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Entrepreneurial orientation and performance: Is innovation speed a missing link?

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ABSTRACT

Existing research on entrepreneurial orientation primarily examines how entrepreneurial orientation contributes to the performance and survival rate of new ventures. This study develops a conceptual model to examine how innovation speed mediates the relationship between entrepreneurial orientation and performance. To test the proposed theoretical model, we collected data from 153 new ventures. While this study finds that faster innovation speed leads to superior performance, the empirical evidence challenge traditional views. Innovativeness increases, not decreases, innovation speed. Risk-taking reduces, not increases, innovation speed. Finally, proactiveness has inverted U-shaped effects on innovation speed.

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1. Introduction

In recent years, entrepreneurial orientation (EO) has received a substantial amount of theoretical and empirical attention with the purpose of understanding the effect of entrepreneurial strategy-making processes on organizational performance. EO describes how new entry is undertaken through key entrepreneurial processes (e.g., innovativeness, autonomy, risk-taking, proactiveness, and competitive aggressiveness) that unequivocally have a relationship with organizational performance. A cumulative body of knowledge is developing to understand this relationship by constructing conceptual framework of EO–performance, investigating potential moderators, and exploring the magnitude of the relationship between EO and organizational performance.

Existing research on new ventures primarily examines how EO contributes to the performance and survival rate of new ventures. However, the results of studies in this research stream are mixed. Some find that there is a strong relationship between EO and performance, that is, that new ventures with strong EO will perform better than those that do not adopt EO (Hult, Snow & Kandemir, 2003). Other studies report lower or even no significant correlations between EO and performance (George, 2011). Most studies attribute these inconsistencies to factors that potentially moderate the EO–performance relationship, especially external factors such as

environmental conditions. Few studies have considered the impact of internal factors that characterize new entry activities on the EO–performance relationship, and no study has examined the effect of innovation speed on this relationship.

Innovation speed, also refers to as time to market, cycle time, and speed-to-market, is a term used in the literature to describe the elapsed time between new product definition and product availability (Vesey, 1991). Some strategic perspectives, such as time-based competition, first-mover advantage, and fast-follower strategy, emphasize the importance of innovation speed in increasing product profitability, margins, and market share. In the entrepreneurship literature, it is generally accepted that the speed is important (Schoonhoven, Eisenhardt & Lyman, 1990). There have been many studies devoted to identify the antecedents of faster new product development (Gerwin & Barrowman, 2002; Chen, Damanpour & Reilly, 2010; Cankurtaran, Langerak & Griffn, 2013). Although resulting in a lengthy list, strategy factor is a key driver of innovation speed. Using survey data from incubator firms, Clausen and Korneliusen (2012) show that entrepreneurial orientation has a statistically significant positive effect on ability to bring technology and products quickly to the market. With the continuous reductions in product life cycle times, intensifying competition, and fast-changing business environment, innovation speed is increasingly important not only because of its effect on organizational outcomes, but also as a possible link between EO and performance. The purpose of this article is to examine the role of innovation speed in the relationship between EO and organizational performance. Our findings suggest implications for entrepreneurial practice and further research directions relating to the exploration of the EO–performance mechanism.

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2. Theory and hypotheses

2.1. EO and innovation speed

2.1.1. Entrepreneurial orientation

EO is a strategy-making process that characterizes an organization's entrepreneurship. Prior studies use two principal approaches in conceptualizing EO: the composite dimension approach presented by Covin and Slevin (1989) and the multidimensional approach posited by Lumpkin and Dess (1996). In the composite dimension approach, EO represents a unidimensional construct characterized by innovativeness, risk-taking, and proactiveness. In the multidimensional approach, EO is characterized by innovativeness, autonomy, risk-taking, proactiveness, and competitive aggressiveness (Lumpkin & Dess, 1996), which vary independently depending on the external and internal context. Most past research on EO follows the composite dimension approach, summing across all three aspects of EO to create a single variable. But such a unidimensional construct does not adequately represent the various factors involved in entrepreneurial processes and their varying impact on performance outcomes. We are in agreement with Gartner (1985) that the creation of a new venture is a multidimensional phenomenon and we therefore employ the multidimensional approach in our examination of EO in this study.

