



# Entrepreneurial orientation and small business performance: a configurational approach

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## Abstract

The strategy and entrepreneurship literatures suggest that an entrepreneurial orientation (EO) improves firm performance, but the empirical results are mixed. In this article, we investigate the EO of small businesses and find that a main-effects-only analysis provides an incomplete picture of performance. Access to capital and the dynamism of the environment are important to small businesses, and we find that when combined with EO (a three-way interaction model) the configurational approach explains variance in performance over and above a contingency model (two-way interactions) and a main-effects-only model.

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## 1. Executive summary

Some studies have found that firms with a more entrepreneurial orientation (EO) perform better. Others have failed to find this positive relationship. This raises the question of whether EO is always an appropriate strategic orientation or if its relationship with performance is more complex. The notion that the relationship between an EO and performance is different

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for different types of businesses is not new; for example, Lumpkin and Dess (1996) in their conceptual model suggest that factors internal and external to the firm may moderate the relationship between EO and performance. Empirically, research has found that the effect of EO on performance may be different in different types of environments (i.e., external factors). Research has also found that entrepreneurial strategies require considerable financial resources to be successful.

While previous studies have highlighted the importance of a contingent approach (two-way interaction), greater insight into performance might be gained through investigating the orchestrating themes and integrative mechanisms that ensure complementarity among a firm's various aspects. This suggests a configurational approach, which involves the simultaneous and joint consideration of strategy, organizational characteristics, and environmental characteristics.

Using a sample of 413 Swedish firms and a longitudinal design, we find that while an EO positively influences small business performance, relying solely on this main effect relationship provides an incomplete understanding of small business performance. A greater understanding is gained by the concomitant consideration of EO, access to capital, and environmental dynamism (three-way interaction). The nature of the configurations suggests that businesses that face performance constraints, in terms of a stable environment and limited access to capital, can be superior performers if they have a high EO. This finding is consistent with the saying that "necessity is the mother of invention." Apparently, a high EO provides businesses the ability to find and/or discover new opportunities that can differentiate them from other firms and create a competitive advantage. When the environment is dynamic and the firm has considerable access to capital, small business performance apparently might be improved by a more inwardly focused orientation that better capitalizes on these abundant opportunities by focusing on efficient exploitation.

The findings of this article make several contributions to the entrepreneurship literature. While moderators to the EO–performance relationship have been investigated, access to capital and environmental dynamism have not previously been investigated together in a configurational model of small firm performance. Further, single indicators have typically operationalized small firm performance. We operationalize small business performance as an index of seven commonly used performance measures pertaining to financial performance and growth. Moreover, most studies of EO and performance use cross-sectional designs. We use longitudinal data to empirically test whether an EO actually leads to better performance.

## **2. Introduction**

A general tendency in today's business environment is the shortening of product and business model life cycles (Hamel, 2000). Consequently, the future profit streams from existing operations are uncertain and businesses need to constantly seek out new opportunities. Therefore, they may benefit from adopting an "entrepreneurial strategic orientation" (EO). This involves a willingness to innovate to rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more proactive than

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