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Configurations of entrepreneurial orientation and competitive strategy for high performance

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ABSTRACT

Entrepreneurial orientation (EO) – that is risk-taking, proactiveness and innovativeness – and Porter's generic competitive strategies have become core constructs within entrepreneurship and management research; still, little is known about how they act in combination to influence performance. A configurational view of contingency fit is used to craft a typology of three ideal types. A qualitative comparative analysis of 67 small firms in Sweden empirically supports the hypothesis that two ideal types are associated with high firm performance: one focuses on differentiation strategy combined with innovativeness and proactiveness; and one focuses on a mixed strategy with risk aversion, reactiveness, and low innovativeness. The paper contributes to the current literature by showing how EO sub-dimensions in a non-linear way facilitate firm performance when in fit with competitive strategies, and supports the research stream that sees EO as a formative construct.

1. Introduction

Several meta-studies point to the positive effect of entrepreneurial orientation (EO) on firm performance (Rauch, Wiklund, Lumpkin, & Frese, 2009; Saeed, Yousafzai, & Engelen, 2014), where EO captures the entrepreneurial practices of firms in the form of risk-taking, proactiveness, and innovativeness (Javalgi & Todd, 2011; Miller, 1983). Most EO research has been focused on the direct linear effect of EO on firm performance (Edmond & Wiklund, 2010; Wales, Gupta, & Mousa, 2013). However, several studies indicate that the direct linear relationship between EO and firm performance is an over-simplification that can be questioned (Andersén, 2010; Wiklund & Shepherd, 2005). For example, Patel, Kohtamäki, Parida, and Wincent (2015) conclude that EO, rather than increasing performance, increases variability in performances, insisting on more EO enhancing the odds on both big wins and big losses, thereby challenging the linearity of EO to firm performance (Wiklund & Shepherd, 2011).

Moreover, as firms hold different market positions, competitive strategies, and unique assets, the positive effect of EO on performance found in large samples does not reveal whether or not the EO postures are well-aligned with these other aspects of the firm. Wales et al. (2013) suggest that more knowledge on the causal mechanisms of how EO is aligned with other firm aspects is instrumental. While EO is generally accepted as a posture related to a firm's strategy-making efforts (Lumpkin & Dess, 1996), Porter's (1980) generic competitive strategies describe alternative positions in the market that can give a firm a competitive edge: via differentiating itself to increase consumer value and thereby achieving better margins, or via lower costs than the competitors'. However, neither EO nor the strategy of choice might be sufficient to explain firm performance in isolation from one another (Eggers, Hansen, & Davis, 2011; Moreno & Casillas, 2008; Tang & Hull, 2012). Matching a firm's EO posture to its competitive strategy appropriately, however, might enhance the performance (Lechner & Gudmundsson, 2014). This is in line with recent articles on EO that call for research to examine EO in configurations with other aspects, such as strategy (Edmond & Wiklund, 2010; Kreiser & Davis, 2010; Miller, 2011; Wales et al., 2013). With a configurational view, it is possible to take the examination beyond the impact of single aspects and instead investigate bivariate and multivariate outcome (Drazin & Van de Ven, 1985). The basic assumption in the configurational view is that different aspects interrelate with each other and, therefore, some configurations are well aligned while others are not (Miller, 1996).

Furthermore, EO itself can be seen as a reflective construct (e.g. Miller, 1983) where the sub-dimensions are expected to covary, or as a formative construct (e.g. Avlonitis & Salavou, 2007; Lumpkin & Dess, 1996) where the sub-dimension can vary independently (Covin & Lumpkin, 2011; George & Marino, 2011). Kreiser and Davis (2010) take a formative view of EO in developing a typology that includes the EO sub-dimensions of risk-taking, proactiveness, and innovativeness as independent postures, without, however, empirically assessing the typology. Along the same lines, Lechner and Gudmundsson (2014) advocate the formative view when investigating the links from the EO sub-dimensions to competitive strategies, although without going beyond a mediation model.

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As argued, from a wider perspective, studies that explicitly investigate the important interplay between EO postures and firm-level competitive strategy are warranted. More specifically, the current research contributes to the EO literature in the following ways: firstly, by linking configurations of the EO sub-dimensions to competitive strategy, this study further extends configurational theory to the current EO literature. Uncovering particular configurations in contingency fit with better odds for high firm performance than alternative configurations, the findings demonstrate the fruitfulness of using a configurational approach to conceptualize interrelated dimensions as packages that are linked to performance as wholes, rather than as multiple individual firm qualities linked to performance separately. Secondly, the results add to the research stream that sees EO as a formative construct. The findings support the view that risk-taking, innovativeness, and proactiveness in fact are individual and distinct entrepreneurial postures.

2. Entrepreneurial orientation, strategy, and configuration theory

The underlying theoretical model in this paper builds on configuration theory (Miller, 1987, 1996) and the concept of contingency fit (Drazin & Van de Ven, 1985; Venkatraman, 1989). Configuration theory builds upon the idea that firms fall into a limited number of states of internal coherence among a collection of theoretical attributes. Because only a limited number of states of fit exist, firms need to make quick and fundamental changes (i.e. quantum jumps) to avoid in-between states (Drazin & Van de Ven, 1985; Meyer, Tsui, & Hinings, 1993; Miller, 1996). Theoretically derived configurations, also called typologies, can help researchers organize complex relationships into profound explanations (Fiss, 2011). Typologies are in essence neat and memorable while acting in coherence in interesting ways. The interdependencies among the theoretical attributes within a typology are the core of configurations (Boyd, Haynes, Hitt, Bergh, & Ketchen, 2012; Miller, 1996).

