

Entrepreneurial orientation-performance relationship in the international context

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This editorial note celebrates the Journal of International Entrepreneurship's 12 years of successful publications and begins the first issue of volume 13. The underlying theme of this issue, as indicated in the above title, is the relationship between the two general and rich concepts of entrepreneurial orientation (EO) and performance (P) in international context. Although scholars have examined many aspects of EO-P relationship for sometimes, this issue of the journal examines selective aspects of the relationship in international contexts differing from what has been studied before, including the impact of internationalization and international markets on each part of EO-P relations as well as the relationships as a whole. This editorial note begins with a very brief review of the EO-P relations, followed by an exploration of potential impact of internationalization and international entrepreneurship on the relation, before highlighting the four articles contained in the issue. The conclusion calls for further examination of EO-P relations in prevailing international entrepreneurship contexts.

Brief background of EO-performance relations

The prospects of future profits emanating from current strategies are uncertain. A firm needs to adopt an entrepreneurial orientation (EO) pro-actively in terms of continuous innovation to counteract the adverse impact of shortening product life cycle and innovative efforts of competitor at the far corners of the world, while lacking the benefits of perfect information about the emerging opportunities and also lacking the knowledge of how markets would actually behave in the near future. Such innovativeness and pro-activity in dealing with an uncertain market behaviour entail risk and risk taking, although it may also give rise to a potent strategic posture, enhancing the firm's competitiveness and having positive impact on performance.

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Many studies that have examined the EO-P relationship have generally reported a positive relationship.

The discussion of EO, representing a firm's concerns for its entrepreneurial and strategic profile, has its roots in the early works of Khandwalla (1977) and Mintzberg (1979), among other scholars concerned with strategy-performance relationship. These early scholarly works recognized the complexities of external environment and the difficulty of shaping internal strategies (and capabilities) to ensure amicable performance. Miller (1983) defined an entrepreneurial firm as one that "engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with 'pro-active' innovations, beating competitors to the punch." (P. 771). This definition has served as the basis for conceiving a unified EO construct and formalizing its three components anchored in the firm's forward-looking behaviour regarding product market innovation (*innovativeness*), taking proactive initiatives (*proactiveness*) and preparing to bear the corresponding risks (*risk taking*). *Innovativeness* is, therefore, the firm's predisposition to engage in creative and innovative activities through costly and time-consuming research and development for developing new products, services and markets with the aim of achieving both technological leadership and first-mover advantage in exploiting emerging market opportunities. Should such creative and innovative activities take hold in the market, the firm will benefit from its prior entrepreneurial orientation leading to its corresponding investments and consequent performance. *Proactiveness* is a forward-looking and opportunity-seeking internal orientation giving rise to search for, if not forming and shaping, opportunities. *Risk taking* is a firm's commitment, or capability, to engage in costly and uncertain experimentation (e.g. through R&D for new product, service and market developments) for realizing market opportunities in the absence of perfect information about buyers, competitors, suppliers, other market agents and their corresponding market behaviours. Combined, the above three components portrayed a unified EO posture. Naturally, a firm's commitment to project a strong EO profile would involve expenditures and investment with potential impact on performance, the direction of which would not be certain at the time of adopting associated decisions. However, Miller's (1983) definition and its formal conceptualization have been adopted broadly and received general empirical support.

Other scholars have examined and expanded upon EO's earlier conceptualization. Building on a body of research, Lumpkin and Dess (1996) suggested that EO would portray the firm's entrepreneurial as well as *strategic* profile in terms of preference for a style, or a way, of doing business. They also identified two additional components of the EO construct: *Competitive Aggressiveness* and *Autonomy*. *Competitive aggressiveness* refers to a firm's intensity of efforts in dealing with competition in general and in outperforming competitors in particular by engaging in aggressive response to competitive threats, expected or real. *Autonomy* refers to the independent action of a firm's entrepreneurial leaders, or top management team, to initiate new ventures and carrying them to fruition in order to improve upon the firm's entrepreneurial and strategic posture. Furthermore, Lumpkin and Dess (1996) suggested that the above five components may adopt different values, which would have varying effect on performance, without necessarily working through a unified EO construct. Due to the inter-relation of the EO's five components, some scholars have been in favour of using EO as a single unified construct, while others have preferred to use one, or a combination, of the five components for

measuring their corresponding impacts on performance to develop deeper understanding of the relationships and gain potentially higher specificity and precision. However, the way in which the five components do or should theoretically map into the unified EO construct is not as yet perfectly clear, especially in international contexts.

