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ARBITRAGE ORIENTATION AND FIRM PERFORMANCE: AN EXPLORATORY STUDY (SUMMARY)

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SUMMARY

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Principle Topic

While strategic orientations suggested in the literature circumscribe firm behavior along many dimensions, none can adequately explain why some firms and not others choose to pursue technological arbitrage opportunities (Anokhin & Wincent, 2014). Such opportunities have to do with market inefficiency and imperfect information whereby most industries sustain firms combining similar resources with varying degrees of efficiency, and a typical firm may earn above-average returns by adopting leaders' superior resource combinations. Building on the work of Hayek (1945), Kirzner (1979; 2009), and Anokhin and colleagues (2010, 2011, 2014), we propose that a novel strategic orientation – *arbitrage orientation (AO)* – explains why firms choose to pursue such opportunities, and suggest that accounting for it assists in understanding competitive advantage.

Method

We developed a scale to measure arbitrage orientation, and went through a multi-step process to refine and improve it. We then collected the information on this and other constructs from the firms across industries in the Midwestern part of the U.S. Exploratory factor analysis revealed a two-factor solution, and the subsequent confirmatory factor analysis provided support for the second-order construct of AO. All items loaded onto their respective factors and exhibited high construct reliability (α=.81). The construct is conceptually and empirically distinct from mainstream strategic orientations such as entrepreneurial and market orientations, and demonstrates convergent and discriminant validity. We used structural equation modeling to test the effect of AO on firm performance.

Results and Implications

With this study, we develop and validate a multi-dimensional AO scale that captures the predisposition of firms to pursue widely available and easy-to-grab arbitrage opportunities. AO is shown to be distinct from two other main strategic orientations typically considered in research on firm strategies – entrepreneurial orientation and market orientation. We confirm three hypotheses and demonstrate arbitrage orientation to be (1) a positive, statistically significant predictor of firm performance, particularly in the case of (2) old and (3) small firms. Importantly, AO remains significant in the presence of entrepreneurial orientation and market orientation. Overall, it adds to our understanding of firms' strategic choices and advances entrepreneurship and strategy research.

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