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Technological Forecasting & Social Change

journal homepage: www.elsevier.com/locate/techfore

Impacts of proactive orientation and entrepreneurial strategy on entrepreneurial performance: An empirical research

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ARTICLE INFO

Keywords:

Proactive orientation
 Entrepreneurial strategy
 Entrepreneurial performance
 Industrial pressure

ABSTRACT

It is controversial whether the first mover can achieve entrepreneurial performance. This study effectively integrated the entrepreneurship theory and the strategy theory to explore the relationship between proactive orientation and entrepreneurial performance, as well as the moderating effect of the entrepreneurial strategy. Using 235 new ventures in China, we found that: under lower level of industrial pressure, the relationship between proactive orientation and entrepreneurial performance is positive, the moderating effect of moderate strategy and competitive strategy is also positive. However, under higher level of industrial pressure, the relationship between proactive orientation and entrepreneurial performance is not a simple linear, the moderating effect is insignificant for moderate strategy and negative for competitive strategy. We concluded that the first mover will not undoubtedly get entrepreneurial performance only if they own the premises such as taking the initiative to raise trade barriers to create a low level of industrial pressure, avoiding negative competition behavior under the high industrial pressure, and etc.

1. Introduction

Entrepreneurial firms are different from other traditional ones in terms of innovation, risk taking, and pro-action (Miller, 1983; Miller and Friesen, 1983). Scholars have begun to study the relationship between entrepreneurial orientation and entrepreneurial performance to examine whether these unique characteristics could affect the success of enterprises. However, scholars have drawn mixed conclusions. Some papers found that entrepreneurial orientation can significantly improve entrepreneurial performance, especially in the initial stage and the growth stage (Covin and Slevin, 1989; Wiklund and Shepherd, 2003; Wiklund and Shepherd, 2005). Others concluded that entrepreneurial orientation may have negative or no effect on entrepreneurial performance (George et al., 2001; Runyan et al., 2008; Slater and Narver, 2000; Stam and Elfring, 2008). The dynamic and uncertain industry environment is the main reason for the mixed conclusions (Cope, 2005). Whether entrepreneurial orientation can improve entrepreneurial performance largely depends on the specific strategic behavior of enterprises (Bruton et al., 2015; Shin et al., 2015; Wang and Ahmed, 2007). With different entrepreneurial orientations, overcoming resource constraint and selecting proper entrepreneurial strategy will determine the success of new enterprises (Hitt et al., 2002; Xiao et al.,

2010). Therefore, the inner mechanism between different dimensions of entrepreneurial orientation and entrepreneurial performance has attracted attentions (Covin and Wales, 2012; Kreiser et al., 2013; Kreiser and Davis, 2010; Rauch et al., 2009).

Anderson et al. (2015) pointed out that it is very important to re-construct the entrepreneurial orientation concept. Understanding the relationship between different dimensions of entrepreneurial orientation and entrepreneurial performance is an important research topic. In fact, different scholars have different opinions about proactive orientation and entrepreneurial performance. Hamel (2001) illustrated that proactive orientation can create the first mover advantage for enterprises. Consequently, enterprises can obtain market resources in advance of their rivals and monopolize their industry rapidly. Cottrell and Sick (2002) found that first movers have a contention-free period to construct valuable network and relationship with customers. Therefore, they can rely on the relational network to build a unique business model which has a positive effect on firm performance. Robinson and Min (2002) concluded that the survival rate is higher for first movers than new entrants (or late comer) and utilized this comparison to re-confirm the advantage of proactive orientation. However, different opinions still exist. Boulding and Christen (2003) suggested that the first-mover advantage does not necessarily exist. If first movers enter an

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<https://doi.org/10.1016/j.techfore.2017.11.019>

Received 24 December 2016; Received in revised form 6 November 2017; Accepted 12 November 2017
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industry with low barriers, their first-mover advantage may become first-mover disadvantage. Based on first movers' market share, Lopez and Roberts (2002) argued that second movers engaging in market competition with lower risk can finally win most of the market against first movers.

Therefore, the relationship between proactive orientation and entrepreneurial performance is not simply linear. The industry environment will determine whether new enterprises could achieve high performance using proactive orientation (Kerin et al., 1992; Suarez and Lanzolla, 2007). Implementing strategy properly can avoid many risks (Boulding and Christen, 2003; Rauch et al., 2009; Suarez and Lanzolla, 2007). Especially, it is not a good choice for enterprises to employ proactive orientation in these industries with high growth rate (Min et al., 2006). Moreover, entrepreneurial strategy become very important under the industrial pressure (Arora and Nandkumar, 2011; Holloway and Sebastiao, 2010). Enterprises employing proactive orientation need to develop proper product or market strategy based on perception about outside chances. Doing so, they can decide how to capture market, which market to capture, and how to maintain the consistent market share (Morris et al., 2010).

In this paper, we first classified the industry characteristics. Second, we integrated the entrepreneurship theory and the strategy theory as well as defined the entrepreneurial strategy concept which primarily indicates strategic choices for new enterprises (Bruton and Chen, 2016; Lei et al., 2016). Meanwhile, we divided the entrepreneurial strategy into two dimensions: moderate strategy and competitive strategy. Finally, based on the sample of new ventures, we tested the relationship between proactive orientation and entrepreneurial performance and the moderating effect of the entrepreneurial strategy under different industrial pressures. This study could provide the theoretical guidance for new ventures to make decisions of “whether, when, and how” to employ proactive orientation which is meaningful to both theory and practice.

