

# **ENTREPRENEURIAL ORIENTATION, NETWORKING, EXTERNAL ENVIRONMENT, AND FIRM PERFORMANCE: A CRITICAL LITERATURE REVIEW**

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## **Abstract**

The needs to conceptualize and empirically examine the context in which levels of analysis in entrepreneurship research are focused also influence entrepreneurial activities and policies. This literature review is intended to provide insights and guide empirical research to address knowledge gaps in entrepreneurial research. One of the primary topics of interest has been the characteristics of entrepreneurial organizations, often referred to as entrepreneurial orientation of the firm. Analysis of past literature has indicated the existence of empirical concerns on the Entrepreneurial orientation – performance relationship. However, there is little empirical research on how entrepreneurs neither harness the potential of networking nor is much known about how such initiatives work. Some researchers have also raised issues relating to the important theoretical arguments that are anchored on the dimensionality of Entrepreneurial orientation. A study of Entrepreneurial orientation and networking configurations open new areas to theory building research as it focuses attention towards complex relationships among entrepreneurial activities. The current study on past contributions in this stream of literature, seeking to provide definitive evidence of previously examined relationships between entrepreneurial orientation and performance as impacted by the networking and environment.

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**Keywords:** Entrepreneurial Orientation, Networking Configuration, External Environment, Risk Taking, Innovation

## **Introduction**

In today's dynamic, fast-changing and intense worldwide competitive environment, the importance of entrepreneurial orientation is manifest in its rapid diffusion throughout the strategy literature (Corbo, 2012; Carton, 2004; and Rauch et al., 2009). Entrepreneurial orientation has been noted as a key ingredient for organizational success and has been found to lead to higher performance (Zahra and Covin, 2005, Wiklund and Shepherd, 2005). It is further argued that firms that possess higher levels of entrepreneurial orientation will perform better than those with lower levels of entrepreneurial orientation (Davis, 2007 & Rauch, 2009). Higher levels of entrepreneurial orientation allow firms to have the ability to identify and seize opportunities in a way that differentiates them from non-entrepreneurial firms (Covin, Slevin, and Shephard, 2006). Entrepreneurial orientation represents strategy making processes that provide organizations with a basis for entrepreneurial decisions and actions (Rauch & Wiklund, 2009). It encompasses specific organizational-level behavior to perform risk-taking, self-directed activities, engage in innovation and react proactively and aggressively to outperform the competitors in the marketplace and hence enhances firm performance (Lumpkin and Dess, 1996).

Of all the phenomena that have gripped the business world in recent years, few match the impact of networks. In the ongoing evolution of the dominant organizational paradigm and mode of competition along the continuum of single, autonomous firms to dyadic alliances to networks to virtual companies, the current period is marked by a rapidly growing prevalence of the network form of organization (Santos, 2009). Prior studies have shown that network relations can be a source for achieving a higher degree of EO and performance. Many new and good ideas are created in networks of heterogeneous firms (Gaudici, 2013), increasing firms' entrepreneurial opportunities. Through diverse relationships, a firm can obtain valuable and specialized knowledge, competencies and resources complementing or compensating their own limited in-house resources and competencies (Li et al., 2009). These advantages from networking can in turn enable firms to be more innovative, risk-taking and proactive, and thus portray an entrepreneurial orientation. For instance, Wiklund (2005) found that inter-firm networking positively influences entrepreneurial orientation.

The external environment of the firm has also been recognized as an important determinant of entrepreneurial orientation (Davis, 2007). The external environment not only offers new opportunities but also poses complex challenges, to which firms must respond to creatively (Covin &

Slevin, 1991, Zahra, 1991). Environmental conditions are usually assessed in terms of whether the environment is munificent (favorable) or hostile (unfavorable). In the EO literature the munificent environment is usually conceptualized using four dimensions: environmental dynamism, technological opportunities, industry growth and demand for new products; hostile environments comprise unfavorable change and competitive rivalry (Antoncic & Hisrich, 2004).

The study is anchored on the opportunity-based view of entrepreneurship. Stevenson conceptualized entrepreneurship as a management approach that has at its heart an all-consuming passion for the pursuit and exploitation of opportunity without regard to resources currently controlled (Stevenson, 1983). He contrasts entrepreneurial behavior with administrative behavior. Along the spectrum of behaviors between these extremes, promoter firms are placed at the entrepreneurial end and trustees at the administrative end. The promoter's sole intent is pursuing and exploiting opportunities regardless of resources controlled, while the trustee strives to make the most efficient use of its resources pool. Certain business and environmental factors pull individuals and firms towards entrepreneurial behavior or towards administrative behavior.

While literature in entrepreneurship has theorized the positive relationship between EO and performance, the same has not always been true when examining this relationship empirically. Interestingly, a handful of research findings have revealed insignificant, and sometimes negative, correlations between EO and performance (Rauch, 2009; Kaya & Seyrek, 2005). By simply examining the direct EO-performance relationship, the scope on performance is limited (Rauch, 2009). This urges research to control internal and external contingent factors in the examination of the EO-performance relationship (Covin, Green, & Slevin, 2006; Lumpkin & Dess, 2001; Wiklund, 1999; Wiklund & Shepherd, 2006; Zahra, 1993).

