

Research Application Summary

The effects of entrepreneurial orientation on enterprise performance: A review

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Abstract

Business success in a dynamic operating environment is an important inquiry in the entrepreneurship literature. Entrepreneurial orientation as one of the construct associated with business success is considered a key factor for new and small business sustainability for economic development and growth. This paper provides a review of entrepreneurial orientation with an objective to highlight a particular path that entrepreneurs may follow in order to establish a sustainable enterprise in a competitive environment. It also provides some future direction concerning the strategic approaches that ought to be developed in order to establish and sustain new and small-scale enterprises through engagement of entrepreneurial orientation in strategic actions and behavior.

Keywords: Entrepreneurial orientation, entrepreneurship, entrepreneurial mindset

Résumé

La réussite commerciale dans un environnement opérationnel dynamique est une question importante dans la littérature sur l'entrepreneuriat. L'orientation entrepreneuriale comme l'un des concepts associés à la réussite des entreprises est considérée comme un facteur clé de la durabilité des nouvelles et des petites entreprises pour le développement et la croissance économiques. Cet article présente une revue de l'orientation entrepreneuriale dans le but de mettre en évidence un chemin particulier que les entrepreneurs peuvent suivre afin d'établir une entreprise durable dans un environnement concurrentiel. Il fournit également une orientation future concernant les approches stratégiques qui devraient être développées afin de créer et de soutenir des entreprises nouvelles et à petite échelle grâce à l'engagement d'une orientation entrepreneuriale dans des actions et des comportements stratégiques.

Mots clés: orientation entrepreneuriale, esprit d'entreprise, état d'esprit entrepreneurial

Introduction

A growing number of researchers in entrepreneurship literature have addressed the topic on entrepreneurial orientation (EO) which has rapidly developed into the most established construct since the publishing of the seminal works by Miller in 1983. Divergence views, results, and new approaches have been detailed making more and more papers written on the topic. Entrepreneurial orientation (EO) is agreed to implicate a persistent strategic decision making action and behavior displayed by an entrepreneur. According to Covin and Wales (2012), EO is considered as a valuable internal resource whose possession guarantee business sustainability in a competitive environment. The EO is typically demonstrated by an enterprise concurrent exhibition of innovation, proactiveness, and risk-taking within its strategic actions and behaviors. These key dimensions keep on varying as a result of the impact of operative environment factors and organizational setting. Innovation dimension includes the development of new ideas, products/services, processes, and tactics. The risk-taking dimension involves willingly and effective employment and commitment of scarce resources by the entrepreneur to projects with uncertain outcome(s). The proactiveness dimension is demonstrated by aggressive actions directed to rival enterprises in pursuit of favorable business opportunities, aiming to gain first mover advantage. Therefore, these main dimensions form a theoretical core of what it means for an enterprise to be entrepreneurial. Gupta and Wales (2017) on the question of why business vary in performance while operating in the same environment, revealed that the solution revolves around entrepreneur's managerial and strategic dispositions as well as his/her total inclination towards entrepreneurial activities precisely. Vij and Bedi (2012) supported the proposal that EO should be considered as a strategic dimension which is linked with business strategic posture ranging from a fully conservative orientation to a completely entrepreneurial one. This suggests that enterprises with a propensity to engage in relatively high levels of risk-taking, innovative and proactive behaviors have EO, while those engaging in relatively low levels of these behaviors have conservative orientation.

As observed by Gupta and Wales (2017), the value of EO to an enterprise is arbitrated by its role and contribution towards business creation, growth, and development. According to Covin and Lumpkin (2011) EO is a useful construct to any enterprise, and this is demonstrated as a sole purpose of understanding why and how some businesses are able to renew themselves regularly via new growth path while others are not. As stated by Wambugu *et al.* (2016) EO is an important predictor of business performance, where entrepreneurial culture must be incorporated in business daily life. Accordingly, EO-business performance relationship is considered as multifaceted constructs rather than a bivariate relation, which is influenced by the interference of external environment which brings in moderating or mediating influence (Rauch *et al.*, 2009; Vij and Bedi, 2012; Rosenbusch *et al.*, 2013; Sok *et al.*, 2017; Jiang *et al.*, 2018). They suggested that the investigation of the impact of such mediating variable is necessary as a means to explore the contingency relationships. Despite the growing interest among researchers to investigate the effects of EO on business performance, the findings are still indecisive suggesting the need for further research.

The purpose of this paper is to review the state of the science about business performance in the realm of EO literature. This paper is organized as follows: first, is the examination of entrepreneurial mindset development as it is clarified by the entrepreneurship literature. Secondly, the identification of the entrepreneurial transition process from the inception

of business idea stage up to the establishment of an actual enterprise. Thirdly, clarifying supporting systems of the new enterprise in its growing phase. Finally, the conclusion and the recommendation of future direction in the reviewed area of interest.

