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Entrepreneurial locus of control and competitive strategies – The moderating effect of environmental dynamism

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Abstract

Past research suggests that entrepreneurs with an internal locus-of-control personality trait tend to undertake innovative strategies, whereas their external counterparts tend to prefer low-cost strategies. This paper examines the impact of environmental dynamism on this entrepreneurial locus of control–competitive strategy relationship, arguing that the strategy preferences driven by the locus-of-control personality trait produce unconventional strategy–environment (mis)matches. Drawing upon a social learning theory framework, we examine the competitive strategies of 84 entrepreneurs. The results show that internal entrepreneurs prefer product innovation strategies in stable environments, whereas external entrepreneurs opt for low-cost strategies in dynamic environments. Extant strategy contingency thinking suggests that these unconventional strategy–environment combinations may well lead to business failure.

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1. Introduction

Research in the past decades into the impact of the chief executive's personality has revealed that the locus-of-control trait – i.e., the disposition of perceived control – is a stable predictor of a small firm's performance (e.g., Anderson, 1977; Boone, De Brabander, & van Witteloostuijn, 1996; Brockhaus, 1975, 1980, 1982; Kets de Vries, 1977; Lee & Tsang, 2001; Miller & Toulouse, 1986a, 1986b; Pandey & Tewary, 1979; Powell, 1992). Several scholars show that the locus-of-control personality trait relates to action orientation, proactiveness, transformational leadership, high information-processing abilities, and a proclivity for complex and unstructured tasks (see, for detailed overviews, Boone et al., 1996; Boone, van Olffen, & van Witteloostuijn, 2005; Miller, Kets de Vries, & Toulouse, 1982; Spector, 1982). Accordingly, persons with a high level of perceived control (internals) have been associated with entrepreneurial behavior and a preference for innovative strategies (Boone et al., 1996; Brockhaus, 1975; Hansemark, 2003; Kets de Vries, 1977; Miller, 1983; Miller & Toulouse, 1986a, 1986b; Miller et al., 1982; Mueller & Thomas, 2001), whereas those with a low level of perceived control (externals) have been associated with conservative behavior and a preference for low-cost strategies (Baron, 1968; Boone et al., 1996; Govindarajan, 1989; Spector, 1982). The central thesis of the current study is that these strategy preferences driven by the locus-of-control personality trait may well produce unconventional strategy–environment (mis)matches.

An in-depth examination of why unconventional strategy–environment (mis)matches occur is important, since strategy contingency theorists (Burton & Lauridsen, 2002; Miller, 1988, 1991; Porter, 1985) claim that firms with misaligned strategies are likely to fail.[1] In the present paper, we focus on dynamic versus stable environments, where dynamism is defined with reference to the nature of and speed at which consumer preferences and producer offerings change. Dynamic environments are characterized by major and rapid changes in consumer preferences and producers' offerings, and stable environments by gradual changes in consumer preferences and producers' offerings (Miller, 1988). This implies that future consumer preferences and competitor actions are harder to predict in dynamic environments, due to the disruptive and fast nature of changes in the firm's environment, than they are in stable environments. For instance, firms competing in dynamic industries such ICT or life sciences face tremendous uncertainties about the viability of their competing technologies and products. When sudden changes occur in customer preferences or in their competitors' core technologies, these companies may face disastrous consequences (Tushman & O'Reilly, 1996). Therefore, strategy contingency scholars suggest that a product innovation strategy is an effective strategy in a dynamic environment in order to meet or anticipate the changes. In contrast, they suggest that such a strategy does not align well with a stable environment. This is because in stable environments there is not much demand for product changes. Pursuing a product innovation

[1] Like many strategy theorists (see Moulton, Thomas, & Pruett, 1996), the present paper takes the balanced view that organizational performance is determined by the interaction of managerial choice and the organization's environment. Like Moulton et al. (1996), this paper subscribes to the view that free will exists but managers are not omnipotent. "A belief in the interaction (or interplay) between managerial choice and the firm's environment seems central to the notion of strategy itself" (Moulton et al., 1996, p. 575). After all, a strategic contingency perspective suggests that firm profitability is not only influenced by industry factors, but also by the firm's strategic positioning within its industry (Porter, 1991).