Past literature on entrepreneurship discusses a number of variables that potentially moderate the EO-performance relationship. There is little consensus on what constitutes suitable moderators. Findings related to the influence of moderating variables on the EO-performance relationship have been mixed. For example, prior research has found both significant positive (Zahra & Garvis, 2000) and negative (Rauch, 2009) relationships between environmental hostility and EO. While there are many possible explanations for a lack of consistency in findings related to a moderating variable, this does leave cause for concern and demands scholarly attention providing more conclusive evidence of the impact these variables have on the strength and direction of the EO-performance relationship.

Another empirical issue is the approach used in measuring EO as a one-dimensional or multidimensional construct. In treating EO as a one-

dimensional construct (Davis, 2007), empirical analyses have failed to consider the unique effects of innovation, proactiveness and risk-taking in relation to firm performance. Additionally, the one-dimensional view fails to consider the differing effects of moderating variables on the relationship between individual EO dimensions and firm performance. Issues such as these have spurred theoretical debates on EO-related issues. For instance, empirical issues, such as conflicting one dimensional / multidimensional factor analyses findings, have resulted in a theoretical and empirical debate in the EO literature over the last decade. Hence, the purpose of this paper is to address knowledge gaps in the existing literature and to propose a conceptual framework for the interrelationship of entrepreneurial orientation, and performance.

This paper utilizes past research of the EO construct to examine the relationship between EO and firm performance, as well as the moderating influences of environment and the resulting effect of networking among firms. It is envisioned that the findings of this study paper will contribute to the existing body of knowledge by providing a better understanding of the relationship between entrepreneurial orientation, and performance. The paper will also form a basis research on the entrepreneurial orientation-performance relationship and related variables. It is also anticipated that the results of the study will expose knowledge gaps and help scholars to gain deep understanding of entrepreneurial orientation and how it impacts on firm performance.

## **ENTREPRENEURIAL ORIENTATION**

Entrepreneurial orientation is a multidimensional measure of firm-level entrepreneurship, comprised of innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy. Many early studies contributed to the gradual establishment of entrepreneurial orientation as a theoretically and logically legitimate construct representing the entrepreneurial nature of a firm (Covin et al., 2006). Prior to the formal development of EO, research examining entrepreneurial organizations (Mintzberg, 1973) identified many characteristics differentiating these organizations from others. Much of this research was summarized by Miller and Friesen (1982) as they provided a comparison of entrepreneurial and conservative firms. In his assessment, several characteristics of entrepreneurial organizations were identified. These included such characteristics as a greater level of differentiation within the firm (Miller & Friesen, 1978, 1982), higher levels of environmental hostility in a firm's external environment (Miller & Friesen, 1978, 1982), heterogeneity (Miles & Snow, 1978; Miller & Friesen, 1982), technocratization (Miles & Snow, 1978; Miller & Friesen, 1982), a greater consciousness of organizational

strategy (Mintzberg, 1973; Miller & Friesen, 1982), and higher rates of growth (Miller & Friesen, 1982).

In contrast, less entrepreneurial firms, or conservative firms, were characterized as having lower levels of differentiation, a lower consciousness of organizational strategy, and a more homogenous market focus (Miller & Friesen, 1982). The characteristics provided coincide with Mintzberg's (1973) study and description of entrepreneurial organizations, Miles and Snow's (1978) prospectors from their typology of firms and Miller and Friesen's (1978) descriptions of innovators and entrepreneurs.

Researchers have been relatively consistent in their use of EO, but slight discrepancies have emerged in researcher perceptions the EO construct. This can be seen in the different definitions of EO proposed in more recent literature. For instance, EO has been viewed as, the strategy-making practices used for new venture creation (Dess, 2005), a firm's strategic orientation, including entrepreneurial decision-making and practices (Wiklund & Shepherd, 2005), and the rules and norms used for decision-making (Sapienza, 2005). Given the range of definitions of EO, there still seems to be a strong amount of consistency among the actual measurement of the construct. However, researchers examining firm-level entrepreneurship have failed to be consistent in the terminology they use to describe the construct (Zahra et al, 2005). Starting with Miller's (1983) study of entrepreneurship, which studied the processes of entrepreneurship, authors have referred to firm-level entrepreneurship as entrepreneurial posture (Covin & Slevin, 2006), strategic posture (Covin & Slevin, 1988; Covin et al., 1990), strategic orientation (Wiklund & Shepherd, 2005), intrapreneurship (Kuratko, 2007), corporate entrepreneurship (Zahra & Covin, 1995), and entrepreneurial orientation (Dess et al., 1997; Covin et al., 1990; Zahra, 1991).

Even with the conflicting terminology, measurement of the firm-level entrepreneurship construct has remained surprisingly consistent, with the majority of researchers using Miller and Friesen's (1982) measure, or a slight variation of this measure (Zahra et al., 2006). It seems that more recent literature has adopted the use of entrepreneurial orientation as representative of firm-level entrepreneurship. As such, the current study will stay consistent with this growing trend while attempting to provide clarity throughout by clearly distinguishing between any other terminologies used.

## **APPROACHES TO ENTREPRENEURIAL ORIENTATION**

Three primary schools of thought have served as the underlying theory of the entrepreneurial orientation construct. Given the diverse nature of entrepreneurship research and its use as a multidisciplinary activity, three disciplines have provided primary contributions in the theoretical

development of EO: economics, social psychology, and strategic management (Dess, 2007). Limitations surround each individual approach, suggesting a collective approach to theoretical development is optimal.

The economic approach to entrepreneurial orientation has focused on the outcomes of new venture creation (Schumpeter, 1934). Research taking the economic approach has examined the profitability or growth of organizations in evaluating their entrepreneurial nature. The use of economic measures has enabled the analysis of entrepreneurship at multiple levels, including the industry, regional, national, global, and organizational levels.

