so the decision to allocate internal and external resources to entrepreneurial/innovative activity (EO) is also driven by institutional factors (Peng, 2003; Peng and Heath, 1996). Therefore, institutional factors are “enabling and constraining entrepreneurship in the environment” (Bruton et al., 2010, p. 423).

Extant research has examined a variety of institutional factors and identified two factors in particular as influential in connection with EO: environmental turbulence (Rosenbusch et al., 2013) and national culture (e.g., Jones and Davis, 2000; Kreiser et al., 2010). Sections 2.1 and 2.2 describe these factors and elaborate on how they influence EO.

2.1. Market turbulence

A firm's industry environment can range from stable to highly turbulent (Danneels and Sethi, 2011). Turbulence results in uncertainty regarding future states of the environment (Buganza et al., 2009), which constrains a firm's “ability to anticipate changes in competitors' strategies, consumers' new product requirements, technology, emergence of new competitive forces in the market, and new regulatory constraints on product performance and design” (Gupta et al., 1986, p. 9).

Commonly used to describe the degree of turbulence in a firm's environment (e.g., Akgün et al., 2012; Calantone et al., 2003), market turbulence refers to the rate at which a firm's customer base and its customers' preferences change (Jaworski and Kohli, 1993). Since turbulent markets exhibit “rapidly changing buyer preferences, wide-ranging needs and wants, ongoing buyer entry and exit from the marketplace, and constant emphasis on offering new products” (Hult et al., 2004, p. 436), firms in highly turbulent markets must continually adjust their products and services to meet customers' new needs. However in stable markets, where the rate at which customers change and customer demand is low, a firm's product and service portfolio can remain largely stable without violating customers' expectations (Jaworski and Kohli, 1993).

2.2. National culture

Culture, an informal institution, refers to “shared, taken-for-granted assumptions that a group holds and that determine how it perceives, thinks about, and reacts to its various environments” (Schein, 1996, p. 236). Culture exists on multiple levels, including the national, industry, and organizational levels (Fayolle et al., 2010), that mutually influence one another (Leung et al., 2005). A