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Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth ☆

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Abstract

Studies of entrepreneurial orientation tend to examine its three most common features only (risk-taking, innovativeness, and proactiveness), merging these into a gestalt construct of entrepreneurial orientation and then analyzing its effect on business performance. This is in contrast to Lumpkin and Dess who stressed an entrepreneurial orientation is best characterized by five dimensions which can vary independently and may not be equally valuable across performance metrics or at different stages of development. We rectify these problems by examining the independent impact of risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy on performance of young high-technology firms at an embryonic stage of development. Our results support the concerns of Lumpkin and Dess. Only proactiveness and innovativeness have a positive influence on business performance while risk-taking has a negative relationship. Competitive aggressiveness and autonomy appear to hold no business performance value at this stage of firm growth. From these results, we offer implications for managers in addition to guidance for future research.

Keywords: Entrepreneurial orientation; Risk-taking; Innovativeness; Proactiveness; Competitive aggressiveness; Autonomy; Young firms; Business performance

1. Introduction

Today's business environment is repeatedly described as complex and uncertain (Dreyer & Grønhaug, 2004; Slater & Olson, 2002). This can place emerging young firms in vulnerable positions by compromising their ability to compete against established competitors. To compete under such conditions, normative theory encourages young firms to hone their entrepreneurial capabilities (Lee, Lee, & Pennings, 2001; Wiklund & Shepherd, 2005) so as to launch speedy and stealthy attacks on rivals (Chen & Hambrick, 1995).

Seminal work by Lumpkin and Dess (1996) defined an entrepreneurial orientation (EO) as the decision-making styles, processes, and methods that inform a firm's entrepreneurial activities. It has also been described as a form of strategic orientation (Wiklund & Shepherd, 2003, 2005). Lumpkin and Dess (1996) drew on extensive research to characterize an EO as being the product of five dimensions—risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy. Research efforts since then have repeatedly sought to prove that EO carries valuable rewards in terms of business performance. Several studies have reported positive associations (e.g., Wiklund, 1999; Wiklund & Shepherd, 2003, 2005; Zahra, 1991; Zahra & Covin, 1995) but there are exceptions to this (e.g., Hart, 1992; Matsuno, Mentzer, & Özsomer, 2002; Morgan & Strong, 2003; Slevin & Covin, 1990; Smart & Conant, 1994). It would appear that EO sometimes, but not always, contributes to improved business performance.

The important question, therefore, is why the influence of EO on performance might be so inconsistent. Despite the wide-ranging attention devoted to EO, few studies have expressly examined Lumpkin and Dess' (1996) five-dimension framework of EO. The tendency has been instead to study only three of the five dimensions, commonly risk-taking, innovativeness, and proactiveness as characterized by Miller (1983). Moreover, researchers

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have almost exclusively adopted an aggregate (or higher-order) approach to the assessment of EO. That is, risk-taking, innovativeness, and proactiveness are measured as independent dimensions and then a composite EO scale is created into a combined gestalt construct for further analysis. The problems with this approach are that it neglects the individual influence of each dimension and assumes a universal and uniform influence by each dimension. In contrast, Lumpkin and Dess (1996) state that each dimension can vary independently and might not necessarily be beneficial or even desirable at different points in time. As a result, the coarse-grained conclusions from much of the extant EO empirical research require that this fundamental caveat be explored further.

For emerging young firms with limited resource endowments, understanding which of the five EO dimensions are most valuable to securing improved performance at their potentially vulnerable stage of development is an important priority. It is conceivable that all five dimensions may be beneficial but it is equally plausible that only a sub-set of dimensions may be valuable. At present, research into EO has ignored these issues and instead has consistently only made only a partial analysis of the Lumpkin and Dess (1996) framework and has adopted a summative approach to their examination of EO, which renders individual uniqueness obsolete. We seek to contribute to our understanding of the EO construct by rectifying these omissions and responding to the following research question: Are all five dimensions of the Lumpkin and Dess (1996) EO framework equally valuable to firms at an embryonic stage of development?