Many studies in the field of entrepreneurship focus on understanding the relationship between EO and organizational performance because of the belief that firms with strong EO perform much better than those that do not adopt an EO (Covin & Slevin, 1986; Hult et al., 2003; Wiklund & Shepherd, 2003). However, assessing the magnitude of this relationship has yielded mixed results. Some studies report lower correlations or even no significant relationship between EO and performance (Covin, Slevin & Schultz, 1994; Lumpkin & Dess, 2001). These findings convey the important message that simply examining the direct relationship between EO and performance provides an incomplete picture of this domain. A few recent studies have shifted some focus to the indirect relationship between EO and performance. Catherine and Wang (2008) propose that learning orientation is one of the missing links in the EO–performance relationship. Li et al. (2009) use survey data to examine the mediating role of the knowledge creation process. Other studies focus on the role of exploitative and exploratory capabilities in the relationship of EO and performance (Lisboa, Skarmeas & Lages, 2011). But none of these explorations have paid sufficient attention to new entry, which is the essential act of entrepreneurship that entrepreneurial processes and decision-making activities (i.e., EO) lead up to. New entry can result in rapid changes in a firm's external environment. Effective activities and processes are required to cope with such changes and attain superior performance. Based on this reasoning, we propose that innovation speed, a key concept that describes the efficiency of the new product development (NPD) process (Verona, 1999), may be a missing link in the examination of the EO–performance relationship.

2.1.2. Innovation speed

Innovation speed is an important concept in the NPD literature, indicating firms' efficiency in their NPD processes and capabilities of accelerating new products to market (Kessler & Bierly, 2002). With continuous reduction in product life cycle times, innovation speed has become a highly valued organizational resource and a means by which firms can build their competitive advantage (Vesey, 1991). A growing number of organizations, especially new ventures that are particularly prone to failure because of the liability of newness, have highlighted how improving innovation speed leads to increased profits and market share, thereby improving new ventures' chances of survival (Schoonhoven et al., 1990).

There has been a recent shift in management practice away from the traditional cost orientation toward a strategic orientation. Firms are adapting to the shorter product life cycle and fast-changing environment by modifying their approach to building competitive

advantage from providing “the most value for the lowest cost” to “the most value for the lowest cost in the least amount of time” (Chen, Damanpour & Reilly, 2010). Accordingly, more research is emerging in fields such as business strategy, marketing, and NPD that centers on understanding the antecedents and outcomes of innovation speed. One stream has been devoted to identifying the drivers of faster product development, another stream has focused on the performance implications of development speed (Cankurtaran et al., 2013). Kessler and Chakrabarti (1996) present a conceptual framework identifying how innovation speed can be affected by strategic orientation factors and organizational capability factors and how it has an influence on development cost, product quality, and ultimately project success. Brown and Eisenhardt (1995) synthesize three streams of product development research—rational plan, communication web, and disciplined problem solving—into a conceptual model of factors affecting the innovation speed, including the behavior of team members, project leaders, senior management, customers, and suppliers. Verona (1999) builds an agent-resource model as an extension of Brown's research to understand how different functional and integrative capabilities affect innovation speed from both agent- and resource-based perspectives. Chen and Damanpour (2010), in their meta-analytic review, test the relationship between NPD speed and its 17 commonly studied antecedents. They group the antecedents into four categories (strategy, project, process, and team) and show that process and team characteristics are more generalizable and cross-situationally consistent determinants of NPD speed than strategy and project characteristics. Despite employing different strategic perspectives, these studies consistently demonstrate that strategic factors that affect the entire range of organizational activities are the determinants of innovation speed, providing strong support for the link between EO and innovation speed.

2.2. EO, innovation speed, and firm performance

In an environment of rapid changes and shortened product life cycle times, firms need to constantly seek out new opportunities for enhancing the uncertain profit streams from existing operations. Therefore, firms who adopt an EO may benefit from innovating frequently and taking risks in their product-market strategies (Miller & Friesen, 1982). Anticipating demand and aggressively positioning new product or service offerings often result in strong performance as well (Ireland, Hitt & Sirmon, 2003).

The literature on innovation speed also encourages a performance-oriented focus. Firms can translate time into profit by satisfying the needs of impatient customers (Brown and Eisenhardt, 1995) and establishing industry standards and brand recognition to impede competitors' progress. Firms can also build time advantages through deploying either first-mover or fast-follower strategies and adapting quickly to market needs in competitive and dynamic environments (Eisenhardt and Tabrizi, 1995; Stalk & Hout, 1990). Although there are some arguments regarding the potential trade-offs between speed and other NPD performance indicators, such as quality and cost (Gupta, Brockhoff & Weisenfeld, 1992; Bayus, 1997; Harter, Krishnan & Slaughter, 2000), speed is essential for organizational performance in an uncertain environment (Eisenhardt and Tabrizi, 1995, Kessler and Chakrabarti, 1996). Therefore, it is clear that both EO and innovation speed have respectively positive effects on performance.

Given the importance of innovation speed, more exploration into the EO–speed–performance relationships is needed to provide further theoretical insights and practice guidance. Previous studies have paid scant attention to indirect effects in their examination of the EO–performance relationship. But because the robustness of the direct relationship between EO and performance is unclear, it is necessary to have a better understanding of these indirect effects. Otherwise, firms may misguidedly adopt a high degree of EO and encounter potential downsides in taking risks and allocating scarce resources (Wiklund, 1999; Rauch, Wiklund; Lumpkin & Frese, 2009). Furthermore, Lumpkin and Dess

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