Review of Literature on the Impact of Entrepreneurial Orientation on the Firm's Performance

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Abstract. The purpose of this paper is to explore the literature on the entrepreneurship, the emergence of entrepreneurial orientation and the impact of the entrepreneurial orientation on the performance of the Firm.Review of literature suggests that there is a strong relationship between the entrepreneurial orientation constructs and the performance of the firm. Firms adopting good entrepreneurial orientation have grown successfully than the ones that did not adopt.

Keywords: Entrepreneurial Orientation, Firm's Performance, Innovativeness, Risk Taking Propensity, Pro-activeness, Competitive Aggressiveness, Autonomy

Introduction

The term entrepreneurship has come from a French word '*entreprendre*' which means 'to undertake'. In the agenda for the economic development of the country, it is obvious that the word Entrepreneurship figures very high. In a layman's perspective of entrepreneurship, it corresponds to the initiative by individuals to take up business endeavor, actuated by the desire and acumen to convert one's ideas into a profitable venture. Similarly, if it is viewed from the lens of an economist, entrepreneurship is well defined as an individual's efforts to channelize the resources both intangible and tangible which include capital, human, information and innovation to establish commercial setups anticipating risks and rewards.

Entrepreneurship is mainly driven by the business astute of the person linked with the propensity of taking risk. It involves taking into consideration of the prospects of business, capitalizing on the ideas and innovations, mobilizing the financial and human resources to operate the business and also anticipate the risks and rewards.

Primary research on the entrepreneurship dates back to the first half of 20th century with the works of Knight (1921) and Schumpeter (1934)but has increased since then. Several scholars have observed the disintegration of the field after reviewing extant research in the recent past. Despite entrepreneurship being autonomous disciplines, it has limitations which obstruct the legitimacy (Teixeira 2011). Literature also revealed that in the last decade there has been a phenomenal growth in publicationsdominated mostly by anglo saxon researchers (Landström *et al*. 2012). The researchers in this topic from China and Europe are increasing taking advantage of their local idiosyncrasies (Jing *et al*. 2014).

The research on entrepreneurship has evolved markedly in the last few decades and grown substantially from an embryonic to a maturing field of study (Busenitz et al. 2014; van Burg and Romme, 2014). Entrepreneurship has been brought to the forefront because of the attention towards innovation and venture creation in small firms as these are the drivers of the economic development and also support of public policies for entrepreneurial endeavours.

With the growing attention of research scholars in the entrepreneurship related research, has created a scope for several publishing houses to emerge. Although several attempts were made to understand the present state of entrepreneurship research, it is still far from what was understood (Busenitz et al. 2014; Campbell and Mitchell 2012).

Definitions

Entrepreneurship as defined by Stevenson & Jarillo, (1990) is the capacity of the individuals; intelligence to innovate and create; scaling up from smaller to major projects thereby generating employment opportunities to people. As stated by Shane and Venkataraman (2000)entrepreneurship is a mechanism to create value through pooling of all the resources available and exploit opportunities

Hisrich and Peters (1999) opined that the entrepreneurship process is based on four principles such as innovation of new products, dedicate of time and effort, propensity to take risk and rewards. The economists defined the entrepreneurship as a process where the intellectuals, human resources, financials and material are brought into one group for creating value addition and gain returns on the capital invested (Wiklund & Shepherd, 2003; Kraus *et. al*., 2011).

An entrepreneur is an individual with ideas to bring in a change and also possess characteristics to implement them towards betterment of the society. He is an individual who has possession of a business enterprise and accountable for the risks and the outcome. There has been a long debate on the definition of the entrepreneur. As per the Webster's dictionary "entrepreneur" is the one who undertakes business, takes risk for the sake of making profits (Guralnik, 1982).Entrepreneur, in the pursuit of success has to have immense passion and perseverance for the entrepreneurship. Individuals as entrepreneurs face and encounter challenges and adversities in the pursuit of success. Several bottlenecks such as market related contingencies, financial quandaries and regulatory obligations complicated by bureaucratic glitches have to be fought to survive as an entrepreneur. High level of resilience, endurance and self-efficacy are imperative for an entrepreneur than just having an ambition and risk taking ability.

Entrepreneurial Orientation

Large stream of researchers have examined the concept of Entrepreneurial Orientation (EO). It has become a topic of importance in the domain of entrepreneurship which has received theoretical and empirical attention (Covin, Green & Slevin, 2006). EO refers to the processes of making strategies which helps organizations a basis for entrepreneurial decisions and actions (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003).

