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## Understanding The Impact of Entrepreneurial Orientation on Smes' Performance. The Role of The Financing Structure

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### Abstract

Based on a sample of 300 small and medium enterprises (SMEs) located in the Province of Udine (north East of Italy) and the Kärntner Region (South of Austria) we perform an analysis of the impact of Entrepreneurial Orientation (EO) on SMEs' subjective performances. We develop a model in which EO dimensions are moderated by the role of financial leverage. The present work is part of a research project on an interregional co-operation programme Italy-Austria (INTERREG IV) financed by the European Regional Development Fund whose program areas include the Province of Udine and the Kärntner Region. Subjective performances has been widely investigated in academic literature where various streams of research have been developed. A prominent field of research focuses on the constructs of EO orientation and their ability to prompt performances through innovative attitude, risk taking behaviour, aggressiveness, autonomy and competitive energy. Another established field of research focuses on the impact of financial structure (i.e. leverage) on performances, although with ambiguous results.. We find support to the hypothesis that competitive energy might have a significant and positive impact in driving performance, which has obvious implications for managers and theoreticians. We also find that leverage might have a significant moderating role through interactions with EO dimensions.

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*Keywords:* SMEs; financial structure; Entrepreneurial Orientation; innovativeness; risk attitude; proactiveness; autonomy; aggressiveness; Friuli Venezia-Giulia; Kärntner; Interreg.

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### 1. EO and performance

The study of EO has its roots in the field of strategy research, especially in the writings of Mintzberg (1973) and

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Miles and Snow (1978). Mintzberg identified three strategy types: entrepreneurial, planning, and adaptive, while Miles and Snow (1978) wrote about “prospector firms” and the role that an entrepreneurial approach to strategy plays when firms are faced with decision such as what products to offer or markets to enter. Consistent with Mintzberg, et al. (1976) who noted that strategy making is “important, in terms of the actions taken, the resources committed, or the precedents set” (p. 246), EO represents the policies and practices that provide a basis for entrepreneurial decisions and actions. Thus, EO may be viewed as the entrepreneurial strategy-making processes that key decision makers use to enact their firm’s organizational purpose, sustain its vision, and create competitive advantage(s). Building on these early references to an entrepreneurial approach to strategy, Miller (1983) was one of the first to describe the components of the approach. He defined an entrepreneurial firm as one that “(...) engages in product marketing innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations (p. 771)”. Later, Morris and Paul (1987) refined this definition: EO is the “(...) inclination of top management to take calculated risks, to be innovative, and to demonstrate proactiveness (p. 41)”. A large stream of research has examined the concept of entrepreneurial orientation (EO). EO has become a central concept in the domain of entrepreneurship that has received a substantial amount of theoretical and empirical attention (Covin, et al., 2006). EO refers to the strategy-making processes that provide organizations with a basis for entrepreneurial decisions and actions (e.g., Lumpkin and Dess, 1996; Wiklund and Shepherd, 2005). More specifically Lumpkin and Dess (1996) suggested that two additional dimensions were salient to EO. Drawing on Miller’s (1983) definition and prior research (e.g., Burgelman, 1984; Hart, 1992; MacMillan and Day, 1987; Venkatraman, 1989), they identified competitive aggressiveness and autonomy as additional components of the EO construct. A more complex construct of EO regards dimensions devoting greater energy derived from personal commitment, and having autonomy. In this case some authors support the importance of autonomy, competitive energy and aggressiveness. The large and growing literature on EO suggests different operationalization of entrepreneurial orientation (EO) that we have summarized in table 1.

Table 1. The EO Dimensions in literature

Article	EO dimensions
A configurational approach of the relationship between EO and Growth of FF (Casillas et al. 2010).	Innovativeness, Risk Taking, Proactiveness.
A critical examination of the EO-performance relationship (Andersen, 2010).	Innovativeness, Risk Taking, Proactiveness.
Clarifying the Entrepreneurial Orientation Construct and linking it to Performance (Lumpkin and Dess, 1996).	Risk Taking, Innovativeness, Proactiveness, Competitive Aggressiveness, Autonomy
Contextual influences on the CE-performance relationship: a longitudinal analysis (Zahra and Covin, 1995).	Innovativeness, Risk Taking, Proactiveness.
Corporate Entrepreneurship in Family Firms: a family firms (Kellermanns and Eddleston, 2006).	Innovativeness, Risk Taking, Proactiveness
Cross-cultural reliability and validity of a scale to measure firm entrepreneurial orientation (Knight, 1997).	Innovativeness, Risk Taking, Proactiveness
Cross-national invariance of the EO scale (Hansen et al., 2011).	Innovativeness, Proactiveness, Risk Taking
Culture, Entrepreneurial Orientation and Global Competitiveness (Lee and Peterson, 2011).	Innovativeness, Proactiveness, Risk Taking, Competitive Aggressiveness, Autonomy
Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. (Hughes and Morgan, 2007).	Risk Taking, Innovativeness, Proactiveness, Competitive Aggressiveness, Autonomy
Entrepreneurial Behavior in Family Firms: a replication study (Weismeier-Sammer, 2011).	Innovativeness, Risk Taking, Proactiveness.
Entrepreneurial Orientation and Business Performance- A replication study (Hermann et al. 2010).	Innovativeness, Risk Taking, Proactiveness.
Entrepreneurial Orientation and firm performance: the role of knowledge creation process (Li et al. 2009).	Innovativeness, Risk Taking, Proactiveness, Competitive Aggressiveness, Autonomy
Entrepreneurial Orientation and Growth of SMEs: a causal model (Moreno and Casillas, 2008).	Innovativeness, Proactiveness, Risk Taking

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