Entrepreneurial mindset development. Diverse scholarly views have been observed, with researchers using different constructs synonymously with the entrepreneurial mindset, i.e., entrepreneurial intentions (Sinclair, 2012), proactive mindset (Campos *et al.*, 2017), entrepreneurial human capital (Krieger *et al.*, 2018), entrepreneurial goals, entrepreneurial self-efficacy, entrepreneurial learning and entrepreneurial cognitive. According to Shepherd *et al.* (2010) described an entrepreneurial mindset as the capability and willingness of a novice individual to act intelligently in response to a judgmental decision under ambiguity about a possible business opportunity for a profit gain. Relatedly, Krieger *et al.* (2018) and Shepherd *et al.* (2010) have linked the increased entrepreneurial mindset with improved business performance, placing an entrepreneurial mindset development as a key element of focus in the business creation process. The intention to become an entrepreneur is linked with possession of distinctive personal characteristic made either through training, exposure, experience or education. According to Vij and Bedi (2012), such traits involve self-efficacy, the locus of control, risk-taking propensity, family influence, educational influence, work experience as well as demographic characteristics that play crucial roles in nurturing an entrepreneurial mindset. According to Hosseini and Eskandari (2013) such aspects bring in intellectual ability and knowledge, and social contacts that guide entrepreneurs in strategic choices leading to sustaining a profitable enterprise in a competitive environment.

Campos *et al.* (2017), experimented on the impact of psychological-based training on key behaviors associated with an entrepreneurial mindset on the performance of small enterprises. The mindset training initiative covered self-starting behavior, innovation, identifying and exploiting new opportunities, goal-setting, planning, and feedback cycles, and overcoming obstacles. After several follow-up surveys, the study revealed that entrepreneurs who went through mindset training had their monthly sales increased by 17% while their monthly profit increased by 30% (Campos *et al.*, 2017). The training showed more impact on female owned-business who recorded a 40% increase in their monthly profit. The study revealed business improvement in all aspects for entrepreneurs trained on the entrepreneurial mindset, and this improvement was attributed to the business implementation of EO dimensions and innovation (introduction of more new product lines) as well as proactiveness (diversification into a new market and product lines). Sinclair (2012) study on “creating an entrepreneurial frame of mind” identified academic entrepreneurial training, formal and informal internship, trials and error as some of the paths that potential entrepreneurs must decide on to acquire entrepreneurial mindset needed for entrepreneurial behavior. The entrepreneurial mindset development is a key aspect to entrepreneurial success since it involves looking for ways to differentiate oneself from other businesses, to anticipate problems, to better overcome obstacles, and to nurture better planning for opportunities and long-term preparation. Krueger (2015) in his thematic paper revealed three key elements for developing an entrepreneurial mindset. First is a mentor/coach- someone who is an expert in the entrepreneurial mindset and wish to stand with the beginner through a learning process on skill development on how to act or think like an entrepreneur in order to raise the intention and self-efficacy towards entrepreneurship.

The second aspect identified is the peer support, described as the support a beginner receives from his/her best friends in pursuit of new venture creation. Finally, the personal reflection which involves the creation of a different view, as a result of a change in knowledge content and structure. Hence, the systematic preparation process is designed to ensure the potential entrepreneur sustain his/her new business to its growth and maturity stages.

Transitioning from interest into actual entrepreneurship. Entrepreneurship is the main key factor for effective self-employment. Individuals deciding to choose and pursue entrepreneurship/self-employed path rather than seeking employment in economic sectors are attracted by its perceived benefits over formal or informal employment (Atherton *et al.*, 2018). Numerous surveys have concluded that indeed self-employment results into job satisfaction, independency, and flexibility among other benefits to entrepreneurs over the formal employment (Anderson, 2008; Annink *et al.*, 2016; Atherton *et al.*, 2018).

Atherton *et al.* (2018) identified two groups of potential entrepreneurs who chose the path of entrepreneurship: new entrepreneurs from formal employment and those from unemployment. Among the motive that triggers an individual to enter self-employment from a formal employment is the expectancy of higher returns from self-employment, as well as expectations of procedural utility in the form of more benefits and flexible work. On the other hand, unemployed individuals entering into self-employment are likely to be motivated by the fact that they cannot find alternative paid employment and yet they need to earn a living. However, while the two groups may have different experiences and reasons that lead them to become entrepreneurs, it is a common understanding that business formation is a crucial aspect of wealth creation and economic growth. Awareness and the intention to pursue business opportunities require an entrepreneur to maintain and develop economic enthusiasm. This is influenced by cultural, socio-economic and demographic factors that result in different characteristics of venture creation across the entrepreneurship jurisdiction (Bosma, 2013).

