
LINKING TWO DIMENSIONS OF ENTREPRENEURIAL ORIENTATION TO FIRM PERFORMANCE: THE MODERATING ROLE OF ENVIRONMENT AND INDUSTRY LIFE CYCLE

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EXECUTIVE SUMMARY

The term “entrepreneurial orientation” has been used to refer to the strategy-making processes and styles of firms that engage in entrepreneurial activities. A popular model of entrepreneurial orientation (EO) suggests that there are five dimensions of EO—autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness (Lumpkin and Dess 1996). This paper reports on two of those dimensions—proactiveness and competitive aggressiveness. Proactiveness refers to how firms relate to market opportunities by seizing initiative in the marketplace; competitive aggressiveness refers to how firms react to competitive trends and demands that already exist in the marketplace. Despite these distinctions, prior research has tended to equate these two concepts and argued that they have a similar effect on firm performance. This paper investigates how these two approaches are related to each other, how they are related to performance, and how their function differs in the environments in which firms exhibit these approaches to strategy making. These distinc-

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tions are important because proactiveness and competitive aggressiveness represent distinctly different avenues to entrepreneurial success.

A field study was conducted in which 124 executives from 94 firms were surveyed. These were executives from non-affiliated, non-diversified firms who were actively involved in strategic decision making at the top level of the firm. All firms reporting had at least one respondent who was an owner. Analysis of the data was conducted in two phases. In phase 1, factor analysis was used to examine the distinctions between different dimensions of EO. Proactiveness and competitive aggressiveness emerged as two separate factors indicating that these two strategy-making modes were perceived differently by the executives in the study. In the second phase, the relationship of these two dimensions to performance was analyzed in various contexts. Initial tests found that proactiveness was positively related to performance but competitive aggressiveness tended to be poorly associated with performance.

Subsequent tests of the EO-performance relationship indicated that the stage of industry life cycle tended to favor one entrepreneurial orientation over another. The performance of firms in the early stages of industry development was stronger when their strategy making was proactively oriented. In contrast, a competitively aggressive frame of mind was helpful to firms in more mature stages of industry development. These findings were supported by other tests of the business environment. In dynamic environments, characterized by rapid change and uncertainty, proactive firms had higher performance relative to competitively aggressive firms. In hostile environments, where competition is intense and resources are constrained, competitively aggressive firms had stronger performance.

The findings suggest that these two different approaches to entrepreneurial decision making may have different effects on firm performance. The differences were particularly apparent in the way firms relate to their external environment. Proactiveness—a response to opportunities—is an appropriate mode for firms in dynamic environments or in growth stage industries where conditions are rapidly changing and opportunities for advancement are numerous. But such environments may not favor the kind of combative posturing typical of competitive aggressiveness. Firms in hostile environments, or in mature industries where competition for customers and resources is intense, are more likely to benefit from competitive aggressiveness—a response to threats. A further implication of this research is that the dimensions of an entrepreneurial orientation, often considered to be positively related to performance under all conditions, may not always be associated with successful outcomes. This study indicates that the dimensions of EO often vary independently rather than covary, suggesting that the extent to which an entrepreneurial approach to strategy making is useful will frequently depend on the organizational or environmental conditions under which such decisions are made. © 2001 Elsevier Science Inc.

INTRODUCTION

Entrepreneurship writers in both the popular press and the scholarly literature have generally extolled the importance of entrepreneurial activities and often implicitly assumed a positive relationship between entrepreneurship and performance outcomes. Articles in business periodicals such as *Forbes* with titles such as “Innovate or Die” (Young 1994) and “Hooray for Risk” (Postrel 1995) are indicative of this trend. In addition to the inherent “goodness” ascribed to entrepreneurial activity, the academic literature has often conceptualized and operationalized the entrepreneurial process as a uni-dimensional construct (e.g., Covin and Slevin 1989a). In contrast, we suggest that entrepreneurial processes involve complex phenomena that may not always be associated with strong performance.

To explain these phenomena, we believe that the concept of an entrepreneurial orientation (EO) is potentially important to entrepreneurship research and this paper builds on previous work on the EO construct. We suggest that theoretical development and empirical research directed at this construct is important for the enhancement of both normative and descriptive theory. Earlier theoretical work proposed a contingency

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