HOW TO ACHIEVE SUSTAINABLE COMPETITIVE ADVANTAGE: THE IMPORTANCE OF ENTREPRENEURIAL ORIENTATION (INTERACTIVE PAPER)

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HOW TO ACHIEVE SUSTAINABLE COMPETITIVE ADVANTAGE:
THE IMPORTANCE OF ENTREPRENEURIAL ORIENTATION

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Principal Topic

Firms that act entrepreneurially might have to sacrifice short term financial performance in order to create sustainable competitive advantage in the long run (Zahra, 1993; Rauch et al., 2009). Most studies, however, have assessed the relationship between entrepreneurial orientation (EO) and performance based on short term financials (Wiklund & Shepherd, 2003; Lee et al, 2001; Covin & Slevin, 1989). The increase in articles on non-financial performance can be seen as an indicator of the growing importance attributed to factors which explain long-term sustainable success (Luo et al., 2010; Bolton et al., 2004). Besides analyzing EO’s link to financial performance, this article provides insights into achieving sustainable competitive advantage by exploring the dynamic effects of EO on two central non-financial performance dimensions, being innovation outcomes and customer satisfaction.

Method

We investigate EO at firm level using a measurement approach based on secondary data. Data analysis includes the S&P500 firms for the years 2002-2010. EO measurement is based on financial proxies (Miller & Le Breton-Miller, 2011). Innovation outcomes are measured based on new product announcements (Arzt et al., 2010) and split into incremental and radical innovation based on expert judgment (Grupp, 1994). Customer satisfaction is measured using ACSI data. Analyses are run using generalized estimation equations. The results are controlled against past performance, firm size, market turbulence and technological change.

Results & Implications

The focus of this study is to provide a better understanding of the relationship between EO and non-financial performance, as well as the short and long term financial performance as a potential source for sustainable competitive advantage. Using RBV theory, we analyze the impact of EO on innovation outcomes and customer satisfaction in addition to financial performance (Barney, 1991). Findings reveal that more entrepreneurially oriented firms outperform their competitors in bringing forward radical innovation and satisfying customers. Additionally, it is shown that EO leads to better financial performance in the short and long run. The longitudinal measurement approach used in this work opens up paths for further advancing EO theory. For example, knowledge on the relationship of EO to performance could be expanded by investigating potential moderating effects of resource availability over time.

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