

Entrepreneurial Orientation as Experimentation and Advantage: Is there a Double-Edged Sword Dilemma?

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Research Motivation

- Emergence of **EO-as-advantage** and **EO-as-experimentation** perspectives (Wiklund and Shepherd, 2011).
- Studies exploring an **EO-as-experimentation** perspective have generally
 - (a) not considered EO's influence upon **mean firm performance** and firm **performance variance**
 - (b) not considered finer-grained investigations of the **EO measurement model**
 - (c) not proposed **critical boundary conditions** which shape the distribution or mean of performance outcomes.

Theory and Hypotheses (1)

- **Managerial attitudes towards risk** capture the size of the firm's gambles on new initiatives.
- General performance of firms led by risk-taking top managers tend to be **positive** as they maximize their **potential to exploit opportunities** (Kreiser et al., 2013; Lomberg et al., 2019).
- At the same time, high potential returns entail a simultaneous **probability of substantial losses** thus creating a ground for **greater performance variation** (Denrell et al., 2003; Keh et al., 2002; Wiklund & Shepherd, 2005).

***H1a:** Managerial attitude towards risk (EO-MATR) is positively associated with the level of firm performance.*

***H1b:** Managerial attitude towards risk (EO-MATR) is positively associated with the variability of firm performance.*

Theory and Hypotheses (2)

- **Entrepreneurial behaviors** are directed at leveraging market opportunities (Shirokova et al., 2016; Su et al., 2011) which is expected to have **positive performance implications**.
- Innovative and proactive firms that **develop and launch novel products and/or technologies** usually perform better and grow faster (Wiklund & Shepherd, 2005).
- When firms are innovative and proactive, **a decrease in performance variance** is likely due to many gambles being taken and the portfolio averaging out to a steady increase.

H2a: Entrepreneurial behaviors (EO-EB) are positively associated with the level of firm performance.

H2b: Entrepreneurial behaviors (EO-EB) are negatively associated with the variability of firm performance.

Theory and Hypotheses (3)

- EO manifestation and its impact on performance largely depend on **personal attributes** of firm decision makers and employees (Campos et al., 2012).
- With **greater human capital** firms may take smarter gambles and be able to better implement new initiatives and **capitalize on their risks taken**.
- At the same time, greater human capital may provoke **hubristic behavior** of firm decision makers, which represents a “dark side” of strategic leaders (Haynes et al., 2015).

H3a: Human capital positively moderates the association between managerial attitude towards risk (EO-MATR) and level of firm performance, so that the association becomes stronger with rising human capital.

H3b: Human capital positively moderates the association between managerial attitude towards risk (EO-MATR) and variability of firm performance, so that the association becomes stronger with rising human capital.

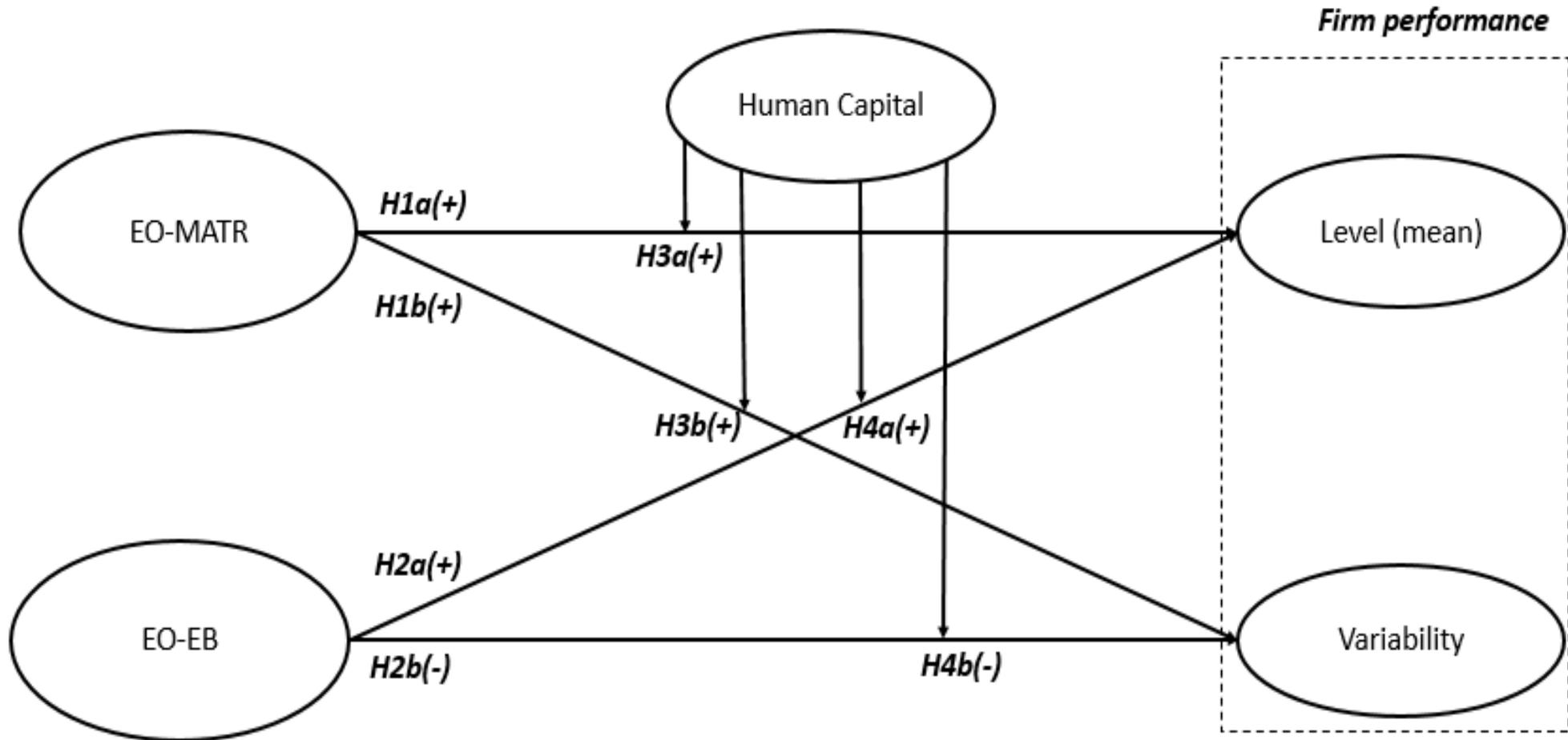
Theory and Hypotheses (4)