The second approach to entrepreneurship research has stemmed from personal and social psychology perspectives. Studies utilizing this approach have focused on the individual traits of the entrepreneur, rather than the organization. Venture capital literature has used this approach in examining traits such as risk-taking propensity and/or competitive aggressiveness of the entrepreneur in relation to other variable outcomes (Rauch, 2009). While this much more micro approach to the study of entrepreneurship has strong promise for future contributions to the literature, many past studies have questioned the validity of current research in this stream (Davis, 2007). Causes for concern have been instigated by a lack of consistency in findings, specifically concerning the correlations between personality characteristics and firm performance. Further, a lack of agreement and consistency on the personality traits of an entrepreneur has created confusion and ambiguity. Even with these problematic issues, this area of study in the entrepreneurship field provides important perspective and great opportunity for future contribution.

The third approach to entrepreneurship has developed from the strategic management field. This perspective considers the role of the entrepreneur in dictating strategic objectives or actions of the organizations and how the entrepreneur affects the organization through these decisions (Kroeger, 2007). Further, this perspective examines the influence of entrepreneurial decision-making in the midst of risk on new entry commitments of the organization.

Each of these approaches provides a unique perspective on the entrepreneurial behavior within an organization or individual. Through the collaborative effort of all three approaches, a significant image of entrepreneurial behavior can be captured. As such, behaviors and traits related to a firm's innovativeness, proactiveness and risk-taking are the primary variables contributing to the overall entrepreneurial nature of an organization. It is important to acknowledge both the independent and collective nature of these variables, and how this distinction has been addressed in EO literature (Davis, 2007).

In general, the EO construct is intended to be a measure of the extent to which an organization is entrepreneurial. The existence of an EO in a firm is the result of organizational processes, methods and styles implemented by the firm in the pursuit of acting entrepreneurially (Stevenson & Jarillo, 1990). It is the combined presence of innovation, proactiveness and risk-taking in a firm that leads to the organization having an entrepreneurial orientation (Miller 1983; Covin, 2006). It is important to note that these same variables have been common across measurements of concepts such as strategic posture, corporate entrepreneurship and EO, with the Miller, Covin and Slevinscale commonly referred to as the MCS scale is the most commonly utilized measurement tool. In all of these studies, the core variables are innovation, proactiveness and risk-taking.

The consistent use of an agreed upon measure of EO construct comprising of innovation, proactiveness and risk-taking have enabled quick progression of the field and an ease of comparisons across studies. However, even with this consistency in measurement, questions surround the EO construct. Is the EO construct beneficial to entrepreneurship research given the lack of a widely accepted definition of “entrepreneurship?” Are we measuring the construct of EO correctly or is it not what we think it is? These general questions strike at the heart of EO as a field of study. While the vast majority of studies in the EO stream have utilized the Entrepreneurial orientation dimensions comprising of only innovativeness, proactiveness and risk-taking propensity, several researchers have suggested the addition of two more contributing variables, competitive aggressiveness and autonomy (Lumpkin & Dess, 1996). These two variables will defiantly have an impact on the EO – performance relationship.

## **NETWORK CONFIGURATION**

In today’s competitive landscape, firms cannot rely on internally controlled resources alone to pursue advantage-creating and advantage-enhancing strategies (Gaudici, 2013). They must collaborate with other firms to gain access to information, skills, expertise, assets, and technologies and thus leverage their internal resources. Different strategic tendencies create different needs, motivations and opportunities for collaboration with other market participants such as competitors, distributors, suppliers, and customers. Thus, certain regularities in firms ‘strategic behavior can lead to distinctive and recognizable patterns of networking behavior, which in turn leads to predictable types of network structure (Giudici, 2013).

A firm’s ability to persistently outperform rivals depends also on the advantageous access to external information and resources uniquely held by other market participants (Kroeger, 2007). The increased competitive pressure and the unprecedented pace of technological change in most

industries today (Davis, 2007) have made collaboration with other firms a necessary condition for sustained success in the marketplace. This increased collaborative activity, strategically initiated by firms in their efforts to outcompete rivals; leads to formation of a network of inter firm relationships in the form of strategic alliances, joint ventures, and long-term agreements. Each firm in the alliance network maintains a distinct portfolio of alliances and has a distinct pattern of alliance ties with other network members, which in turn provide different potential for gaining access to network resources (Stam 2010). Applying social network theories, researchers have shown empirically that several network positions for instance brokerage position, ego network density, centrality and configurations such as diversity of ties, proportion of strong or weak ties provide firms with advantageous access to network resources, which in turn is positively related to firms' performance (Zaheer & Bell, 2005).

A substantial body of entrepreneurship research suggests that entrepreneurs often sense new opportunities and gain valuable ideas, information and resources from their personal networks (Teece, 2007 and Giudici 2013). Whereas entrepreneurs' networking behavior has often been characterized as non-intentional in nature (Sarasvathy and Venkataraman, 2011), scholars have recently highlighted how entrepreneurs sense new opportunities while strategically building their strategic networks (Gaudici, 2013). Scholars have long investigated how entrepreneurs can grow their firms by leveraging their portfolio of relationships (Hoang and Antoncic, 2003; Slotte-Kock and Coviello, 2009), and the importance of network relationships in facilitating opportunity recognition and exploitation is also widely recognized (Ardichvili, Cardozo, and Ray, 2003; Bhagavatula, 2010). There is little doubt that entrepreneurs can use their networks of professional and personal ties (Giudici, 2013), to gain access to a rich array of ideas, information, and tangible and intangible resources (Aldrich and Fiol, 1994; Ferriani, Fonti, and Corrado, 2013; Grossman, Yli-Renko, and Janakiraman, 2010; & Phillips, 2013) which can enhance their ability to sense new opportunities and improve on firm performance (Teece, 2007).