Several measurement models were developed which are widely used drawing the process of making strategies. The formulation of models and the empirical tests were mostly done in the North American context (Covin & Slevin, 1989; Lumpkin & Dess, 1996; Miller, 1983).

In the recent past, the EO has gained attention and has become one of the important areas for practitioners in management. It is designed to showcase the dimensions of EO to their staff in the firm (Krauss *et al.,* 2005; Kreiser and Davis, 2010; Grande *et al.,* 2011).

Covin *et. al.,* (1991) argued that EO is the activity or process wherein the owners or managers are willing to take risk, bring in change and innovation for the benefit of the firm to be able to compete in the market with other firms which are in the same line of business.

Lumpkin *et. al.,* (1996) defined EO as a process which pertains to the behavior of the managers in meeting their organizational objectives. It manifests the behavior of individuals and reflect on processes, methods and policies adopted by managers. EO is a multifaceted construct. Ireland *et. al*., (2003) have defined EO as a behavior which seeks for opportunities and they described that the leadership as one of the critical elements of the entrepreneurial orientation.

Wang (2008) defined EO as the inclination of the firm's top level management to undertake challenge, risk, demonstrate creativity and aggressive behavior towards rival business competitors. However, Stevenson and Jarillo (1990) argued that EO is not created only the top level management but several layers of the management.

Entrepreneurial Orientation is a measure to explain the way any business firm is organized. It is conceptualized as process and decision making tool used by business firms to behave entrepreneurially (Kreiser *et. al*., 2013; Ullah *et al.,* 2011).

Entrepreneurial Orientation Dimensions

Various studies conducted by Lumpkin and Dess (1996) and other researchers revealed that five dimensional model (such as Innovativeness, Risk Taking Propensity, Pro-activeness, Competitive Aggressiveness and Autonomy) explains the organizations performance thoroughly and each one of these dimensions have contributed uniquely for the success of the firm.

Innovativeness: It is an act supporting creativity and novelty experimentation (Covin *et. al*., 1988; Lumpkin *et. al*., 1996). Innovativeness is the willingness of the firms to move away from existing practices and try new ways of doing things (Cornelia, 1996; Zahra *et al.,* 1999, Covin and Miles 1999). As per Vij & Bedi (2012), innovativeness is the ability and willingness of the firm to give space for generating new ideas, creativity and experimentation. It showcases the interest of the organization to explore opportunities and find solutions to problems.

Schumpeter (1934) referred innovativeness as the nerve center of entrepreneurship. He defined entrepreneur as an individual with financial resources available with him who always maximize his profits through innovation such as new products, new markets, new techniques and new sources of supply. He also opines that all these initiatives are important for a business venture but feels among all these 'introduction of new products' has a direct impact on human welfare.Drucker (1985) was in agreement with Schumpeter saying that innovativeness is important for competitive advantage, growth and development of the firm. There is no business in the world without innovation (Wiklund and Shepherd, 2003; Edmondson and Nembhard, 2009).

Lumpkin and Dess (1996) defined Innovativeness as the firms propensity to engage their staff in creativity and come out with new ideas as experimentation will always result in developing new products and services. He also stated that Schumpeter was the first one to emphasize the role of innovation in entrepreneurial process. Bradmore (1996) defined in his words innovativeness is the willingness of the firm to take advantage of the technological discoveries and convert them for commercial use which will add value for products and services.

One of the most prominent attributes of entrepreneurship is willingness to innovate. It is the willingness and desire of the entrepreneur which decides to what extent the innovation will go in their business (Hult *et al.,* 2004).Innovativeness in any form only represents the willingness to move away from the existing technologies or practices and go beyond. It is a novelty approach and forward looking to increase the possibilities which firms will realize its advantages and goes ahead of their competitors (Covin *et al.,* 2006). Rosenbusch *et al*. (2011) referred entrepreneurs are the important agents of innovation, they not only innovate and produce new products and services, but also upgrade the existing processes.Zahra *et. al.*, (2002) have argued that in todays parlance for the success in the competitive environment requires a coherent technology strategy which can articulate their plan for development and technological resources to gain superior performance.

Risk Taking Propensity: Risk is contextual and the definition of the risk basically depends on the situation or context in which it is applied. In the context of business organization, risk is grouped into two categories namely financial risk and business risk. Financial risk happens when the firm willingly seize opportunities and take bold decision of heavy borrowings (Dess and Lumpkin, 2005).

