



# Entrepreneurial orientation as a function of national cultural variations in two countries

Andreas Engelen\*

RWTH University of Aachen, Center for Entrepreneurship, Templergraben 64, 52056 Aachen, Germany

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## ABSTRACT

Building on a large-scale survey study in Germany and China, this research develops and validates a model of internal variables fostering entrepreneurial orientation. The objective of the research is to understand whether organizational mechanisms, such as organizational structure or leadership style that underlie entrepreneurial organizations are universal or are contingent on national culture. The findings of this study indicate that some components are universal and some are contingent on culture. For instance, cross-functional integration, consideration, and development culture impact most dimensions of entrepreneurial orientation across cultures positively, whereas centralization does so negatively, suggesting strong similarities of entrepreneurial organizations. On the other hand, participation exerts an influence on entrepreneurial orientation only in Germany. There are also differences in the strength of relationships: cross-functional integration and consideration have stronger effects in China than in Germany. One major implication is that commonalities of entrepreneurial organizations are generally not strong enough to completely outweigh the influences of national culture. This research may help managers to foster the degree of entrepreneurial orientation in their businesses that operate internationally.

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## 1. Introduction

Research has found that organizations with a high degree of entrepreneurial orientation (EO) perform better (e.g., Wiklund, 1999). The positive relationship between EO and performance is robust in both western and eastern settings (Li et al., 2008). However, there is also a consensus that a high degree of EO exists only when it is developed and supported through organizational structure, leadership style and organizational culture (Covin and Slevin, 1991). Given the global robustness of the EO-performance relationship, the question arises whether there is one right way to foster EO (i.e., one set of choices concerning organizational structure, leadership style, and organizational culture), or whether the way organizations foster their EO is affected by national culture.

The literature provides two contradictory positions: Kreiser et al. (2002) hold that a fundamental tenet of entrepreneurship research is that organizations with a high degree of EO differ significantly from other types of organizations. Similarly, Covin and Slevin (1991) point out that organizations with a high degree of EO share certain features, such as a low degree of centralization. Thus, this stream holds that organizations with a high degree of EO show similarities that may outweigh other influences, such as national culture. On the other hand, findings from related research streams, such as cross-cultural management (e.g., Rauch et al., 2000) and cross-cultural marketing (e.g., Brettel et al., 2008), suggest that the impact of internal variables on desired outcomes such as EO may be contingent on the national culture in which the organization operates. These studies suggest that national culture is a major influence on individual behavior in organizations, so the means to facilitate a strong EO must be subject to national culture.

\* Tel.: +49 241 80 96 177; fax: +49 241 80 92 371.

E-mail address: engelen@win.rwth-aachen.de.

To resolve these contradictory positions, the present study develops and empirically tests a theoretical model which integrates the internal variables that support organizational EO, specifically organizational structure, leadership style, and organizational culture, with Hofstede's (1980) multidimensional framework of cultural dimensions. The theoretical analysis and survey-based empirical research are conducted from German and Chinese perspectives for three reasons: the two nations differ significantly on the two most important cultural dimensions of power distance and collectivism (Hofstede, 1980; House et al., 2004); their two economies are major drivers of growth, with Germany as the most important European economy and China as one of the largest economies in the world with above-average growth (Quer et al., 2007); and both countries have in common that entrepreneurship has recently increased in importance.

In Germany, entrepreneurial organizations have become a major topic because of the country's efforts to create a more "entrepreneurial society." The German economy has traditionally been driven by large companies, but these large companies are no longer able to provide sufficient numbers of jobs; young, entrepreneurial organizations are the major job creators (Bergmann and Sternberg, 2007). In China, the government relaxed its grip on the economy in the late 1970s (Holt, 1997) and, by the end of the twentieth century, the number of private enterprises had passed the one million mark (Ahlstrom et al., 2007). Koveos and Tang (2007) point out that China's economic upturn is strongly rooted in people's enthusiasm for business creation and that the entrepreneurial spirit has even entered large Chinese "blue-chip" enterprises. In short, Germany and China are appropriate for a cultural comparison and merit attention because of their economic importance and emphasis on entrepreneurship.

This study proceeds as follows: The next section lays out the theoretical premises. Hypotheses are generated in the following section. The fourth section presents the methodology of the analysis. The findings are presented in Section 5 and discussed in detail in Section 6.

## 2. Theoretical premises

### 2.1. Entrepreneurial orientation

The construct of EO refers to the "process, practices, and decision-making activities that lead to new entry" into a business field (Lumpkin and Dess, 1996, p. 136). Miller (1983) proposes that the EO of an organization is based on how much it innovates, acts proactively, and is willing to take risks. Innovativeness refers to a general willingness to depart from proven practices. Organizations that behave proactively are those that act in anticipation of future problems and opportunities (Lumpkin and Dess, 1996). An organization's risk-taking is the "degree to which managers are willing to make large and risky resource commitments, i.e., those which have a reasonable chance of costly failure" (Miller and Friesen, 1978, p. 923).

There is an agreement in the literature that EO can be managed, fostered, or impeded (Covin and Slevin, 1991). The research on internal antecedents of EO can be classified into three main categories. First are those that contend organizational structures determine the degree of EO because they affect communication and information flows through the organization and how organization members interact (e.g., Aloulou and Fayolle, 2005). Second are those that contend leadership style, that is, the nature of the relationship between superiors and subordinates, is a major driver of EO (Covin and Slevin, 1988) because "the entrepreneurial message must flow from the top" (Hidgon, 2002, p. 16) and top-level managers must be purveyors of the entrepreneurial vision (Heller, 1999). The third group is studies that contend organizational culture is a major driver of EO (e.g., Abbey and Dickson, 1983). Because there are numerous drivers in each of these three categories, the following analysis focuses on one or two representative and important drivers from each group. Organizational structures are represented by cross-functional integration (Morris et al., 2007) and centralization (e.g., Miller, 1983), leadership style by consideration and participation (e.g., Lumpkin and Dess, 1996), and organizational culture by the degree of development culture (e.g., Abbey and Dickson, 1983).

### 2.2. National culture

Although there is no consensus with respect to the definition of national culture, the most widely accepted definition is that of Kluckhohn (1951): "Culture consists in patterned ways of thinking, feeling, and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values" (p. 86). This definition highlights two of the major characteristics of national culture: the construct refers to groups of people, not just individuals; and culture is divided into several layers in which shared values and norms form an invisible core that influences the interactions and behavior of the members of a social group. A third area of agreement in the literature is that culture is not inherited, but learned over time (Hofstede, 2001).

Because culture is an inherently complex phenomenon, researchers usually describe it using a set of dimensions (Lytle et al., 1995). Among the numerous competing concepts, the dimensions Hofstede (1980) develops are the most widely accepted among entrepreneurship and management scholars (Marino et al., 2002). Power distance refers to the relationship between superior and subordinate and reflects the extent to which people accept that power is unequally distributed within organizations. Individualism (with its opposite pole of collectivism) refers to the way people are integrated in their groups. Uncertainty avoidance is the extent to which a culture feels threatened by ambiguous and uncertain situations. Masculinity/femininity captures the emphasis a culture puts on masculine or feminine values.

Germany and China do not differ significantly with respect to masculinity and uncertainty avoidance but, according to Hofstede (1980), they do differ in terms of power distance and individualism/collectivism. Germany is characterized by low power distance

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