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ON ENTREPRENEURIAL FIRMS’ PREPAREDNESS AND REACTIONS TO RECESSION (SUMMARY)

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Principal Topic

We study how entrepreneurial orientation (EO) and willingness to grow influence firms’ preparedness and responses when faced with economic recession. EO (Miller, 1983; Covin and Slevin, 1989, 1991), consisting of innovativeness, proactiveness, and risk-taking, may help companies benefit from environmental disruptions. On the other hand, the common three-dimensional EO construct may be disadvantageous in hostile environments (Lumpkin and Dess, 2001). EO also captures the risk profile of a firm only partially, as a firm may independently have conservative growth willingness.

Here we address two research questions. First, we study the generic approaches of how entrepreneurial firms tackle the challenges of recession. Second, we study how companies with different levels of EO and willingness to grow deviate in their responses and preparedness to recession. Our conceptual base for recession responses is motivated by strategic turnarounds (e.g. Hofer, 1980; Robbins and Pearce, 1992, 1993).

Method

We conducted two surveys of small and medium software companies in Finland that obtain revenue from their own intellectual property. The independent variables, which include EO and growth willingness, were obtained in summer 2008. The dependent variables including strategic and operational responses, and perceptions of the recession’s impacts were obtained in the following summer, during which the country had been in recession for a year. We used a subjective scale to exclude companies reporting not being impacted by the recession (Robbins and Pearce, 1992). Financial control variables were obtained from commercial databases resulting in a data set of 80 firms.

Results and Implications

Regression analyses revealed that EO is negatively associated with perceived impacts of recession, whereas the association with growth orientation is positive but weak. The results of our exploratory factor analysis indicate that recession responses consist of three different approaches, which can be described as revenue generation, cost-cutting, and asset reduction. The factor structure is generally in line with previous literature, but it also reflects characteristics related to company size and industry. Growth willingness is associated with revenue generation. Our study draws attention to the disadvantages of risk taking in ventures when the environment abruptly becomes less supportive of growth attempts.

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