Risk reflects the degree of uncertainty of realizing the unwanted or negative returns associated with the business venture (Barrett *et al.,* 2000). One of the paramount attributes of entrepreneurship is Risk. Richard *et. al.*, (2009) defines entrepreneur as rational decision maker who takes and bear the risk, manage the uncertainties and the firm. Risk Taking is inherent for any business, but normally the entrepreneurial firms takes more risk than non-entrepreneurial firms (Lumpkin and Dess, 1996; Carland *et. al.*, 1999; Feifei, 2012).

Sarasvathy *et. al*. (1998) observed that entrepreneurs are more prone to taking risk as part of day to day operations of the business. In contrast to this, the non-entrepreneurial firms adopt the policy of wait and see, follow the competitors and maintain the status quo which results them firms into losses.Cunningham and Lischeron (1991) defined risk management as a process where potential risk to the firm is identified, analyzed and studied thoroughly, mitigate the risk and prevent with processes that balance the cost of protecting the firm from risk.

The literature pertaining to the entrepreneurship and strategic management, risk taking has come out as one of the factors affecting the posture of the firm. It shows the firms propensity to allocate sizable resources to the projects which have probability of failure along with getting chance of high returns (Swierczek and Ha, 2003; Feifei, 2012).

Risk Taking should always have a support culture wherein the success should be rewarded and the failure should not be penalized. Management's willingness to accept occasional failures actually motivates others to come out with unique and novel solutions. Any organization that support integration, dissemination of knowledge and sharing of knowledge across all channels encourages the members to go beyond the tried and tested model (Hornsby *et al.,* 1999; Zahra *et al.,* 1999).

Risk taking propensity of the firm is affected by decision makers, firms risk tolerance ability and also the requirement of the situation that is how daring the top management team; how supportive the organization is and how demanding the environment is (Covin and Slevin, 1989).Risk is an integral part in the business. Business activity such as new products, new markets, production of methods, new technology, new processes and services, aggressive attitude towards competitors, hiring of personnel and capital structure involves to some extent some degree of risk, but to cope with it ideally is to perceive at its inception (Cornelia, 1996).

Pro-activeness: Knight (1997) defined pro-activeness as aggressive execution and follow up to achieve the objectives of the organization by whatever means that are necessary.

Lumpkin and Dess (2001) conceptualized it as the ability to predict and forecast the future trends and take action on it ahead of its competitors. Zahra *et. al.*, (2002) defined pro-activeness towards altering the firm regarding its business environment and the activities like predicting evolution, anticipating change and taking initiative will help the firms in early preparation earlier to the occurrence of any uncertainty or risk such prediction helps the firms in acquiring and deploying resources ahead of competitors for igniting the future growth.

Oni (2012) defined pro-activeness is the state of mind driven by individual consciousness to achieve the vision, fulfil the mission, and the goals. Yener and Aykol (2008) described pro-activeness as opportunistic behaviour and the entrepreneurs view these environmental changes as opportunities than troubles.

Tang and Tang (2012) defined pro-activeness that reflects the firm's strategic posture which is aimed at the future requirements of the firm by seeking opportunities whether they are relevant or irrelevant to their current operations, introduction of new products much before their competitors eliminating the operations that are mature.

Lumpkin and Dess (1996) opined that pro-activeness depicts the firm that is fast to innovate and introduce products or services ahead of its competitors. As per Nordqvist and Zellweger (2010), proactive firms always keep their eyes open and search for new possibilities, watchful for future and rigorously monitor the situation, also identify the needs of the customers, predict the changes in the demand and emerging problems. They posit that firms always seek out for the future challenges through introduction of new products and services ahead of competitors, these firms change the face of the competition.

Pro-activeness is the ability of the firm to review its environment, predict the future changes, identify opportunities and take actions on the opportunities ahead of their competitors (Okudan and Rzasa, 2006; Surie and Ashley, 2008). Pursuit of pro-activeness is an universally accepted phenomenon, every organization involved in business shows some degree of pro-activeness in their behaviour.

Oni (2012) highlighted the nature of the pro-activeness saying that majority of the business firms do not understand superior foresight but they understand that pro-activeness is stimulated by questions like where to invest, which products and services to offer, what type of employees to hire etc. However, it varies across firms and the entrepreneurial firms that have a greater forward looking perspective (Covin and Slevin, 1989).

According to Alvarez and Barney (2007), pro-activeness is the serious mindedness of the firm through which it answers questions like what are the products or services of the firm becomes valuable to customers in the near future; the resources which will become crucial in defining firm success; how the process of manufacturing which are unthinkable will become feasible are the questions that decides the proactive behaviour adopted by the firm.The relationship between pro-activeness and entrepreneurship is concerned, the degree of pro-activeness is represented by firms disposition in adopting pioneering behaviour (Gupta and Pandit, 2012; Krauss *et al.,* 2005).

