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Enhancing Entrepreneurial Orientation in Dynamic Environments: The Interplay between Top Management Team Advice-Seeking and Absorptive Capacity

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In this study we develop and test a model of how top management teams (TMT) can enhance entrepreneurial orientation (EO) in dynamic environments. From an upper echelons perspective, we argue that TMT external advice-seeking and TMT absorptive capacity interactively impact the ability of top managers to enhance EO when environments are dynamic. Our findings suggest that given the uncertainties and complexities arising in dynamic environments, TMT external advice seeking alone does not aid TMTs in devising entrepreneurial strategies. It is only when TMTs combine external advice seeking with absorptive capacity to make sense of the formulated judgments of dissimilar others that they achieve higher EO. We discuss implications for theory and practice.

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Introduction

Entrepreneurial orientation (EO) entails the extent to which an organization's top managers emphasize risk-taking, proactivity, and innovativeness in firm strategy (Covin et al., 2006; Lyon et al., 2000; Miller, 1983). EO is an important underpinning of the extent to which entrepreneurial behavior in the firm is encouraged, undertaken, and rewarded (Lumpkin and Dess, 1996), and evidence suggests that more entrepreneurially oriented firms tend to perform better, especially in dynamic environments (Rosenbusch et al., 2013; Wiklund and Shepherd, 2005). Considering these performance benefits and in line with an emerging emphasis on drivers of EO in literature, Ruiz-Ortega et al. (2013) recently explored whether firms operating in dynamic environments are indeed more entrepreneurially oriented. Although the expected benefits of EO in dynamic environments are well documented, and EO is instrumental for capturing emerging opportunities, top managers may struggle to foster EO due to the increased uncertainty inherent to dynamic environments. Uncertainty may instead trigger conservative responses through reliance on familiar routines (Muurlink et al., 2012) and attempts to improve efficiency (Chattopadhyay et al., 2001). Thus, the question remains: *How can top managers enhance entrepreneurial orientation in dynamic environments?*

In this study we examine the role of the top management team (TMT) in enhancing EO in dynamic environments. While previous studies have mainly investigated the relation between EO and firm performance, we draw on upper echelons theory and bolster the increasing emphasis on TMTs in EO scholarship (Miller and Le Breton-Miller, 2011; Van Doorn et al., 2013). Upper echelons theory proposes that strategic choices reflect the idiosyncrasies of decision makers and recent studies indeed have highlighted the impact of compositional attributes of top managers on EO (Boling et al., 2015; Miller and Le Breton-Miller, 2011; Sciascia et al., 2013; Wales et al., 2013). However, we argue that going beyond demographic attributes is an important next step in understanding EO from an upper echelons perspective.

We extend upper echelons based inquiries into EO by contending that it is important to take into account the tendency of the TMT to acquire external information to improve judgment accuracy on emerging opportunities in dynamic environments. We develop this premise by drawing on the emerging literature on TMT external advice-seeking, which suggests that top managers rely on advisors to inform their judgments under uncertainty (McMullen and Shepherd, 2006) (e.g., such as the uncertainty inherent to dynamic environments (Fredrickson and Mitchell, 1984; Heavey et al., 2009b)). Given that entrepreneurial opportunities in dynamic environments require TMTs to process information that is relatively new to the firm, we additionally assess TMT absorptive capacity, i.e. their ability to filter, process, and assimilate new information (Zahra et al., 2009). TMTs may better capitalize on external insights that enable understanding of emerging and future opportunities in the environment when they have the absorptive capacity to adequately interpret these new insights and its implications for firm strategy (Goll et al., 2007).

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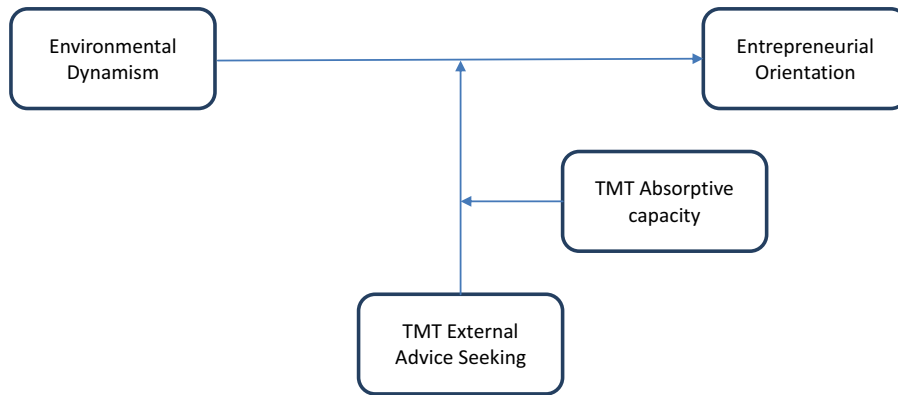