This study uses the configuration approach on small firms (e.g. Andersén, 2012; Scheepers, Verreynne, & Meyer, 2014) and applies the different dimensions of EO and competitive strategy as attributes in the configuration. Fit between the several different dimensions is assumed to be linked to higher performance in the firms. This study uses the most commonly used dimensions (Wales et al., 2013) of risk-taking, proactiveness and innovativeness for EO (Covin & Slevin, 1989; Miller, 1983). Following Lechner and Gudmundsson (2014), only the horizontal dimension, cost leadership to differentiation strategy, is used for competitive strategy.

To conceptualize how the different factors fit together, interrelate, and form configurations, the paper proceeds with a brief review of the literature on EO and competitive strategies, respectively.

2.1. Entrepreneurial orientation

The roots of entrepreneurial orientation are related to the fact that entrepreneurial firms are more inclined to take risks than other types of firms (Khandwalla, 1976; Mintzberg, 1973). Miller (1983) and Miller and Friesen (1983) elaborated upon this idea to include risk-taking, proactiveness, and innovativeness in the behavior of entrepreneurial firms. In EO, risk-taking is characterized by venturing into the unfamiliar with bold action, borrowing heavily, and committing substantial resources to ventures in ambiguous settings (Miller, 1983; Mousa, Wales, & Harper, 2015). Proactiveness is characterized by an opportunity-seeking and pioneering outlook that introduces new products and services before competitors and that also acts in anticipation of future demand (Abebe & Angriawan, 2014; Covin & Slevin, 1989). Innovativeness is characterized by strongly focusing on R&D, being a leader in technology, and introducing new products as well as changing existing products or service lines (Lumpkin & Dess, 1996; Mickiewicz, Sauka, & Stephan, 2014). However, from a configurational view, an important consideration is that the opposite ends of the dimensions can also be beneficial characteristics depending on the context, for example, the competitive strategy (Covin, Slevin, & Covin, 1990).

As suggested above, EO has often been seen as a reflective and aggregated measurement (e.g. Covin & Slevin, 1989; Miller, 1983) of the three sub-dimensions. Nevertheless, later research has suggested the importance of also investigating the sub-dimensions of EO from a formative point of view because the individual dimensions may have differentiated relationships with other variables (Kreiser, Marino, Kuratko, & Weaver, 2013; Lumpkin & Dess, 1996). Similarly, Miller (2011) suggests that the EO sub-components can be more telling than the aggregated measure because the sub-dimensions can play different roles depending on the specific context. For example, innovativeness might be more crucial than risk-taking for a certain strategy and vice versa. Furthermore, EO has been suggested as being contingent upon the context and exhibiting different results depending on the context, for example strategy or environment (Covin & Slevin, 1991; Lumpkin & Dess, 1996). On this basis, the EO sub-dimensions and these contextual variables are suggested as needing to be *aligned* (proper fit) to achieve higher firm performance. Thus, EO would have different effects on firm performance depending on the context. In EO studies, the external environment has been a well-researched context; however, less focus has been directed toward the internal context (Rauch et al., 2009; Wales et al., 2013). This paper focuses on the internal context of competitive strategy.

2.2. Competitive strategy

Porter's (1980) model of competitive strategy is generally accepted although several other frameworks to classify strategies exist (e.g. Miller & Friesen, 1978; Miles & Snow, 1978). This study uses Porter's typology because of its wide acceptance in the literature (Allen & Helms, 2006; Hernández-Perlines, Moreno-García, & Yañez-Araque, 2016). Similarly to Lechner and Gudmundsson (2014) and Fiss (2011) who also use Porter's typology, the present study uses Porter's two main foundations of competitive advantage: differentiation and cost leadership. Differentiation is engaged in creating additional value by offering the customer a superior product and added value (Brenes, Montoya, & Ciravegna, 2014). Differentiation can meet customer demands in unique ways, such as product design, quality, speed and flexibility. In contrast, cost leadership is engaged in attaining low cost structures that in turn allow products to be offered at lower costs than those of competitors, for example, by achieving economies of scale or improving design for manufacturing (Martinez-Simarro, Devece, & Llopis-Albert, 2015). This allows the cost structure to be lowered, which in turn allows lower prices. Porter (1996) later opened up for the idea that a combination of cost-leadership and differentiation strategy might be possible, which many other authors agree with (e.g. Allen & Helms, 2006; Helms, Dibrell, & Wright, 1997; Jones & Butler, 1988; Miller & Dess, 1993). A mixed strategy has to balance offering traditional products but also offering new products mainly through imitation of the most successful new products offered by competitors (Helms et al., 1997).

2.3. A typology

Based on previous literature, we develop ideal types that are expected to lead to high performance. Centered on the three competitive strategies of differentiation, cost leadership, and a mixed strategy between differentiation and cost leadership, we theorize three ideal types. To start with, we connected each strategy with each EO sub-dimension, as summarized in Table 1. The literature review indicates, in essence, three different strategic types of firms; these are further elaborated below. Each type has its unique competitive strategy as well as EO sub-dimensions. These three ideal types are named based on their main function as follows: 'Orginalizers', 'Systematizers', and 'Evaluators'. Although other typologies are available (e.g. Miles & Snow, 1978;

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