Lumpkin and Dess (2001) highlighted environmental dynamism role and the life cycle in describing contextual nature. They argued that the firms which are in their early stage of industry life cycle or the firms that operate under certain environments have often exhibited higher degree of proactive behaviour.

Competitive Aggressiveness: Lumpkin *et. al.,* (1996) and other researchers in the field have defined Competitive aggressiveness as the firm's propensity to challenge in the market place the competitors directly or indirectly and outperform them in the marketplace. It shows the firms disposition to fight with the competitors.

Frese *et. al.*, (2002) stated that Competitive Aggressiveness shows the firm's responsiveness towards their competitors and indicates how the firm handles the threats. As per Stambaugh *et. al.*, (2011), firms carefully monitor and analyze their competitors, are encouraged to improve their quality and performance by attacking the competitors position and are intelligently deploy resources for launching the attacks. With regard to the intensity of the firms competitive aggressiveness is concerned, there are some firms which are happy meeting their internal goals and there are some firms which always consider challenging the competitor's position as essential step to foster their performance (Shoham and Fiegenbaum, 2002).

Firms that are competitively aggressive will set ambitious goals in the market share and take drastic steps to achieve them like slashing the price and sacrificing the profits, aggressively spending on the marketing or increase the manufacturing capacity" These tactics of reducing prices and sacrificing profits are used a tools to gain market share (Venkataraman, 1991).

Few studies conducted by Kopalle *et. al.*, (1999) suggested price discounting could be used as a tool to gain the market share and but the profits through this action is possible only when the market share generates economies of scale which theoretically seem very attractive but in practice they are very difficult to gain. The empirical analysis and conceptual arguments seen in the literature as far as the relationship between competitive aggressiveness and other attributes of entrepreneurship are concerned, competitive aggressiveness is strongly associated with other dimensions of entrepreneurship such as innovation and pro-activeness (Lumpkin and Dess, 2001; Lee and Lim, 2009).

After reviewing the literature pertinent to the competitive aggressiveness, it has been conceptualized as the firms' propensity to challenge the competitors and ready to be unconventional in the methods of competing. It represents the firm's disposition to fight with their competitors to protect the firm's market share.

Autonomy: One of the key components of the entrepreneurial orientation is the tendency towards independent and autonomous actions. The theory pertaining to autonomy considers components such as levels of autonomy differs as the function of management, management style and ownership, and the decision maker is the owner in the firm in such case autonomy is implied by the rights (Lumpkin and Dess, 1996). It refers to the extent that employees feel empowered to take decision on their own without having sought for any approvals and permissions and also should have discretion to identify the ways and means to implement their ideas (Frese *et. al.,* 2002).

Autonomy reflects the capacity of the firm to encourage its employees to pursue entrepreneurship; to overcome resource shortage; set up new business ventures and encourages its employees to launch in situations when the opportunities seem far from the capabilities of the firm (Merlo and Auh, 2009).

The organizational culture which forces their employees to strictly follow the operating procedures laid down by the firm as a base for their decision making, need to obtain approvals at every stage in their decision making and demand justification for the unconventional actions from their employees squeezes the level of autonomy. In contrast to this, autonomy flourishes in the culture that supports all the efforts of individuals who work autonomously; innovative and think out of box and need not approach their bosses for every decision (Lumpkin *et. al.,* 2009;Dess and Lumpkin, 2005).

As per Lumpkin *et. al*., (2009), employees get motivated when there is high level of autonomy to work in positive environment, encourages the employees to accept challenges and ultimately it leads to higher organizational performance. It gives freedom and flexibility to the employees to decide their objectives and goals to match with their organizational goals and achieve the goals in the way the employees believe is the most effective way to achieve (Zellweger and Sieger, 2012).

Lumpkin and Dess (1996) found there is a strong relationship between the autonomy and entrepreneurial outcomes.Autonomy encourages both opportunity and advantage seeking behaviour. The effective use of autonomy gives a feeling of belongingness among the employees and makes them ready for organizational changes.

Autonomy brings positivity in culture of the organization, enhances the satisfaction of employees which leads to greater organizational performance (Ireland *et al.,* 2003).The literature review emphasizes autonomy is conceptualized as the extent that any firm promotes independence and self direction and encourages their employees to take decisions on their own to meet the goals. It reflects the will and capacity of the firm to encourage their employees to pursue entrepreneurial opportunities to set up business ventures.

