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Corporate Entrepreneurship, Generic Competitive Strategies, and Firm Performance in Small and Medium-Sized Enterprises

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Abstract

The strategy literature is replete with studies focusing on such strategic and cultural firm-level factors as entrepreneurship and differentiation. Research indicates that these factors are major determinants of superior firm performance in the long-term. Nonetheless, a majority of works in this area has focused on large-scale, multinational firms. Very little is known about the effects of entrepreneurship and differentiation on the financial performances of small and medium-size firms (SMEs). In the present study, I explore the effects of these three critical factors on firm performance using a sample of 70 SMEs drawn from the Turkish Machinery and Equipments Manufacturing Industry. The results suggest that corporate entrepreneurship and differentiation positively affect SME performance. Theoretical and managerial implications of the study findings are discussed.

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1. Introduction

Small and medium- sized firms have increased their importance because of changes (movement through empty fabrics given up the most of assembling jobs to sub-contractor rather than making their own production line) in the strategy policies of the many of the large organization (Levy and Powell, 1998). SMEs will gain quite important earnings from this change. Increasing importance of the SMEs has required analyzing of them more detailed. Also in the recent years, although crucial strategy literature has been developed for large, multinational enterprises, applicability of such a strategy literature to SMEs is not an obvious issue literally (Love, Stephen, Paterson, 1995). When they compare with large enterprises, SMEs have potential advantages and disadvantages. Therefore, the broad

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strategy literature for SMEs should be formed according to characteristics that they have. Advantages of SMEs are generally behavioral. Disadvantages have lied in material resources (Rothwell, 1989). Potential advantages are entrepreneurial orientation and risk-taking, motivation and perseverance, motivated workforce because of low level bureaucracy, specialization, flexibility and proximity to customers (Noteboom, 1992). High cost due to diseconomies of scale, limited activity area, low level experience and learning effect are disadvantages in resources (Noteboom, 1992). This study has been performed with aim of contributing to endeavor of developing authentic strategy literature for SMEs. Two main concepts—entrepreneurship and generic strategic orientations forming the cornerstones in literature in terms of strategic perspective will be dealt with and their effects to organizational performance in SMEs will be analyzed. In today’s world, businesses have felt quite a lot the needs of fast interpretation the opportunities and threats existing when they take strategic decision and move according to them towards events like competition based on knowledge, globalization and fast transition between sectors. All organizations have tried to benefit from product-market opportunities through innovational and proactive behaviors. Management science theoreticians have put forward the vitality of entrepreneurial approach for organizational success in the creation of strategy (Dess, Lumpkin, Covin, 1997). Both of strategy and culture focus on business activity having positive impact on organizational performance. So, it’s necessary that entrepreneurial culture has grand impact on SMEs performance. Also Porter (1980) stated that under certain conditions, generic strategy may be appropriate in the SME’s (Porter, 1980). For these reasons, impact of generic strategy on SMEs performance in terms of corporate entrepreneurship has determined as a main subject of our research.

2. Corporate Entrepreneurship

Contemporary entrepreneurship researches have started with research of economist Joseph Schumpeter (1883-1950). Schumpeter has stated that main agent of economic development is entrepreneurs stimulating the new products, new production methods and economical activities and making out other innovation (Noteboom, 1994).

Schumpeter defines the entrepreneurship as a “creative destruction” process in which entrepreneurs change continuously the current products or production methods with news or destroys. It may be said that the researches of Schumpeter focuses mainly on personal enterprise activity, many researchers with Schumpeter (Burgelman, 1983; Covin and Slevin 1991; Miller, 1983; Zahra, 1993) put forward that entrepreneurship is a case being necessary to take up at firm level. Judging from this approach it can be said that corporate entrepreneurship is a behavioral concept and all organization place in continuum extending from “highly conservative” to “highly entrepreneur”. Entrepreneur firms are risk-takers, innovative and proactive. Contrary, conservative firms are risk-adverse, less innovative and more “wait and see” principle. The position of a firm in this continuum is attributed to its entrepreneurial intensity (Borringer and Bluedorn; 1999). Lumpkin and Dess (1996) have defined the corporate entrepreneurship as a “new entry” referring the first entry to new or established market with new or current goods/services. Corporate entrepreneurship includes to the product innovation, risk taking and proactive behaving (Covin and Slevin, 1991); in addition to these, entering new job, entrepreneurship (Kuratko, Montagno, Hornsby, 1990) and organizational innovation (Sathe, 1989; Guth and Ginsberg, 1991). Innovation in terms of corporate entrepreneurship refers to persistence of organization in terms of formation and introduction of products, production processes and organizational systems (Lumpkin and Dess, 1996). Entering the new job is to make investment to new job area with enlargement of new activities in the new market. (Guth and Ginsberg, 1991). Strategic renewal represents the changes of work or activity area, changing the competitive approach or stimulating operation of business with changing both of them (Zahra, 1993). With more clear expression, strategic renewal requires to take up both firm level strategy (like determining product-market area) and business level strategy (like determining sources of sustainable competitive advantages) (Dess, 1999). To configure the corporate entrepreneurship on the correct basis, especially examining managerial risk taking is necessary. Managerial risk taking constitutes a crucial part of corporate entrepreneurship. However corporate entrepreneurship refers to more comprehensive risk than risk undertaken in the research and development project. Singly high R&D expenditure can cause internal inefficiency, so the unnecessary consumption of resources to find out new product or technology rather than risk taking (Zahra, 1996). Although the most of the researches have argued that high R&D expenditure causes more product and process innovation, Kocher and David (1996) have argued searching this situation more detailed. In the same way, patent amount that organization have may not carry high financial value and provide high profits (Zahra, 1996). Corporate entrepreneurship may increase the value of firm and performance because of making up a comprehension

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