2. Literature and hypotheses

2.1. Proactive orientation

As the third dimension of entrepreneurship orientation, the proactive orientation primarily reflects new ventures' strategy to exceed rivals. Hence, it can be interpreted as leading behavior and initiative spirit (Morris et al., 2011). Miller (1983) used the proactive orientation as a strategy dimension by connecting initiative spirit to behavior orientation. He also pointed out that entrepreneurial enterprises should affect the environment, rather than be affected by the environment. The passive receivers of environment pressure lost their self-possession function of entrepreneurial enterprise since they will be dominated by the external environment. (Bateman and Crant, 1993). Kickul and Gundry (2002) proposed an entrepreneurial process model to examine the relationship between proactive entrepreneurial personality and small firm innovations. Menguc et al. (2010) studied the mediating effect of proactive environmental strategy on the relationship between entrepreneurial orientation and firm performance. Strategic orientations have also been considered as a critical factor of new product's success or firm performance (e.g., Chou and Yamg, 2011; Hynes, 2009). In the initiative action process, firms need to possess the ability of risk taking, efficient execution, and prompt response (Gallagher et al., 2015; Vecchiato, 2015). Covin et al. (2006) utilized initiative spirit to explain firm behaviors of searching market opportunities and changing with the environment trend. They also defined initiative spirit from three aspects: opportunities searching, product/brand introducing, and strategy recession eliminating. Along with this definition, initiative spirit also reflects a prospective tendency of entrepreneurial enterprise, including accurately predicting the industry trend, avoiding to produce short-life products, leading consumer behaviors and so on. Uncertainty will be brought in by this prospective behavior in abundance (Boulding and

Christen, 2003; Lumpkin and Dess, 1996). Learning behavior can make first movers to master skills to deal with uncertainty in short term and inhibit followers' interests. However, it's uneasy for first movers to keep the original interests since the learning effect will decline (Eisenbeiss and Knienberg, 2015; Robinson and Min, 2002).

Since the proactive orientation is implicit in entrepreneurial orientation, the effect of the proactive orientation on entrepreneurial performance has been ignored in previous studies (Covin et al., 2006; Makadok, 1998). Most studies revealed the relationship between entrepreneurial orientation and entrepreneurial performance and neglected the changing trend of entrepreneurial performance under the single dimension (Kwak et al., 2013; Song et al., 2017). This methodology not only produced mixed results but also caused the contingency theory ineffective in different situations. For instance, most studies confirmed the significant positive effect of entrepreneurial orientation on entrepreneurial performance (Kreiser, 2011; Wiklund and Shepherd, 2005). However, many studies drew the opposite conclusion. Specifically, they found that the relationship between entrepreneurial orientation and entrepreneurial performance is insignificant (Slater and Narver, 2000; Smart and Conant, 1994; Stam and Elfring, 2008). The major reason of this divergence is that the relationship between the single dimension and performance may be complicated and even unpredictable and nonlinear (Covin et al., 2006). This possibility may cause the contingency-theory-based conclusion to be more obscure and fragile. Positive risk taking may fall into risk traps (Daoud et al., 2015; Hvide and Panos, 2014). Hence, different entrepreneurial strategies will produce different influence on entrepreneurial performance for new ventures. Meanwhile, the first mover advantage may be eroded gradually by rivals due to different industry characteristics (Agarwal and Gort, 2001; Loschelder et al., 2014; Min et al., 2006). Therefore, based on the contingency theory, exploring the single dimension mechanism of entrepreneurial orientation and entrepreneurial performance under different situation will reveal the influence pattern of entrepreneurial performance. Furthermore, the conclusion is more convincing.

2.2. Entrepreneurial strategy

Thoumrunroje and Tansuhaj (2005) investigated the effect of entrepreneurial strategic posture on firm performance. The effect of entrepreneurial strategies on firm performance has also been examined based on technology-based new ventures (Lin et al., 2006). Acquiring a certain market share for new ventures is the primary concern due to their resource constraint. It is critical to choose effective and feasible strategies during the process (Dess et al., 1997; Lechner and Gudmundsson, 2014). Entrepreneurial strategy is also the main way to integrate individual, organization, and society (Dollinger, 2008; Hitt et al., 2001; Webb et al., 2014). However, existing studies about entrepreneurial strategy of new ventures are obviously insufficient. The strategy management literature has defined firm strategy in three levels: firm level, competition level, and function level (Collis and Montgomery, 1995; Hill et al., 2014). The internal function tends to be inevitably imperfect for new ventures. Highly unambiguous product positioning is needed urgently. Since the existing market is immature, the market penetration strategy, product/market development or diversification suggested by function level strategy and firm level strategy are not suitable for new ventures (Hunter, 2011). Nevertheless, entrepreneurs also need to locate product, define target customer, and participate into industry competition for new ventures (Xu et al., 2014, 2016). Therefore, it is appropriate to define entrepreneurial strategy from competition level (Block et al., 2015; Ghezzi et al., 2015).

McDougall and Robinson (1990) summarized competitive behaviors of new ventures into 26 types through a survey of information industry. They also classified these 26 competitive behaviors into 8 factors using the clustering analysis which corresponded to both narrow market and broad market. They finally classified entrepreneurial strategy into proper strategy and positive strategy by defining the market narrow

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