EO-P relations in international entrepreneurship context

Similar to EO, performance is also a multi-dimensional construct. Therefore, the EO-P relationship assumes a higher degree of complexity than the two constructs in the relationship. Such complex and interactive multidimensional relationship is bound to assume further complexities when embedded, and operating, in an international entrepreneurship (IE) context. In such contexts, the firm's entrepreneurial characteristics are exposed to, if not affected by, the varying influences arising from different country-markets' socio-cultural and institutional environments, in which an entrepreneurial firm is active. Similarly, the EO-P relationship is also exposed to the international aspects of IE with potential impacts, both positive and negative, associated with the competitive, environmental, institutional, geographic and temporal differences between the home and host country-markets, in which the firm is either currently active or aspires to establish an entrepreneurially oriented presence in the near future. The temporal aspects will have to account for influences arising from differences in the varying stages of products', firms' and industry's life cycles prevailing in the various country-markets. In favour of clarity and simplicity, we abstract from further discussion and refer to the EO-P relations embedded in, and adjusted for, the IE context as *contextually adapted EO-P relationship*, where the adapted relationship accounts for potentially different impacts of specific sets of forces exerting influence on the relationship in the various country-market contexts. Logically, such contextualized EO-P relationships will have much more complexity than its counterpart for a given environment, and one needs to apply some degree of abstraction to enable a deeper understanding of the relationship in a given and bounded environment, where boundary conditions are relatively well-defined. The above discussion should serve as the background for highlighting the peer-reviewed articles contained in this issue.

Papers contained in this issue

The first paper in this issue, co-authored by Vishal K. Gupta and Alka Gupta, is entitled "Relationship between entrepreneurial orientation and firm performance in large organizations over time". Two distinctive features of this article are noteworthy: (i) It studied the EO-P relationship longitudinally in Germany's open market environment over a 10-year time period and (ii) It collected the necessary information to characterize the EO-P relations from firms' letters to their respective investors over the time period in order to construct the EO-P relationship longitudinally and assess the trajectory of the relationship over time. Briefly stated, the paper reports that the EO has a *strong initial impact on performance in large firms in Germany; but that impact decays overtime*. Regardless of the cause(s), such a decaying relationship is a cause for concern and will require a firm's careful monitoring of both the relationship and its constituent

components over time for their potentially decaying contribution to performance. Over time, the higher positive performance further enhances internal and external growth, and a mediocre, or negative, performance could lead to difficulty and even demise. In publically held firms, management needs to discuss its entrepreneurial and strategic posture with its stakeholders, including investors, and also justify its expected shorter- and longer-term performance. Investors also need such information to understand the underlying forces influencing performance as part of their own continued investment, or divestment, strategies, thus forcing the management to observe prudence in reporting the firm's strategic and entrepreneurial posture and its expected relationship with performance. Given the institutional context prevailing in Germany, such corporate letters bear a higher degree of reliability than elsewhere. Naturally, any changing relationship begs the question of why and how would the relationship change, especially when a decaying trend is expected. Are such decays because of expected entropy that natural processes experience or are they due to other intervening factors, including less than optimal EO posture? Regardless of the cause, management is challenged to formulate and implement potent strategies to protect the firm's current performance and possibly improve upon their trends over time. As the formulation of effective potent strategies hinges on a deep understanding of both the EO-P relationship and specific forces of change affecting it over time, including the reasons for decays overtime, this article sheds much light on such issues.