- **Better human capital** enhances the **overall quality of ideas** created within a firm making a stronger foundation for further **fruitful innovative and proactive behavior** able to increase the general performance level (Faems & Subramanian, 2013; Moog, 2002).
- With more skillful and experienced managers and employees, chances for failure of firm's entrepreneurial endeavors are decreased thereby **smoothing the overall distribution** of obtained results.

H_{4a}: Human capital positively moderates the association between entrepreneurial behaviors (EO-EB) and level of firm performance, so that the association becomes stronger with rising human capital.

H_{4b}: Human capital negatively moderates the association between entrepreneurial behaviors (EO-EB) and variability of firm performance, so that the negative association becomes stronger with rising human capital.

Theoretical framework



Method

- A robust random sample of **509 SMEs** from Russia collected in 2015-2016.
- Respondents were firm **founders or CEOs**
- The survey data was complemented by **objective financial data** on firm performance derived from SPARK database.
- **Classic scale** for measuring EO (Covin and Slevin, 1989).
- **Human capital**: a 12-item Likert scale derived from Jin et al., 2010.
- **Controls**: firm size, age, international sales, centralization, formalization, social ties, financial resources availability, crisis impact, environmental dynamism, hostility, industry and region.
- **Statistical approach**: multiplicative heteroscedasticity estimation methodology (Harvey, 1976).

Results

Predictors:	Model 1		Model 2	
	Mean regression	Variance regression	Mean regression	Variance regression
Managerial attitude towards risk , H1a; H1b	-0.024 [0.321]	0.277*** [0.000]	-0.004 [0.875]	0.160** [0.002]
Entrepreneurial behaviors, H2ab	0.053* [0.047]	-0.159** [0.008]	0.018 [0.485]	-0.020 [0.748]
EO-MATR X Human capital, H3a; H3b			-0.043* [0.039]	0.314*** [0.000]
EO-EB X Human capital, H4ab			0.048* [0.026]	-0.241*** [0.000]
Human capital			-0.039 [0.505]	0.005 [0.975]
Lagged DV, ln(revenue ₂₀₁₅)	0.962*** [0.000]		0.979*** [0.000]	
Intercept	-0.337 [0.242]	-1.626** [0.006]	-0.257 [0.345]	-1.412* [0.019]
Model χ^2 (df)	1031.079 (47)		1049.403 (53)	

Discussion

- Managerial attitudes towards risk and entrepreneurial behaviors **have opposite effects** on firm performance variability with the former increasing performance variance and the latter decreasing it, while at the same time enhancing performance level.
- EO increases growth because managerial risk-taking **increases firm performance variance** while firm-level entrepreneurial behavior serves to more directly product **growth and competitive advantage**.
- **Counterintuitive finding** → a **stronger presence of human capital** within an organization leads to a **negative impact** of managerial **attitudes towards risk** on firm **performance level**.

Contribution

- Shedding light on the **causal mechanisms** underlining the EO-performance relationship.
- Allowing a more precise theorization of EO as a potential force that **enhances growth** as while managerial risk-taking **increases variance**, entrepreneurial behavior serves to **produce advantage**.
- Taking into account an essential **boundary condition** of the EO-performance relationship – organizational **human capital**.

Limitations and Future Research

- Sample of firms coming from a **single emerging market**? → Further research grounded in **different emerging economies**, e.g., other BRIC countries is warranted.
- Focus on **SMEs**? → A look into more **diversified, larger corporations**.
- Consideration of **separate EO dimensions**? → Comparison of how **different configurations** of innovativeness, proactiveness and risk taking influence firm growth and variance.
- Non-exhaustive list of **moderators**? → A look into the role of other types of **organizational resources**, different **strategic orientations**, as well as attributes of **external business environment**.



Thank you for your time!