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# Breaking the Routines: Entrepreneurial Orientation, Strategic Learning, Firm Size, and Age

Charlotta Sirén, Henri Hakala, Joakim Wincent, Dietmar Grichnik

Drawing upon prior research suggesting inertia prevents organizations from learning, we suggest that the relationship between entrepreneurial orientation (EO) and strategic learning (SL) is not as straightforward and linear as has been suggested. The size and age of an organization, considered indicators of inertia, are important factors affecting how EO contributes to the components of SL. Data from 182 software companies confirm the non-linear relationships between EO and the dissemination, interpretation, and implementation components of SL. The results also indicate that the U-shaped association between EO and specific components of SL is more pronounced for larger and established companies than for younger and smaller ones. These findings depart from previous work based on strategic learning from mistakes, and offer a specific understanding of the relationship between EO and the four distinct components of SL. These results suggest that companies should opt to facilitate the individual components of SL as they are affected differently depending on the level of EO, and the age and size of the organization.

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## Introduction

A major proposition regarding entrepreneurial orientation (EO) is that highly entrepreneurial firms are better equipped to adjust to dynamic competitive environments than their less entrepreneurial counterparts (Covin and Slevin, 1989; Lumpkin and Dess, 1996; Miller, 1988; Zahra, 1993). Despite the mounting evidence for the generally positive effects of EO on company profitability and growth (Wiklund, 1999; Wiklund and Shepherd, 2005; Zahra, 1991; Zahra and Covin, 1995), studies examining how EO actually affects the long-term adaptive capability of the firm are rare (Kreiser, 2011) and establishing this connection is not straightforward (Covin and Slevin, 1991; Wales et al., 2011). Specifically, from an organizational ecology perspective (e.g., Hannan and Freeman, 1984, 1989), it is evident that difficulties with inertia, ingrained routines, and institutionalized structures pose a significant threat to the long-term adaptation of organizations, and hence may inhibit the effect of entrepreneurial action.

Recent EO literature (Anderson et al., 2009; Covin et al., 2006; Green et al., 2008; Mueller et al., 2012) proposes strategic learning (SL) as a long-term adaptive capability that allows organizations to break away from their current strategic path and renew their core capabilities. SL consists of knowledge creation, dissemination, interpretation, and implementation (Kuwada, 1998; Thomas et al., 2001), and links directly with the key management question of how organizations change their strategies to maintain and develop a competitive advantage (Ambrosini and Bowman, 2005). Hence, the components of SL have an important role when the change initiatives originating from EO must be realized and strategy adjusted (Anderson et al., 2009; Covin et al., 2006). The components of SL are especially important in explorative settings where firms must determine where their competitive advantage lies, because it guides the variation–selection–retention process of entrepreneurial initiatives (Burgelman, 1991; Mintzberg and Waters, 1985).

Strategic learning from EO is not simple. Organizational ecology theorists argue that implementation of SL is hindered by organizational inertia (Ahuja and Lampert, 2001; Levinthal and March, 1981; Miner et al., 2001; Zahra et al., 2006) and signals generated by EO that are insufficiently strong are likely to be blocked from the variation–selection–retention process. However, increasing EO brings the organization into contact with diversity, new assumptions, and new organizational frameworks that shift a firm's focus toward fundamental strategic adjustments (Cope, 2003). Thus, highly entrepreneurial firms have been associated with overcoming learning traps (Ahuja and Lampert, 2001; Levinthal and March, 1993) thus fostering strategic adjustments in the organization. It is also well established in the organizational ecology literature that as an organization grows in terms of size and age, resistance to change increases, affecting how new entrepreneurial ideas are absorbed (Sørensen and Stuart, 2000; Wales et al., 2011). The liabilities of size, related to structures and resources, inhibit

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adaptation and renewal (e.g., Aldrich and Auster, 1986; Baker and Cullen, 1993; Wales et al., 2011). On the other hand, liabilities of age further complicate renewal. These may be traced back to organizational path dependencies such as development of organizational routines and the socialization of individual knowledge to an organizational code as well as rigid network ties. Hence, SL from EO becomes more difficult when a firm grows or matures.

