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EXPLICIT STRATEGY FORMULATION OF ENTREPRENEURIAL FIRMS IN A HOSTILE ENVIRONMENT: A CONTINGENCY FRAMEWORK (INTERACTIVE PAPER)

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Principal Topic

Entrepreneurial orientation (EO), reflecting the strategic orientation with regard to innovation, pro-activeness, and risk-taking, continues to be an important and timely topic (e.g. Rauch et al., 2009; Rosenbusch et al., 2011). An EO-driven strategy involves enduring innovation-related efforts and resource allocations, which need to be committed organization-wide, that is, communicated to its members and sanctioned in order to promote desired behavior (Russell & Russell, 1992).

The question whether or not an EO-driven strategy should be explicitly formulated in the organization remains vastly unexplored. Some scholars argue that, in principle, strategy should be explicit in order to facilitate its implementation, enhance organizational consistency and unity of direction. Love, Priem, & Lumpkin (2002) argue for instance, based on their empirical findings, that in more decentralized firms, explicit strategy may improve performance. However, this would contrast with arguments postulating that in entrepreneurially oriented companies, which oftentimes are decentralized (Miller, 1983), explicit strategy leads to organizational inertia, creates rigidity and inflexibility (Mintzberg, 1990). We suggest that it might depend on the contingencies of **strategy explicitness and environmental hostility**. Building on entrepreneurship and strategic management literatures, we develop a contingency framework, which can explain both positive and negative effects of explicit strategy under different contingencies.

Methodology

The data on the EO, explicit strategy, environmental hostility, and performance were collected through a structured questionnaire addressed to executives of large for-profit companies across a range of industries operating in the Netherlands. We operationalized these constructs in alignment with previous landmark studies and literature review. We apply moderated hierarchical regression in the analyses.

Results and Implications

In this study we show that congruence of firm's entrepreneurial orientation and environmental hostility in conjunction with explicit strategy, predicts differing levels of performance. More specifically, superior performance is significantly associated with more entrepreneurially oriented companies operating in more hostile environments with more explicit strategies.

The insights derived from our research may be of particular interest to practicing managers. Consideration of strategy-environment fit may aid better understanding when and how explicit strategy and hostility leverage performance. Also, we show that one size does not fit all and universal prescriptions regarding the role of EO may be very different for companies depending on the multiple interacting contingencies they face in their business environment.

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