Schmitt-Rodermund (2004), described an entrepreneurial person as the one who displays entrepreneurial competence along with a preference for enterprising activities in pursuit of accomplishing performance goals, first mover advantage, and self-confidence. The entrepreneurial transitioning from business idea/interest into the actual establishment of a venture is a process that needs to be well known by would-be entrepreneurs. The process begins with individual awareness of the existence of an entrepreneurship (self-employment) as a feasible and viable employment alternative through the search of information, exposure and role-modeling for proper decision-making move to minimize failure as a result of trial and error style. This involves the formation of entrepreneurial mindset with personal identification of an entrepreneur's role in entrepreneurial processes to sustain new enterprise and realize its growth into a great business. Waruguru *et al.* (2017) assessed the entrepreneurial motivation component of entrepreneurship policy in Kenya and recognized the process of transitioning from interest into actual entrepreneurship to follow the following steps. First, the potential entrepreneur having the intention to start a business, followed by search for business idea and its feasibility to make an informed decision (at this stage role modeling is ideal), then business preparation and planning of limited resources obtained from the environment through entrepreneurs' networks and finally launching of the new business. To pursue an idea or a personal goal and in effect, actualize idea into a

real business with limited resources, require possession of EO mindset. This transformation is an evolving process where a business idea is created through an extensive search on the idea to build confidence and reduce the risk of fear to fail (Risk-taking dimension) before starting an enterprise (Miller and Le Breton-Miller, 2017).

Sustaining a young enterprise. Sustaining a new enterprise into its growth and maturity stages is a multifaceted undertaking that involves owner's capability, internal factors configurations, the resources and core competencies, external linkages and networking (Sarwoko and Hadiwidjojo, 2013). Understanding factors influencing the success of a new enterprise is a crucial aspect for consideration to minimize high rates of business failure, due to many challenges faced in their daily operative activities as a result of dynamic economic activities and fiercely competitive environment. Generally, new and small enterprises have limited resources and capabilities compared with old, large firms. This limitation is among the main factors that result in a high probability of failure as compared with old, well-established businesses. Therefore, sustaining a young small enterprise to realize its growth on time is a critical issue that ought to be addressed. Entrepreneurship is believed to contribute to economic development because of new enterprises creation that acts as a source of employment opportunities and government revenue through taxation, intensify competition in the business environment as well as productivity increment through technological and entrepreneurial transformation (Bosma, 2013). Sarwoko and Hadiwidjojo, (2013) identified key entrepreneurial characteristics that determine business sustainability:

1. Psychological factors of the entrepreneur- these are individual characteristics that affect business performance positively if owned by the business owner and they include the need for achievement, locus of control and personal traits.
2. Education and experience- business founders level of education and work experience in managing the business is positively associated with business performance.
3. Personal attributes- business owner characteristics such as age, gender, religion, family influence have a positive relationship with business performance.

Zoysa and Herath (2007) examined the relationships among entrepreneurs with business performance in different growth stages. They reported that when entrepreneurs are entrepreneurial and administrative minded in the early, growth and maturity stages of the business, their performance tends to be higher. This suggests that entrepreneurs need to develop more entrepreneurial oriented strategies and actions in order to achieve better performance in the lifetime of the business. Miller (2011) in an attempt to define and clarify EO suggested that *“an entrepreneurial business is one that engages in product market innovativeness, undertakes somewhat risky actions, and first to come up with proactive innovations, beating competitors to the punch”*. Therefore, a proactive introduction of innovative new products, processes, and services protects the young enterprise from being faced out of market environment due to severe competition especially from old, well established business hence reducing vulnerability as well as increasing performance in the long-run as a result of the disposition of entrepreneurial orientation in their daily undertakings.

Conclusion

Entrepreneurial orientation is a key aspect of business survival and performance. New and small business are less capital endowed, a factor risking their survival in the competitive market environment. They rely on EO character of the founder for their survival, therefore prompting the importance of EO in business sustainability and performance. Hence, thorough preparedness of the entrepreneur even before establishing the actual business is essential. Development of entrepreneurial mindset approach that activates and changes the way of thinking and acting is not well articulated in the entrepreneurship literature, it calls for researchers to redirect their focus on deriving more approaches on entrepreneurial mindset formations in future. The attention to incorporate EO in business daily operation is confirming its importance in literature as the only way to achieve higher rates of transforming business ideas into actual businesses, as well as increasing survival rates of young, small enterprises in a competitive business environment.

This paper recommends to stakeholders the need to structure a new way of instilling entrepreneurship training approach that triggers the formation of an entrepreneurial mindset to promote and build the culture of entrepreneurship to spur economic growth and development.

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