According to Gaudici (2013), network configuration can be defined as the pattern of relationships involving direct and indirect ties with different external actors. A literature review study by Pittaway, (2004) found that there is considerable ambiguity and debate within the literature regarding appropriate network configuration for competitiveness. This research gap can be further expanded as prior studies also hold diverse views on how to capture a network configuration, for example formal versus informal configurations, strong versus weak ties (Stam, 2010), and customer- oriented (Jacob, 2006) against supplier-oriented (Arend, 2006) configurations. Moreover, it can be expected that firms would differ in their preferences



toward different network configurations. Based on the study of Ozgen and Barron (2007), three network configurations are distinguished, networks with upstream partners (suppliers), downstream partners (customers), and horizontal partners (competitors). Furthermore, as a complementary approach two additional views on network configurations are considered, namely the diversity of the network (to what degree the network configuration is diverse in terms of consisting of many different categories of network actors), and network size (whether the configuration is simple with few actors or complex with many actors).

Networking with upstream partners mainly involves direct suppliers, which can be important for new ventures and small firms as their involvement can lead to development of more efficient processes (Davis, 2007). This type of network configuration is also known to positively affect cost, quality, technology, speed, and responsiveness of a firm's production (Kaya and Seyrek, 2005). According to Carton (2004), networking with established suppliers would increase the credibility of firms among third parties, such as customers and other interested parties.

Networking with downstream partners mainly involves direct customers. Customers are central actors when it comes to value creation as understanding their needs and expectations can lead to market success (Jacob, 2006). Studies have shown that downstream networks are the most common form of collaboration for driving innovativeness as firms develop products that are commercially viable (Kroeger, 2007). Close interaction with key business customers and users not only allows firms to learn about existing market needs, but may also lead to discovery of future needs before their competitors (Santos, 2009). Due to intimate relations with their customers, firms may hence exploit a flow of rich information regarding emerging opportunities which can allow them to take calculated risks and initiate proactive actions.

Networking with horizontal partners has to do with firms and organizations which are not part of a firm's value chain, such as competitors, universities, and government agencies. Compared to vertical configurations, networking with horizontal partners is initiated more carefully and willfully. Dess (2007) points out that collaboration with other firms is the most beneficial alternative for resource acquisition, since this arrangement is flexible and allows shared costs and risks. New ventures and small firms can achieve higher performance through combining forces with competing firms to share costs of development, joint market products, and for knowledge sharing and joint procurement (Pittaway, et al, 2004).

Studies have accordingly shown that network relations can be a source for achieving a higher degree of EO and performance. However, there is a lack of understanding of which type or kind of network configurations

are most valuable for new ventures and existing firms (Pittaway, Robertson, Munir, Denyer, & Neely, 2004). Although firms may lack internal resources, they may be representing different phases of an organizational life cycle. New ventures are usually striving to establish a foothold in its industry and as they are new to the market, networks can be very beneficial for legitimacy building and getting access to different market segments (Parida, Westerbery, Ylinenpaa, & Roininen, 2010). Taken together, the effects from networking with different actors, customers or suppliers can be driven by different motives and may lead to different outcomes for new ventures as compared to established small firms (Burt, 2004).

## **EXTERNAL ENVIRONMENT**

The role of the environment is one of being a contingent factor on the firm in terms of the opportunities it creates and the threats it poses (Chathoth, 2002). This is captured in the various types of risks that the firm faces because of the impending threats and opportunities that arise from the firm's external environment. These risks are a function of the complexity and uncertainty associated with the environment (Mthanti, 2012), which can have a significant impact on a firm's success.

The environment construct in the strategic management literature emanated from the contingency school of management, which emphasized on the role of the environment in the definition of strategies, and subsequently its influence on firm performance. Several management researchers of the likes of Emiry and Trist (1965), Child (1972), Jurkovich (1974), Bourgeois (1980); Dess & Beard (1984), and others have all attempted to explain the role of the environment in the definition of firms' strategies, and its impact on firm performance. These studies spanned more than three decades of research from the late fifties to the mid-eighties, which focused on the concept of the environment and contributed to the incremental growth of the literature through empirical and conceptual research.

## **ENVIRONMENTAL DIMENSIONS**

The influence of environmental variables on the relationship between EO and firm performance has been examined in several studies in the past two decades (Davis, 2007). Recent literature has suggested the continued examination of environmental variables as moderators of the EO-performance relationship (Covin, 2006, Gaudici, 2013). Three of the primary environmental variables considered in existing EO literature are environmental munificence, dynamism and hostility. These variables have been noted to influence the EO construct in relationship with performance as

well as their impact on the relationship between the individual dimensions of innovativeness, proactiveness and risk-taking, and firm performance.

Environmental munificence refers to the scarcity or abundance of resources available in an environment and demanded by one or more firms (Dess & Beard, 1984 and Dess, 2007). From the firm level of analysis, the level of munificence is directly related to a firm's ability to acquire resources from the environment and may impact firm performance (Davis, 2007). Santos (2009) posited munificence as the key factor in determining the ability of the environment to sustain growth. Munificent environments enable a greater amount of organizational flexibility with reduced risk. Corbo (2012) suggested that the abundance or scarcity of resources available in a given environment is directly related to an organization's generation of slack resources.