Impact of the Entrepreneurial Orientation on theFirm'sPerformance

More emphasis was laid on the relationship between the entrepreneurial orientation and firm's performance in the recent past. Accordingly theories were developed to examine the incidence of the entrepreneurial behavior at the firm level. It was found that the entrepreneurial dimensions like innovativeness, risk taking ability, competitive aggressiveness, autonomy and pro-activeness had positive relationship with the profits (Covin *et. al.,* 1989; Soininen *et al.,* 2012; Schepers *et al.,* 2014)

Entrepreneurial orientation is an opportunity seeking behavior and all the dimensions of EO have significant positive impact on the business performance (Lee and Lim, 2009).Antoncic and Hisrich (2004) affirms that the EO helps the firms to adopt unconventional and out of box thinking to problems which also help in gaining a brand identity. Firms can get the first mover advantage and pioneer in the market through continuous differentiation.

Ireland *et. al.*, (2003) stated that participative culture, astute management of resources and creative leadership are the antecedents of opportuning seeking behavior which will result into superior performance.Wang (2008) opined that EO is a vehicle for the survival, growth and success of the firm. Firms adopting strong EO always perform better, only the magnitude of the relationship differs.

Bhuian *et. al*., (2005) observed that the relationship between EO and the performance is curvilinear which indicates that pursuing high entrepreneurial orientation may lead to adverse outcomes sometimes.Krieser *et. al*., (2013) argued that the firms which have adopted low entrepreneurial orientation will not be successfulif the environmental opportunities were less explored and exploited. On the contrary, the firms which have adopted high level of EO may face adverse situation because of more exposure to risk and high expenditure.

Tang *et. al.,* (2008) have observed and reported that it is not the straight forward relationship between entrepreneurial orientation and performance but it is shaped like inverted U indicating that high or low entrepreneurial orientation is not desirable.Krauss *et. al*., (2012) have found that only the dimension of pro-activeness contributes towards superior business performance. Some Studies by Tang and Koveos (2004); Morgan and Strong (2003) reported that insignificant relationship exist between entrepreneurial orientation and business performance.

The strength of the relationship between EO and the business may vary with the measures of performance considered by the researchers. The processes and activities that have been followed may lead to favorable performance in one dimension of entrepreneurial orientation and sometimes unfavorable outcomes with performance dimensions (Lumpkin and Dess, 1996).

A research study conducted by Keh *et. al.*, (2007) on the small and medium enterprises in Singapore for examining the relationship between EO and the market information of firm's performance. The results revealed the fact that EO played a vital role in the enhancement of firms performance and had both direct and indirect effects on the business performance.A study conducted by Wang (2008) on 213 medium to large size firms in the United Kingdom to investigate the impact of EO on the business performance. He has observed that EO is an important dimension for the business performance.

Runyan *et. al*., (2008) investigated the impact of EO and Small Business Orientation together on small businesses and the effects whether are moderated by the longevity of the firm in the United States. The firms were grouped based on their age. The results revealed that EO and SBO are unique constructs and the performance differed in both. The performance of the business was predicted by the EO in the firms which were young and in case of older firms the SBO predicted the performance.

Lee and Lim (2009) carried out a study in the Japanese food restaurants in South Korea to examine the relationship between EO and performance. It was observed that EO had positive effect on the business performance.

A study conducted on 413 Swedish firms by Wiklund and Shephered (2005) applied the configurational approach for the examination of the impact of EO on the business performance. The financials and environmental factors were considered as moderators of EO. The results indicated that EO had positively influenced the performance. Azlin Shafinaz Arshad *et. al*., (2014) conducted a survey in Malaysia on the Small and Medium Enterprises to study the impact of EO on the performance. They have observed that EO dimensions such as Innovation, Risk Taking, Pro-activeness and competitive aggressiveness were the key predictors of the performance of the SMEs while Autonomy dimension was not significant in the determination of the performance.

Summary

Entrepreneurial Orientation is a measure of the way how the firm is organized. It has been conceptualized as the activity of process and decision making that the managers adopt in the firm. It is a multi-dimensional activity consisting of Innovation, risk taking propensity, pro-activeness, competitive aggressiveness and autonomy. The review of literature on the impact of entrepreneurial orientation on the firm's performance reveals that firms adopting a good entrepreneurial orientation have produced excellent results than the ones that did not. All the researchers are in agreement that there is a relationship between the entrepreneurial orientation and the firm's performance. However, the magnitude of relationship varied between researchers.

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