LONGER TERM FINANCIAL PERFORMANCE AND CORPORATE ENTREPRENEURSHIP (INTERACTIVE PAPER)

Hans Bruining
Rotterdam School of Management, The Netherlands, jbruining@rsm.nl

Aart Willem Saly
Ernst & Young Advisory, the Netherlands
Principal Topic

This study investigates the longer term effects of corporate entrepreneurship (CE) on financial firm performance indicators as operating profitability, turnover growth and return on capital employed. CE is measured by the dimensions of entrepreneurial orientation (EO): innovativeness, pro-activeness and risk-taking. Main research questions are: (1) does entrepreneurial intensity in established firms lead to longer term financial performance improvement? And (2) does the effect on longer term firm performance differ in times of economic growth and downturn? Research on EO supports positive short-term performance effects, while arguments on longer-term effects are less developed. This study provides insight in the causality of the CE-performance relationship, the longer-term effects and the impact of the economic conditions on this relationship by using a longitudinal approach in a time frame that covers both economic growth and downturn.

Method

Using an extensive survey, we measured in 2000 the intensity of corporate entrepreneurship of 218 Dutch-based companies with > 400 fte from different sectors by using the entrepreneurial orientation dimensions ‘innovativeness’, ‘risk taking’ and ‘pro-activeness’. We then tested the correlation between entrepreneurial orientation and several financial performance indicators of 98 firms of which financial performance data was available for the years 2000-2013. We use both firm-specific survey data and annual industry data to test the moderating effects of the market environment and economic conditions and aim to repeat the survey to gather multiple CE-intensity in retrospect.

Results and Implications

Preliminary testing indicates for the first four years a positive CE-financial performance relationship, supporting the hypothesis that CE has prolonged performance effects. However, the CE-performance relationship is highly dependent on the market situation. In times of strong economic growth or decline, the relationship is much stronger. Firms with high CE-intensity tend to be more seriously affected by economic decline, but also recover faster, which is most clear around the financial crisis in 2008.

CONTACT: Hans Bruining, jbruining@rsm.nl; (T): +31104081795; Rotterdam School of Management, Erasmus University, Rotterdam, Netherlands.