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A GLOBAL INVESTIGATION OF THE INFLUENCE OF INSTITUTIONAL RISK FACTORS ON THE ENTREPRENEURIAL ORIENTATION-FIRM GROWTH RELATIONSHIP (SUMMARY)

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A GLOBAL INVESTIGATION OF THE INFLUENCE OF INSTITUTIONAL RISK FACTORS ON THE ENTREPRENEURIAL ORIENTATION-FIRM GROWTH RELATIONSHIP

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Principal Topic

In this study, we offer new theoretic rationale to explain how entrepreneurial orientation (EO) contributes to firm growth. We propose that EO exhibits an inverse U-shaped relationship with firm growth, predicated on the argument that a constrained number of new entrepreneurial opportunities imply a finite limit to a firm's growth prospects. Capitalizing on the global nature of our research design, we introduce a new boundary condition to the EO conversation--the macroeconomic risk in a firm's home country.

Method

We collected data from the Compustat Global database, extracting financial data on all firms in the database for the years 2000-2009. The final sample contained 18,042 firms in 75 countries spanning 59 industries (98,742 firm-year observations).

We employed a multiple-indicator measure of firm growth constructed as a reflective measure drawn from the first common factor extracted from a firm's industry-adjusted annual sales growth rate, earnings growth rate, net worth growth rate, and operating cash flows growth rate. Building upon the work of Miller and Le Breton-Miller (2011), we measured EO as a reflective composite calculated by extracting the first common factor between the industry-adjusted indicators of innovativeness (research and development intensity); proactiveness (retention ratio); and risk-taking (variance in return on assets). We obtained the macroeconomic risk measure from the International Country Risk Guide published by the PRS Group ([ICRG] www.prsgroup.com).

Results and Implications

We used a multi-level, mixed-effects estimator to evaluate our research model. Our results suggest that EO exhibits an inverse U-shaped relationship with firm growth. Furthermore, macroeconomic risk significantly influences the rate of change in the EO-firm growth relationship.

We make three primary contributions to the entrepreneurship literature. Our first contribution is to ground EO within the context of an opportunity exploitation rubric whereby EO contributes to firm growth as a function of exogenous and endogenously derived entrepreneurial opportunities. Our second contribution is to clarify the non-monotonic effects of EO on firm growth. Our third contribution is to introduce a previously unexplored hierarchical boundary condition to the EO literature by explicating how the national institutional environment influences the EO-firm growth relationship.

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