Figure 1. Conceptual model

We contribute to existing literature in several ways. First, this study applies an upper echelons lens and highlights how TMT behavioral attributes allow top managers to accommodate EO in dynamic environments (see Figure 1). This approach is timely and relevant, given recent studies that consider either environmental factors (Ruiz-Ortega et al., 2013) or top manager characteristics (Miller and Le Breton-Miller, 2011) as drivers of EO in isolation. Given the uncertainty inherent to dynamic environments, the information search dispositions of top managers and their ability to process new insights are essential for understanding how the TMT influences EO in dynamic environments.

Second, we advance literature on advice seeking by linking it to EO and arguing on its function in offering foreign judgments and recommendations for accommodating EO. Top managers have been shown to engage extra-organizational advisers as an important gateway for information to cope with non-routine decision making, a key activity in dynamic environments (McDonald and Westphal, 2003). Indeed, external advice seeking is seen as one of the basic practices in decision-making at the upper echelons level (Heavey et al., 2009a; Heyden et al., 2013; McDonald and Westphal, 2003) and provides senior managers with different perspectives and interpretations of the interface of the external environment and existing strategy (Budescu and Rantilla, 2000; McDonald et al., 2008). Advice can increase judgment accuracy and cultivates a better understanding of the urgency for entrepreneurial business solutions. Thus, we take the position that external advice-seeking may be an instrumental, yet underemphasized, boundary-spanning behavior through which executives can obtain insights to assist in navigating dynamic environments entrepreneurially.

Third, we assign boundary conditions to the utility of external advice and emphasize its important interrelation with absorptive capacity for evaluating the opportunities for enhancing EO in the face of environmental dynamism. Whereas external advice-seeking may increase a TMT's judgment accuracy of emerging threats and opportunities in dynamic environments, we go beyond this premise to suggest that TMTs may vary in their ability to assimilate the information acquired through advice-seeking and connect it to the established knowledge base of the firm and its key officers. Thus, we also contribute by theorizing on TMT absorptive capacity, which we conceptualize as a TMTs 'ability to value, assimilate, and apply new knowledge successfully to commercial ends' (Szulanski, 1996, 31). The importance of absorptive capacity in dynamic environments has been highlighted in previous studies but primarily at the firm level and not specifically in relation to external advice in dynamic contexts (Engelen et al., 2014; Liao et al., 2003). Our approach is consistent with upper echelons theory, where TMTs have been described as knowledge processing entities that aim to integrate knowledge from different levels and locations in order to formulate comprehensive strategy (e.g., Alexiev et al., 2010; Cho and Hambrick, 2006). Following Zahra et al. (2009), we consider absorptive capacity at the TMT level and argue that absorptive capacity will facilitate utilization of external advice when navigating dynamic environments (Cohen and Levinthal, 1990).

Conceptual background and hypotheses

EO refers to the extent to which the top managers of the firm emphasize risk taking, innovativeness, and proactiveness (Miller, 1983). *Innovativeness* refers to the inclination to pursue new products and services (Lumpkin and Dess, 2001; Zahra and Covin, 1995), whereas *proactiveness* entails the tendency to take the initiative and achieve a first mover advantage (Covin et al., 2006). *Risk taking* in turn refers to the propensity to invest in ventures with an uncertain outcome (Lumpkin and Dess, 1996). Studies suggest that firm performance is increased when EO is commensurate with environmental requirements (e.g., Lumpkin and Dess, 2001) and that more entrepreneurially oriented firms indeed perform better in more dynamic environments (e.g., Wiklund and Shepherd, 2005). While studies traditionally have emphasized and confirmed the importance of EO on firm performance (e.g., Rauch et al., 2009), increasingly scholars are addressing the drivers of EO (Boling et al., 2015; De Clercq et al., 2013; Ruiz-Ortega et al., 2013). This is particularly important for understanding how top managers can enhance EO when operating in dynamic environments.

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