Zahra and Covin's (2005) original two factors of dynamism were described as simple-complex and static-dynamic. These were later re-analyzed in Dess (2007) reframing of environmental factors as they distinguished the two as environmental dynamism and complexity. Dynamism is comprised of numerous variables – for example, speed in which the environment is changing (stability-instability), turnover rates, and predictability-unpredictability; each aspect contributing to uncertainty. Miller and Friesen (1983) defined dynamism as the rate of change and innovation in an industry as well as the uncertainty or unpredictability of the actions of competitors and customers. Organizations competing in environments where high levels of dynamism are present must have the flexibility to adapt to a changing environment to ensure organizational survival (Mthanti, 2012). A quickly changing environment increases risk and unpredictability, but is a common characteristic of many industries (Davis, 2007). A lower level of dynamism in an environment indicates possible slowing of the economy or, under most circumstances, an industry that is well established and non-turbulent. Organizations operating in a more stable environment have the luxury of added stability and predictability of environmental change, as well as greater ability to react and change with the environment.

In many ways, hostility is the counter-munificence measure as it represents the intensity of competition and scarcity of resources in a firm's environment. It has been commonly used to describe the unfavorable external forces in an organization's environment. Davis (2007) defined hostility as the degree of threat to the firm posed by the multifacetedness, vigor and intensity of the competition and the downswings and upswings of the firm's principal industry. As indicated by its definition, hostility poses a threat to the viability of a firm (Kroeger, 2007) and has been examined in

relation to firm performance and the competitive behavior of a firm (Corbo, 2012).

Environmental hostility has been a commonly considered factor in EO literature. Early research examining the relationship between hostility and entrepreneurship tended to argue for a positive relationship between hostile environmental conditions and entrepreneurial behavior (Khandwalla, 1977; Miller, et al 1983). However, its role as a moderator of the EO-performance relationship has been investigated in numerous studies (Zahra, 1993; Zahra & Covinr, 2005). This suggests that activities such as innovation within the organization are negatively impacted by the presence of a hostile environment, where competition is high and resources are scarce. While this theoretical argument supports the findings of a negative effect of hostility on the EO-performance relationship, other research has produced inconclusive findings (Covin & Slevin, 1989) and even a curvilinear relationship (Zahra & Garvis, 2005). Rauch, (2009) attributed the inconsistent findings of past research to the use of aggregated measures of EO. There is no definitive evidence of the influence of hostility on the EO-performance relationship, as well as the impact this environmental condition has on the relationship between each of the three dimensions of EO and firm performance.

## **FIRM PERFORMANCE**

Performance is a widely used concept in many areas. Usually, performance is a measure of how well a mechanism or a process achieves its purpose. In enterprise management, Wu (2009) defines an organization's performance as how well the organization is managed and the value the organization delivers for customers and other stakeholders. Performance is related to achieving stockholder and investor interests. To attain superior relative-performance, an organization must achieve its expected objective with greater efficiency and effectiveness than its competitors (Wu, 2009). To illustrate efficiency, effectiveness, and the value delivered, multi-measures should be used. Though their forms vary widely, financial indicators are traditionally used; Wu (2009) further expounded upon manufacturing performance measures, suggesting that five key-dimensions should be assessed: quality, delivery speed, delivery reliability, price (cost), and flexibility. By measuring all of these factors, performance is thus balanced and multi-dimensional, better reflecting stockholder interest.

## **MEASURING FIRM PERFORMANCE**

The use of performance measurement is frequently recommended for facilitating strategy implementation and enhancing organizational performance (Santos, 2012). Today, contemporary performance

measurement comprises the use of financial as well as non-financial performance measures linked to the organization's business strategy. There is no dispute that one of the core purposes of both entrepreneurship and strategic management theory and research is the improvement of organizational performance (Mthanti, 2012). However, there seems to be no consensus regarding the best, or even sufficient, measures of organizational performance. Researchers further confound the problem by confusing determinants of performance with measures of performance (Santos, 2012).

In the last four decades, change in measurement perspective has continued to evolve for which performance measurement has moved away from having a pure financial focus to include more comprehensive business characteristics (Kaplan, 1983). Various scholars have used different performance measurements without conclusive consensus on the best measures. Dess and Robinson (1984) examined the usefulness of subjective performance measures as compared to objective measures. Venkatraman and Ramanujam (1987) empirically examined the degree of convergence across methods of measuring business economic performance and in so doing, demonstrated that sales growth, profit growth, and profitability were discriminate measures of different dimensions of business economic performance. Kaplan and Norton (1992) presented the balanced scorecard (BSC) as a performance measurement tool. The founding idea of the concept is that measures should be chosen in a way that gains the active endorsement of the senior managers of the organization, reflecting both their privileged access to strategic information, and the importance of their endorsement and support of the strategic communications that may flow from the balanced scorecard once designed. The balanced scorecard has gained prominence as a way of integrating financial and non-financial performance measures into an overall control system (Santos, 2009).

