World Encyclopedia of Entrepreneurship

Edited by Léo-Paul Dana
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10 Entrepreneurial orientation

Thomas H. Hawver and Jeffrey M. Pollack

Entrepreneurial orientation (EO), introduced in the literature by Khandwalla (1977), is defined as reflecting "the organizational processes, methods, and styles that firms use to act entrepreneurially" (Lumpkin and Dess, 1996: 139). Originally this concept grew from research that centered on corporate entrepreneurship but has grown to include new, smaller firms. The majority of the research on EO has been conducted at the firm level in the hope of better predicting firm performance through strategic components of the firm. The interest stems from how the behavior of the firm coalesces with the specific marketplace and how the firm participates in activities designed for firm survival, renewal, or innovation (Covin and Slevin, 1986; Davidsson, 2007; Lumpkin and Dess, 1996).

For both new and existing firms, participating in activities to generate revenues is a crucial element for business survival. Activities such as new product development, product improvement and strategic planning all aid the survival and growth of businesses. Though these elements are common in most firms, the degree to which they are capitalized on varies from firm to firm. For example, a fast-food franchise may focus more on existing product improvement, while a firm entering the commercial printing industry may place their efforts in new product development. The mature firm, alternatively, in either of these industries may focus their efforts on strategic planning. Clearly, the efforts toward survival may differ depending on several factors such as industry and stage of growth, though all of these firms have a degree of entrepreneurial orientation.

The construct of EO is comprised of five dimensions: (1) autonomy, (2) innovativeness, (3) risk-taking, (4) proactiveness and (5) competitive aggressiveness (Lumpkin and Dess, 1996). Originally, Covin and Slevin (1986) proposed three dimensions (that is, proactiveness, innovativeness and risk-taking), and Lumpkin and Dess (1996) added two more (that is, autonomy and competitive aggressiveness). Autonomy and innovativeness illustrate the internal actions of the firm and their impact on individuals and teams within it. Specifically, the dimension of autonomy refers to the degree of freedom a team or individual has to work independently to put forward ideas and take actions necessary to make entrepreneurship occur. Whether within an existing firm or a new venture, autonomy becomes a necessary antecedent for any entrepreneurial activity to occur. Like autonomy, innovativeness must exist to some degree for entrepreneurship to occur. In terms of the EO dimension, innovativeness refers to the degree of support a team or individual receives from the firm to engage in activities that lead to novel ideas, products or services.

The remaining three dimensions reflect the external actions of a firm. The dimension of risk-taking has a less rigid definition than the other dimensions with respect to EO. While the definition of risk is often context specific, Lumpkin and Dess (1996: 144) define risk-taking as "incurred heavy debt or making large resource commitments, in the interest
of obtaining high returns by seizing opportunities in the marketplace. In other words, the risk-taking dimension of EO refers to the frequency of behaviors of a firm with the intention of exploiting available resources for potential future gain. The proactiveness dimension of EO refers to a firm’s behavior related to acting in anticipation of potential opportunities, changes, pitfalls, and seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle (Venkatraman, 1989: 949). Finally, competitive aggressiveness looks at the degree to which a firm attempts to outperform competitors within the same market. This dimension can be viewed as the effort a firm puts forth to enter a new market or to be the leader in an existing one.

The extant research on EO is substantial. Some of the more recent studies conducted on EO are highlighted in this section. Stam and Elfring (2008) found that the centrality of firms that did not have many bridging ties weakened the EO and performance relationship. Moreno and Casillas (2008) illustrated the complexity that exists in the relationship between EO and growth, strategy, environment and resources. Though the authors do not find a significant relationship between EO and firm growth, they do find that the higher the EO the more apt a firm is to use strategies targeted for expansion. Keh et al. (2007) found that EO affects how a firm acquires and utilizes marketing information. Contrary to Moreno and Casillas (2008), Keh et al. (2007) did find a direct relation between EO and firm performance (as measured by firm growth). Building on the finding that firms higher on EO perform better, Covin et al. (2006) found that higher EO had a positive effect on sales growth rate.

The majority of the research conducted on EO has been at the firm level, but other potential levels of analysis exist. Those levels, either side of the firm level, are the individual and the field level. At the field, or industry, level EO has examined the emergence of overall innovations that emerge (Reynolds et al., 2004). At the individual level, an increasing number of researchers have adapted the construct to study entrepreneurially oriented individuals. Around the world, roughly 10 per cent of people old enough to work are involved in entrepreneurship and recent estimates show that about 300 million people are involved in the venture creation process (Hisrich et al., 2007; Reynolds et al., 2004). Traditionally, these individuals are ignored within the literature because results regarding individual-level characteristics of entrepreneurs have been mixed and generally disappointing (for example, Begley and Boyd, 1987; Lumpkin and Dess, 1996; Sadler-Smith et al., 2003).

However, a growing literature exists that suggests entrepreneurs do think differently from everyone else and that individual-level cognitive processing research could be promising (for example, Baron, 1998). Additionally, there is a very small, but growing body of literature on entrepreneurs, emotions and responses to failures (for example, Goss, 2005a; 2005b; Cross and Trasvagline, 2003; Shepherd, 2004). As the number of individual entrepreneurs grows it is becoming increasingly important to recognize that individual-level characteristics detailing how entrepreneurs think, feel and act are important to study. The common practice of studying EO at the firm level leaves a gap in the literature, and future research would be well served to explore how an individual’s entrepreneurial orientation affects firm performance.
Entrepreneurial orientation

REFERENCES


