ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE: A LONGITUDINAL PERSPECTIVE (SUMMARY)

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ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE: A LONGITUDINAL PERSPECTIVE

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Principal Topic

There is considerable agreement that firms behaving entrepreneurially perform better than more conservative firms (Covin & Lumpkin, 2011). To this end, a firm’s entrepreneurial orientation (EO)—that is, its overall strategic posture to be innovative, proactive, and risk taking—takes on instrumental importance (George & Marino, 2011). Several studies establish boundary conditions for when it favors firms to embrace entrepreneurial strategies and when it may not. This study conducts a longitudinal analysis of the EO-performance relationship over an extended period of time, and explores the role of two potential moderators—competitive intensity and demand volatility—in properly and successfully aligning EO with the industry environment to derive positive benefits from enacting an entrepreneurial strategic posture.

Methods

Our sample was derived from 57 large, publicly traded German firms listed in Forbes ranking from the year 2010. Germany is Europe’s foremost industrial power, a status the US enjoys in the Americas, making it a particularly relevant context for EO researchers. We deleted all companies categorized as banking firms, conglomerates, or diversified financial holdings, because these companies tend to be very different from the rest of the sample. Our final sample comprised of 42 firms over a ten-year period from 1999 to 2008.

We use letters to shareholders in corporate annual reports as the primary data source to assess EO. We adopt a historiometric method (Gupta & Dutta, 2010) to assign an EO score to each firm in our sample for every year based on the letter to shareholders for that year. Industry-level information on contingency variables—competitive intensity and demand volatility—was obtained from Thompson Financial Datastream. Firm performance is measured using information about Return on Invested Capital (RoIC) obtained from the financial statements in the annual reports.

Results and Implications

Our headline findings are that EO had a positive influence on firm profitability in both the short and the long run, although the effect declined with time. We also found that competitive intensity and demand volatility moderates the relationship between EO and profitability in the short and the long run. Thus, EO can contribute to superior value generation over time, but its effects are stronger in the short term.

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