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INTERRELATIONS BETWEEN THE DIMENSIONS OF ENTREPRENEURIAL ORIENTATION (EO) IN THE CONTEXT OF THE EO- PERFORMANCE RELATIONSHIP

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Principal Topic

Most studies find that a firm's EO is significantly and positively related to its performance. Previous research finds that EO can be best conceptualized as a second-order factor consisting of three distinguishable yet related first-order factors: risk taking, innovativeness and proactiveness. Furthermore, many studies have identified internal and environmental moderators of the EO-performance relation, and Rauch et al. (2009, p. 781) suggest that “it is time to open up EO research to new ideas and to further examine the role of moderators”. This paper aims to do exactly that; but, unlike existing studies that look outside of the dimensions of EO for moderating variables, we examine mediating and moderating relations between the dimensions of EO. Our approach is in line with entrepreneurship research that emphasizes the importance of optimally combining various factors to create a competitive advantage, rather than simply identifying factors that affect performance. Our results contribute to understanding why EO is related to firm performance.

Method

We construct a stratified random sample of companies from three new European Union member states - Estonia, Latvia and Lithuania. We administer a questionnaire via telephone interviews and collect 1,625 responses. Our approach to analyzing the interrelations between the dimensions of EO involves estimating a sequence of linear regressions that iteratively arrive at the model that is most harmonious with the data.

Results and Implications

The data support a model in which risk taking mediates the relation between innovativeness and performance as well as the relation between proactiveness and performance. The model suggests that risk taking drives performance and that innovativeness and proactiveness are ‘ingredients’ or ‘products’ of risk taking. In other words, neither innovativeness nor proactiveness has a direct causal effect on performance – their correlation with performance arises from their association with risk taking, which has a direct effect on performance. This finding stands in contrast to previous research which emphasizes the role of innovativeness as a key component of EO. In our paper we find the role of innovativeness to be somewhat different. In tests of moderating effects we find that innovativeness enhances the positive effects of risk taking on performance.

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