The second article in this issue, co-authored by Tobias Pehrsson, Navid Ghannad, Anders Pehrsson, Tobias Abt, Siyuan Chen, Fabian Erath and Tobias Hammarstig, is entitled "Dynamic capabilities and performance in foreign markets: Developments within international new ventures". As hinted in the title, this article suggests at least four potential families of intervening variables affecting performance: the potential gains, and losses, in a firm's dynamic capabilities, complexities faced by a firm operating in international markets, the state or the nature of firm's internationalization and potential difference in stages of the product and firm lifecycles in the home- and host-country-markets, which are all in advanced industrialized environments of home (Sweden) and host (USA) countries. However, the article points to the potential overtime variations in other influential variables, such as magnitude of learning, the extent of reciprocal knowledge transfer between the home and host operations and degrees of organizational stability prevailing at the time, all with potential impacts on performance. In turn, these factors may have been influenced by a host of other variables, including but not limited to the environmental and institutional differences between Sweden and the USA, as briefly discussed earlier. From an EO-P perspective, adoption of somewhat inferior EO posture by focal international new ventures at the entry into a highly competitive environment, such as that of USA, could explain the nature of sampled firms' consequent multi-dimensional performance. Similarly, unadjusted differences in product, industry and even firm's stages of life cycles, among other potential contextual factors, may have contemporaneously impacted the sampled firms' overtime performance observed and reported in the paper.

In contrast to the first two articles, the context for the next two articles is that of an emerging economy, namely Malaysia. Furthermore, their adopted analytical framework is not EO-P relations. However, this editorial will attempt to offer an EO-P perspective of their reported findings. The third article in this issue, co-authored by Abu H. Ayob, Shamshubaridah Ramlee and Aisyah Abdul Rahman, is entitled "Financial factors and

export behaviour of small and medium-sized enterprises in an emerging market". It examines specific measures of performance in the emerging environment of Malaysia. The authors suggest that Malaysia's conducive financial environment is comparable to those in open industrialized markets, thus exposing the firms' to somewhat less complexity. The article compares the behavioural profile of exporting and non-exporting firms, facing the same, or similar, environments, by examining the combined effects of financial factors, including the perception of risk and financial resources. Based on a broad sample of 356 Malaysian SMEs, the reported results are compatible with, and understandable within, the EO-P context: The exporting firms' management perceive higher internal financial resources, fewer constraints in accessing external financial resources and higher exporting costs than non-exporters. They succeed in their exporting efforts in spite of higher perceived costs, while their non-exporting counterparts would perceive lower exporting costs and yet would not engage in exporting to achieve higher performance. The authors suggest that SMEs capable of producing realistic estimates of the exporting costs, engage in exporting and become successful exporters. The application of the EO-P relations can offer a richer alternative explanation: that the higher or richer *entrepreneurially and strategically oriented posture* (i.e. the firm's EO profile) of the exporting firms would have better prepared them for absorbing the higher risks and higher costs by acquiring richer financial resources for dealing with potential problems, thus leading to a higher performance at the end. Stated differently, the components of exporting firms' entrepreneurial orientation (EO) provide for the high correlates of successful exporting, thus leading to their better performance than those of the non-exporting firms.

The fourth article in this issue, co-authored by Kim Hoe Looi and Yusniza Kamarulzaman, is entitled "Convergence in the priorities of entrepreneurial values: Empirical evidence from Malaysia". The article examines priorities in entrepreneurial values of Malaysian entrepreneurs across diverse ethnicities (Chinese and Malays) and genders as compared to their Western counterparts. Based on a sample of entrepreneurs in 243 Malaysian SMEs, the article reports a general convergence in entrepreneurial values based on Schwartz' values system (Schwartz 1994, 2007 and Schwartz and Sagiv 1995), although Chinese and Malay entrepreneurs differed in their "self-direction and stimulation", which could be viewed as the counterparts of innovativeness and autonomy in the EO-performance relationship. The reported convergence in managerial value system can potentially pave the road for further examination of the EO-P relations in Malaysia and possibly in other emerging economies with similar socio-cultural and institutional environments.

In summary, the four articles included in this issue provide a fertile ground for enabling a deeper examination of entrepreneurial and strategic orientation and its potential impact on entrepreneurially oriented firm's internationalization. With a few notable exceptions, the literature of international entrepreneurship has shied away from a rigorous examination of factors affecting performance for the most parts. The articles of this issue present excellent efforts in further examination of what affects performance in international contexts, and this editorial notes' contextualization of EO-P relations should provide the initial seeds for a conceptual, if not an analytical, framework for carrying out further research on EO-P relations in international entrepreneurship contexts. Naturally, the journal welcomes articles covering aspects of EO-P relations and related issues.

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