It is clear from the prior studies that there has been no consistency in the measures used to represent the construct of overall organizational performance in Strategic Management or Entrepreneurship research (Carton, 2004). Further, prior empirical research has demonstrated that there are multiple dimensions to the performance construct. While Robinson (1995) found that return to shareholders was the most powerful individual performance with respect to new venture performance among companies that have undergone initial public offerings, these findings cannot be reasonably generalized to studies that use different samples. In short, there continues to be no conclusive research that has identified a "best" measure of overall organizational performance, nor has a measurement model that accurately represents the construct yet been developed (Santos, 2012).

The study's focus is not to use both financial and non-financial measures but to advance an argument that past studies have used limited

measures of performance; hence it is high time studies look at performance comprehensively. There is need to operationalize performance along sustainable scorecard that has six perspectives including; Financial or Economic measures, Customer satisfaction, learning and growth, business process, social and environmental measures as opposed to four perspectives of Kaplan and Norton (1992).

## **Entrepreneurial Orientation, External Environment, Networking And Firm Performance**

### **Entrepreneurial Orientation and Firm Performance**

The relationship between entrepreneurial orientation and firm performance has been at the forefront of entrepreneurship literature for many years. From early studies, examination of new venture performance to the breadth of recent literature examining the EO construct, researchers have placed great emphasis on the relationship between entrepreneurship and performance. Scholars have primarily theorized a positive relationship between entrepreneurial orientation and the growth and profitability of the firm (Kroeger 2007; Davis, 2007; and Gaudici, 2013). However, studies have often differed in their approaches to measuring EO, with some examining overall EO in relation to performance and others examining individual dimensions of EO and performance.

In examining EO as a one-dimensional construct, many past researchers have found support for a positive relationship between EO and firm performance. For instance, Zahra and Covin (2005) found there to be a significant positive relationship between EO and performance and that this relationship is enhanced over time. Further, they noted the importance of gaining first mover advantages as a result of high EO that ultimately led to higher firm performance. In a separate study which used a contingency theory-based approach, Ozgen and Barron (2007) confirmed a positive relationship between the entrepreneurial orientations of the entrepreneurs as representative of the organization and changes in profitability while also examining the relationship between EO and marketing orientation and the moderating influence of environmental variables. Wiklund (2006) took an international longitudinal approach by examining 132 Swedish firms over a two year period. The findings again confirmed a positive relationship between EO and firm performance, while also agreeing with Zahra and Covin (2005) that this relationship is enhanced over time.

While literature in this area has theorized the positive relationship between EO and performance, which was seen in each of these studies, the same has not always been true when examining this relationship empirically. In fact, a handful of research findings have revealed insignificant, and sometimes negative, correlations between EO and performance (Zahra and

Covin, 2005; and Kaya & Seyrek, 2005). However, as empirical results analyzing the relationship between these variables continue to surmount with the wide majority supporting a positive relationship, it has become increasingly evident that an overall perspective of the EO-performance relationship will likely reveal a significant positive relationship between the two variables. Davis (2007) argues that the multidimensional approach to the EO construct requires the individual assessment of the relationship between each unique dimensions of EO.

Following this logic, past literature examining the relationships between each of these dimensions and firm performance need more critical analysis and examination. As the root of innovation, creative thinking is essential, but not sufficient, for a firm to be considered innovative (Stam, 2010). Since the seminal work of Miller (1983), many scholars have offered suggestions for the measurement of firm-level entrepreneurship, most of which include the innovative nature of an organization as a key component. Wiklund (2006) suggested the use of product innovation as the sole predictor of firm-level entrepreneurship. In their study of the savings and loan industry, they suggested innovative practices to be represented by the number of new products developed or new markets entered by an organization (Gaudici, 2013). Early studies in entrepreneurship also identified the proactive nature of an organization as an important contributor to the entrepreneurial nature of an organization (Mintzberg, 1973; Miller, 1983). While innovation is the act of developing new ideas, the proactiveness of a firm is the ability of the firm to harvest and exploit a future-focused perspective that enables the organization to react to opportunities that are identified for new products, markets or ventures. In essence, the presence of a proactive nature is a key to capitalizing on the innovative capabilities within the firm (Davis 2007).

Competitive aggressiveness, describes Miller's idea (1983) of beating competitors to the punch, represents how firms respond to threats and not only seizes opportunities as indicated by Miller's proactive dimension. Clearly, EO refers to the specific organizational-level behavior to perform risk-taking, autonomous activities, engaged in innovation and react proactively and aggressively to outperform the competitors in the marketplace (Miller 1983; Covin & Slevin 1991; Lumpkin & Dess 1996). Autonomy on the other hand, refers to the ability to make decisions and to proceed with actions independently, without any restrictions from the organization (Lumpkin & Dess 1996). It also reflects the strong desire of a person to have freedom in the development of an idea and in its implementation. Several scholars (Wiklund, 2006; Covin et al, 2006; Dess, 2007; Rauch 2009) suggested that giving autonomy to all players in the organization may motivate them to act entrepreneurially, and in turn improve

firm performance. Despite the acknowledgement of autonomy's role in enhancing firm performance, prior studies have not been able to demonstrate a positive effect of this relationship among the variables (Davis, 2007).

### **ENTREPRENEURIAL ORIENTATION AND NETWORKING**

Past entrepreneurial studies have shown that firms can positively influence EO through their networking practices (Parida & Westerberg, 2009). Thus, to fully extract the capability to identify, create and exploit entrepreneurial opportunities, new ventures and small firms benefit from joining networks and thus gaining advantages from external relationships. The effects of networking are widely studied and understood to positively affect entrepreneurial opportunities (Chathot, 2002; Stam, 2010; Gaidici, 2013).