Our study contributes to EO literature by proposing that the relationship between EO and SL is non-linear. We further suggest that this non-linear relationship between EO and SL takes different forms depending on the size and age of the company. Especially in larger and more established companies, SL is positively influenced only by higher levels of EO, while this relationship is more straightforward and linear in smaller and younger companies. The study contributes to an under-researched area, answering the call of Wales et al. (2011; p. 21) for studies addressing the question, "How does the pervasiveness of EO relate to temporally linked organizational factors: liabilities/viabilities of newness, inertia, and core rigidities?" The current research also adds to organizational learning and dynamic capability literature by studying how structurally constrained companies, in which the learning effect can be hampered by inertia, can promote SL (Ahuja and Lampert, 2001; Levinthal and March, 1993). Zahra et al. (2006; p. 937) noted that prior studies "provide little direct empirical evidence on differences in learning processes" in smaller versus larger but also in newly founded versus established companies. Therefore, we introduce organization size and age as indicators of structural inertia and moderators of the non-linear relationship of EO and SL. We suggest that in order to engage in SL, larger and more established companies need to cultivate a strong EO in their organizations. By going beyond the linear rationality of the EO–SL relationship, we step into "a promising avenue for future research," that is, "the examination of curvilinear relationships between antecedents and organizational knowledge transfer" (van Wijk et al., 2008; p. 848). Finally, prior research has generally applied a unidimensional representation of SL (Anderson et al., 2009; Covin et al., 2006; Green et al., 2008; Mueller et al., 2012). We find such an approach difficult because of the different natures of the four components of SL and the possibility that EO influences these components differently. Hence, we recognize the importance of separating the components of SL and clarifying the role of EO in facilitating strategic knowledge creation, dissemination, interpretation, and implementation.

## Theoretical background

### *Conceptualizing strategic learning*

The concept of strategic learning was introduced by Mintzberg and Waters (1985) and later developed by Kuwada (1998) and Thomas et al. (2001). It extends the idea of organizational learning from "something deployed in service of existing strategies" (Voronov, 2008; p. 196), where a firm learns the skills and competencies necessary to realize its intended strategy, and moves the focus to the emergence of new strategies and strategic adjustments (Mintzberg and Waters, 1985). Concentrating on a firm's ability to create and use knowledge to revise the firm's strategy (Anderson et al., 2009), the concept of SL captures aspects of a strategic-level learning where "basic assumptions underlying corporate-level knowledge are reframed and lead to a renewal of the organization's strategic capability" (Kuwada, 1998; p. 719). Building on Burgelman's (1991) intra-organizational, ecological perspective on strategy-making, an organization is viewed as an ecology where strategic initiatives are continuously created and compete for limited resources. SL's major role is to retain the most viable strategic initiatives (Burgelman, 1991), formed through active learning from entrepreneurial activity. Thus, the fundamental idea of SL is broader than just learning from mistakes as indicated in some prior studies (Anderson et al., 2009; Covin et al., 2006; Green et al., 2008; Mueller et al., 2012). Building on existing SL models (Crossan et al., 1999; Kuwada, 1998; Thomas et al., 2001), we suggest that SL is based on four sets of capabilities supporting a firm by way of strategic adjustments: knowledge creation, dissemination, interpretation, and implementation of strategic knowledge.

*Strategic knowledge creation* is an exploratory knowledge acquisition process enabling individuals in an organization to gather strategic information from their environment to extend their current knowledge (Atuahene-Gima and Murray, 2007; March, 1991). The process conducted by individuals and groups provides a company with new market knowledge to fuel its knowledge-creation processes (Jones and Macpherson, 2006) and bolster its existing stock of knowledge (Crossan and Berdrow, 2003). Knowledge creation drives a firm's ability to perceive and anticipate external change and to develop the knowledge base necessary to advance strategic changes (Ben-Menaheem et al., 2013).

*Strategic knowledge dissemination* is a social exchange process that refers to the sharing of strategic knowledge through interactions within and between organizational units (Jerez-Gómez et al., 2005) in order to ensure new ideas permeate the whole organization (De Clercq et al., 2010). Knowledge dissemination can occur both formally and informally and both horizontally (i.e., interdepartmentally) and vertically (cross-functionally) within the firm (Van der Bij et al., 2003). For entrepreneurial firms it is important that the various functional areas are guided by a cross-functional knowledge dissemination process. This process encourages and facilitates knowledge transfer across and within subunits to retain a diversity of views and to foster cooperative beliefs and understandings among all functional areas to direct them toward coordinated innovation efforts (Siguaw et al., 2006).

In the process of *strategic knowledge interpretation* organizational members interpret new information about potential opportunities through a mutual process of interaction including open dialogue with people of diverse backgrounds and perspectives (Daft and Weick, 1984; Kuwada, 1998; Slater and Narver, 1995). In this sense-making process, conflicting assumptions and alternative interpretations are considered and, if necessary, acted upon to change behaviors and the way the organization interprets information. Knowledge interpretation allows a firm to identify meaningful fragments of information and

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