2. Theoretical framework

This study differs from the majority of existing studies in that it examines the relationship between EO and performance at the unidimensional level in emerging young firms in order to assess specifically which dimensions of EO are most valuable to securing performance at that embryonic stage of development. To further differentiate from extant studies, we examine the EO construct as specified by the conceptualization of Lumpkin and Dess (1996), rather than merely adopt a selective approach to the analysis of EO.

The majority of studies into EO tend to adopt the Miller (1983) definition of an entrepreneurial firm and extrapolate it to EO. Miller (1983) defined an entrepreneurial firm as one that "engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch" (p. 771). From this definition, scholars have repeatedly pinpointed and studied three core dimensions said to classify an EO these being risk-taking, innovativeness and proactiveness (e.g., Barringer & Bluedorn, 1999; Covin & Slevin, 1989; Naman & Slevin, 1993; Wiklund, 1999; Wiklund & Shepherd, 2003, 2005; Zahra & Covin, 1995). Lumpkin and Dess (1996) on the other hand argue that a coherent classification of an EO consists of five dimensions not three. In addition to those identified by Miller (1983), Lumpkin and Dess (1996) conceptualize competitive aggressiveness and autonomy as two additional dimensions of a coherent EO.

Lumpkin and Dess (1996) define EO as the methods, practices, and decision-making styles managers use to act entrepreneurially and can be thought of as a type of strategic orientation insofar as it captures how a firm intends to compete. An EO is operationalized through risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy each of which can vary independently (Lumpkin & Dess, 1996). *Risk-taking* reflects an acceptance of uncertainty and risk inherent in original activity and is typically characterized by resource commitment to uncertain outcomes and activities. *Innovativeness* captures a bias toward embracing and supporting creativity and experimentation, technological leadership, novelty and R&D in the development of products, services and processes. *Proactiveness* relates to a forward-looking perspective where companies actively seek to anticipate opportunities to develop and introduce new products to obtain first-mover advantages and shape the direction of the environment. *Competitive aggressiveness* conveys the intensity with which a firm chooses to compete and efforts to surpass competitors reflecting a bias toward out-maneuvering and outdoing rivals. *Autonomy* describes the authority and independence given to an individual or team within the firm to develop business concepts and visions and carry them through to completion.

As yet, it is largely unclear how these five dimensions individually map onto business performance. It is evident that all or at least a combination of dimensions exhibit some relationship with business performance since there have been widespread reports of a positive relationship between EO and performance (e.g., Wiklund, 1999; Wiklund & Shepherd, 2003, 2005; Zahra, 1991; Zahra & Covin, 1995). Yet some dimensions might 'carry' others that may have no separate influence on performance. This appears a likely possibility because the EO–performance relationship has been called into question in several studies with a number finding little or no association and others reporting even a negative relationship (e.g., Hart, 1992; Matsuno et al., 2002; Morgan & Strong, 2003; Smart & Conant, 1994).

Studies have ignored an analysis of the EO dimensions and as such we have little knowledge of whether each is equally important or even necessary to secure improved performance in emerging young firms. Lumpkin and Dess (1996) reasoned that EO dimensions might lead to favorable outcomes on one performance dimension but unfavorable outcomes on another and this may also depend on different firm conditions. These authors further suggested that as firms change, the nature of their EO might change with it. Age and size determine much of firms' needs and Lumpkin and Dess (1996) highlighted that very young firms *might* exhibit dependency on innovativeness and risk-taking, for example, more than older and larger firms which may require greater autonomy to achieve improved performance. They further raise the question of when a firm might cease to be entrepreneurial but go on to suggest that rather than appearing to cease, the case may be that the firm's EO changes to better suit its strategic and market needs. They conclude that not all EO dimensions may be present or valuable as it depends on firm context. From these issues, to advance the Lumpkin and Dess (1996) framework, it is clear that research is needed to examine how each individual dimension of an EO might influence business performance, and, it is necessary to take into account the stage of development of firms to be examined. Accordingly, in the context of this study, emerging young firms may implement each