Since it is time-consuming and difficult for firms to develop all the resources necessary to successfully commercialize a business idea alone, they normally rely on external contacts for accessing scarce and specialized resources that the firm needs in order to become established and to grow (Gaidici, 2013). Although the benefits of networking for firms are acknowledged, one major short-coming of prior studies refers to evaluating the effects of specific network configurations on EO and performance. There is no clear evidence on how each network configuration impacts on firm performance.

### **ENTREPRENEURIAL ORIENTATION, EXTERNAL ENVIRONMENT AND NETWORKING**

Prior studies have shown that an organization's external environment and the strategy pursued have been empirically linked with firm performance (Porter, 1980). Scholars have examined each environmental variable in EO research, but theoretical and empirical arguments have often shown differences across research. The moderating influence of environmental munificence has been examined by several scholars Lumpkin & Dess, 1996; Kreiser, 2002; Wiklund & Shepherd, 2003). While Lumpkin and Dess (1996) noted the importance of resources to the development and implementation of new strategic practices, (Bourgeois, 1981), suggested that resources alone will not enhance a firm's EO. In contrast, Zahra, et al (2005) found firms operating in hostile environments were more reluctant to invest in the development of new technologies because the presence of hostility has a negative influence on profit margins while also reducing the availability of resources needed for innovation. As resource scarcity is minimized, firms are encouraged to increase research and development spending (Zahra, et al 2005), which would likely result in a higher EO of a firm. Thus, firms operating in munificent environments should have the



financial flexibility to invest a greater amount of resources in innovative practices.

The influence of environmental munificence on risk-taking of organizations is also apparent as stable environments provide a greater level of certainty, thus allowing firms to take less risk in pursuit of the same strategic objective. Lumpkin (1996) argued for a positive relationship between risk and munificence as the presence of certainty in the environment that is provided by high levels of munificence would lead to easier entry into a market. Thus, the availability of resources in a given market for a firm pursuing market entry would be very beneficial as the risk associated with entering that market would consequently be reduced.

Scholars have repeatedly confirmed the importance of the dynamic or stable nature of the environment to a firm's EO (Wiklund and Shepherd, 2005). The specific affect of dynamism on each of the EO dimensions is of particular concern. The influence of a dynamic environment on innovative practices within an organization has been well researched. Research in this area has shown firms operating in dynamic environments are more likely to participate in new product innovation activities than firms operating in stable environments. (Davis, 2007) suggested firms operating in dynamic environments face greater consequences for the inability to implement innovative practices. The result of a failure to respond to dynamic environments with innovation is a loss in market share and sales, thus falling behind the competition (Miller, 1988).

Organizations respond to innovative requirements in dynamic settings by pursuing new radical technologies and other pioneering activities (Zahra, 1996; Zahra & Bogner, 2000). Thus, the importance of innovation in dynamic environments is greatly enhanced. While proactiveness has been noted as an important component of the EO construct, this variable becomes essential in dynamic environments as the ability of an organization to capitalize on market opportunities in a timely fashion becomes both crucial and indispensable. Lumpkin and Dess (2007) noted the importance of a proactive nature in the presence of dynamic environments. (Davis, 2007) further argued that proactiveness would enable organizations to better capitalize on these opportunities emerging in dynamic environments, thus leading to a competitive advantage for the firm over competitors. A proactive culture within an organization competing in this type of environment will enable continued competitiveness and the ability to more easily adapt to environmental fluctuations. In support of this argument, Lumpkin and Dess (2007) found a positive relationship between the sales growth and profitability of a firm and the link between proactiveness and dynamism. The theoretical arguments and empirical support discussed

above strongly suggest a positive influence of dynamism on the proactiveness-performance relationship.

While highly munificent environments do not necessarily provide the most optimal risk or reward setting for risk-taking (Kroeger, 2007)) argued that dynamic environments require a greater level of risk-taking in strategic decision-making and processes to more effectively and successfully respond to the invariable state of change, regardless of the level of munificence in the environment. The certainty provided by munificent environments enables a reduced level of risk-taking by the firm without a total sacrifice of competitive edge. However, dynamic environments prohibit such passive behavior, requiring organizations to increase decision-making speed in responding to environmental change (Davis, 2007). A dynamic environment causes both strategic decision and process changes within a firm (Carton, 2004). Such settings often result in premature decision-making as managers are forced to act based on incomplete information. While these processes are inevitably fast-tracked, past research has suggested that the failure of firms to adopt risky behavior in dynamic environments will likely result in market share loss, as well as falling behind competitors willing to accept the risk and pursue a more aggressive strategic approach (Gaudici, 2013). As a result, dynamism can be expected to have a positive impact on the relationship between risk-taking and firm performance. Building on the above arguments, it is evident that a dynamic environment will positively impact the relationships between each of the EO dimensions and firm performance.

