The influence of firm age and intangible resources on the relationship between entrepreneurial orientation and firm growth among Japanese SMEs

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ABSTRACT

With the relationship between entrepreneurial orientation (EO) and firm performance having broad scholarly acceptance, researchers are now delving with increased focus into the contextual factors that change the nature of the relationship between EO and various manifestations of organizational performance. In this vein, this study adopts the resource based view and investigates the moderating influence of firm age and intangible resources on the EO-firm growth relationship among small to medium sized enterprises (SMEs) in Japan. Further, we propose a three-way interactive model between EO, firm age, and intangible resources to better identify entrepreneurial configurations that promote superior SME growth.

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1. Executive summary

After more than thirty years of scholarly inquiry, it is generally accepted that firms that behave entrepreneurially perform better than those firms that are more conservative. The dominant conceptualization of what it means for a firm to ‘behave entrepreneurially’ is whether a firm engages in specific, observable strategic actions – innovation, proactiveness, and risk-taking – and whether such actions occur with some consistency. More nominally known as a firm’s entrepreneurial orientation (EO), as knowledge in this area has expanded, increased attention is being paid to the contextual factors that may change the degree or nature of the EO-performance connection; the intention being to establish the boundary conditions – if present – of when it favors decision-makers to pursue entrepreneurial strategies and when it may not. From this perspective, this study investigates two potential boundary conditions on the relationship between EO and firm growth – the firm’s age, and its intangible resource advantage relative to its industry rivals. A sample of 207 Japanese small to medium sized businesses (SMEs) was used to test the hypothesized relationships.

Regarding the potential influence of firm age on the EO-growth relationship, we argue – and find empirical support for this argument – that younger firms are better able to capture the value from entrepreneurial strategies in the form of higher organizational growth rates than their older peers. This argument is predicated on the notion that younger firms, while lacking established routines and processes that may provide guidance and discipline in strategic decision-making, also possess structures and an organizing context that is more flexible and reactive than older firms. Furthermore, younger firms, while again perhaps lacking in quantity of market knowledge, may actually possess market knowledge of greater temporal salience. These advantages allow younger firms to pursue...
entrepreneurial opportunities with greater congruence to current market expectations, and therefore be better positioned to translate those opportunities into superior growth outcomes.

In considering the firm's intangible resource advantage, we suggest, and again find support for our argument, that firms with an intangible resource advantage relative to their industry peers should also see a strengthening in the relationship between EO and firm growth. This hypothesis is based on the idea that because SMEs tend to be constrained in their tangible and slack resources, what intangible resources (such as intellectual property, brand identity, and reputation) they do possess take on particular strategic significance. This is also the case because intangible resources are often argued to be a significant source of competitive advantage—intangible resources are inherently more rare and difficult to imitate. Because firms engaging in entrepreneurial strategies tend to consume a significant number of resources in the pursuit of entrepreneurial opportunities, the surplus, or constraint of these strategically valuable resources influence the quantity of opportunities able to be pursued; the more the resources, the more the exploitable opportunities, and therefore the more avenues for growth in conjunction with an entrepreneurial strategic posture.

While the study's results have several implications for scholars and managers, a particularly notable finding is that, when considering EO, firm age, and intangible resources collectively, older firms struggled to grow even when they pursued entrepreneurial strategies and regardless of whether they had an intangible resource advantage or disadvantage. The key insight here is that the organizational context found within older firms—such as established processes, routines, and organizational norms—prohibited the translation of entrepreneurial behaviors into positive performance outcomes. This suggests that older firms particularly struggle with overcoming age-related contextual factors despite adopting an approach to strategy making that is otherwise conducive to achieving positive organizational growth. Our study therefore joins a growing number of works suggesting that firm age, in particular, represents an under-researched yet theoretically meaningful influence on the linkage between EO and key organizational outcomes.

2. Introduction

There is increasing scholarly agreement that firms possessing an entrepreneurial strategic posture perform better than those firms that are more conservatively managed. Specifically, as recent meta-analysis suggests (Rauch et al., 2009), there is a positive performance bias in favor of firms that engage in those strategic-level behaviors constitutive of a firm's entrepreneurial orientation (EO). First conceived by Miller (1983), and later expanded by Covin and Slevin (1989; 1991), EO refers to the behavioral tendencies, managerial philosophies, and strategic decision-making practices that are entrepreneurial in nature. Under the Miller/Covin and Slevin conceptualization of EO, a firm is entrepreneurial because it engages in the concurrent exhibition of innovative, proactive, and risk-taking strategic behaviors; that is, a firm that possesses a high level of EO is expected to exhibit similarly high levels of innovativeness, proactiveness, and a willingness to take risks. Notably, EO links to a variety of key performance outcomes including sales growth (Covin et al., 2006), profitability (Baker and Sinkula, 2009), and non-financial performance measures (Marino et al., 2002).

While there is often assumed to be a universally positive influence of EO on firm performance as broadly construed, Rauch et al. (2009) note that the EO-performance linkage appears to be contextual in nature; the nature or degree of the EO-performance relationship changes as a function of the endogenous and exogenous phenomenon influencing a given firm. For example, the relationship between EO and performance is stronger among firms operating in hostile environments (Covin and Slevin, 1989), and in environments characterized by unpredictability in the rate and nature of change (Miles et al., 2000). Looking internally, Stam and Elfring (2008) found that two elements of a founding team's social capital significantly moderated the EO-performance relationship among new ventures. Given the preceding studies and others in this vein, it behooves scholars to continue to probe potential moderating effects on the EO-performance relationship to paint a more comprehensive picture of the circumstances under which pursuing entrepreneurial strategies result in favorable performance outcomes.

This study adopts the resource based view (Barney, 1991) and investigates two potential moderators of the relationship between EO and firm growth among small to medium sized enterprises (SMEs) — firm age, and intangible resource advantage. Furthermore, this study continues in the model of Wiklund and Shepherd (2005) and Stam and Elfring (2008) by suggesting that the joint consideration of EO, firm age, and intangible resource advantage will result in differing growth outcomes. Thus, this study employs both contextual and configurational designs to illuminate additional boundary conditions influencing the EO-performance relationship among SMEs; specifically investigating: 1) How does age and intangible resource endowment change the degree of the EO-growth relationship; and 2) What configurations of EO, age, and intangible resource endowment result in the most efficacious growth outcomes? A sample of 207 Japanese SMEs in the manufacturing, services, and high-tech sectors is the setting for investigating the research questions.

In the process of addressing the aforementioned research questions, this study aims to make three principal contributions to the EO and broader entrepreneurship literatures. The first contribution is the use of contextual and configurational models to better tease out the conditions under which the EO-firm growth linkage is manifest among small to medium sized firms. The relative importance of SMEs to economic growth has long spurred scholarly interest (Acs and Audretsch, 1988), and particularly in regards to the factors that promote SME growth (Achtenhagen et al., 2010). Yet despite this attention, there remain significant gaps in our understanding of the heterogeneity of growth outcomes among SMEs, specifically, why some SMEs achieve sustained growth and why others “...start small, live small, and die small” (Davidsson et al., 2005). While an innovation-centric strategic posture is a critical factor enabling SME growth (Rosenbusch et al., 2011), this relationship also tends to be contingent on exogenous and endogenous phenomenon influencing the firm (Achtenhagen et al., 2010). Thus, this study aims to illuminate theoretically meaningful factors that may facilitate – or hamper – the translation of an entrepreneurial strategic posture into SME growth.
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