Hostility refers to the scarcity of resources available in the environment, as well as the intensity of competition for the resources which are available (Covin & Slevin, 1989; Zahra & Covin, 1995). As indicated by Lumpkin and Dess (2001), hostility is often referred to as “the obverse of munificence.” Several authors have examined the influence of hostility on EO, but findings have been mixed across studies. For example, studies have reported both positive (Zahra & Garvis, 2000; Covin et al., 2006) and negative (Becherer & Maurer, 1997; George et al., 2001) correlations between hostility and EO. Early entrepreneurship research examined hostility in relation to the strategy-performance relationship (Covin & Slevin, 1989). For instance, McGee and Rubach (1997) found that environmental hostility moderated the relationship between competitive strategy and firm performance. These findings are consistent with the suggestions of Ettl (1983) who proposed a link between environmental hostility and the implementation of strategic moves promoting and fostering both innovative and entrepreneurial practices. However, Milers et al. (1993) found a significant negative correlation between hostility and entrepreneurial practices in their study of 169 furniture manufacturers. Further, while Covin

and Slevin's (1989) seminal study found small entrepreneurial firms to perform best in hostile environments, other research found opposite results. For example, Khan and Manopichetwattana's (1989) study of 50 Texas manufacturers found that hostility had a negative impact on innovation, causing the firm to pull in its horns.

## **ENTREPRENEURIAL ORIENTATION, NETWORKING AND FIRM PERFORMANCE**

The significant role of networks in influencing entrepreneurial process and firm performance has been asserted by several authors (Stam, 2010). Entrepreneurship theory implies that the essence of entrepreneurship is the ability to detect, willingness to pursue and exploit the opportunity in the marketplace (Stevenson and Jarillo, 1990, Shane and Venkataraman, 2000). Yet, not all entrepreneurs have capabilities and sufficient resources to utilize those opportunities. They need collaboration with the economic actors to enable them to carry out some activities in order to gain access to resources and markets (Rauch, 2009). Clearly, they need to develop networks in business to take advantage to exploit new opportunities, obtain knowledge, learn from experiences and benefit from the synergistic effect of pooled resources (Gaudici, 2013). For that reason, Stam, (2010) acknowledged that entrepreneurship is naturally a networking activity. Network is considered as one of the most powerful assets since it provides access to power, information, knowledge, technologies, and capital.

The resource-based view suggests that a firm's competitiveness is dependent on its possession of valuable, rare, imperfectly imitable, and non-substitutable resources. Firms holding VRIN resource characteristics can create barriers that secure economical rents and leads to profitability (Parida, Westerbery, Ylinenpaa, & Roininen, 2010). Prior studies suggest that firms can overcome resource-oriented challenges by engaging in collaboration or exchange with external network partners (Stam, 2010). Many new and good ideas are created in networks of heterogeneous firms, increasing firms' entrepreneurial opportunities. Through diverse relationships, a firm can obtain valuable and specialized knowledge, competencies and resources complementing or compensating their own limited in-house resources and competencies (Parida, Westerbery, Ylinenpaa, & Roininen, 2010). These advantages from networking can in turn enable firms to be more innovative, risk-taking and proactive, and thus portray an entrepreneurial orientation (EO). For instance, Davis (2007) found that inter-firm networking positively influences EO. Moreover, network relationships may also result in unique competitive advantages that improve the firm's overall performance (Gaudici, 2013). While these past studies have indicated a positive

relationship between networking and firm performance, little has been shown on effects of networks on EO and firm performance.

### **ENTREPRENEURIAL ORIENTATION, EXTERNAL ENVIRONMENT, NETWORKING AND PERFORMANCE**

The ultimate dependent variable in strategy research is performance. The association between entrepreneurial orientation/strategy and performance is an important issue in entrepreneurship literature. Lumpkin and Dess (2001) insisted that the essence of entrepreneurial orientation is a product of environmental changes and networking capabilities of the organization. On the one hand, the adaptation of entrepreneurial strategy-making has been found to enhance a firm's competitive position, and is vital for organizational success (Dess, Lumpkin, & Covin, 1997; Zahra & Covin, 1995). Further, Chathot (2002) suggested that entrepreneurial orientation is more likely to be influenced by the changes taking place in the environment. Networking capabilities will most likely shape the strategic posture of an organization.

Previous research has shown that organizations need to align to their environments if they are to survive, and network as a means of aligning organizations with such environments (Kaya and Seyrek, 2005). A vast literature has documented that the fate of organizations is the outcome of organization and environmental interaction (Zahra and Covin, 2005; Corbo, 2012; Rauch, et al, 2006). Strange enough, there is little research on how this interaction affects alliance networks. It has been argued that dynamic changes in environments can be expected to have a strong influence on network evolution, yet such linkages have been rarely studied. The tradition in network analysis has been to view networks as given contexts for action, rather than as being subject to deliberate design (Corbo, 2012) assuming that network structure endures over time.

### **CONCLUSION**

Research in the area of entrepreneurial Orientation has seen rapid growth since it was introduced by Covin and Slevin (1989). Accompanying this growth has been an unusual level of acceptance and replication of the original scales developed in two of the seminal contributions in this stream (Miller, 1983; Covin and Slevin, 1989). Focal to EO literature has been the relationship between EO and firm performance. More recently, authors have begun to place greater emphasis on variables impacting the strength or direction of the relationship between EO and performance. Concurrently, a debate has emerged surrounding the dimensional nature of the EO construct and the validity of such a measure given the unique contributions of

individual variables. These more recent contributions have revealed several important areas of concern for EO researchers.

Following on the contemporary logic and thinking, it is hoped that the review provides insights into the impact of entrepreneurial orientation on firm performance and the role of networking characteristics in impacting these relationships as well as the moderating influence of external environment. It has been argued that EO plays an important role in enhancing firm performance. It has also been argued that a firm's ability to directly link itself to the opportunities in the external environment positively moderates the relationship between EO and performance, while its ability to maintain a series of strong ties within a network enhances the relationship between EO and performance. It is hoped that this paper provides further clarification to the manner in which EO contributes to the performance of firms.

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