

IMPACT OF ENTREPRENEURIAL ORIENTATION ON MICRO AND SMALL ENTERPRISES

IMPACTO DA ORIENTAÇÃO EMPREENDEDORA NAS MICRO E PEQUENAS EMPRESAS

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Abstract

The impacts of entrepreneurial orientation on performance present important research, however, theoretical gaps were identified. This essay intends to fill these gaps, proposing an integrated model in Micro and Small Enterprises (MSEs) that combines entrepreneurial orientation, absorption capacity, ambidexterity, innovative performance and performance. We advocate a framework that integrates all five buildings. We also suggest that the model be tested using structural equation modeling. By filling the theoretical gap, the visualization of the proposed theoretical model encourages MSEs to improve their entrepreneurial orientations, aiming to capture external knowledge to innovate their actions, aiming at a better performance.

Keywords: Entrepreneurial orientation; Absorptive Capacity; Organizational Ambidexterity; Innovation Performance; Organizational Performance.

Resumo

Os impactos da orientação empreendedora no desempenho apresentam pesquisas importantes, porém, lacunas teóricas têm sido identificadas. Este ensaio pretende preencher essas lacunas, propondo um modelo integrado em Micro e Pequenas Empresas (MPEs) que combina orientação empreendedora, capacidade de absorção, ambidestria, desempenho inovador e desempenho. Defendemos uma estrutura que integra todos os cinco construtos. Sugerimos também que o modelo seja testado por meio de modelagem de equações estruturais. Ao preencher a lacuna teórica, a visualização do modelo teórico proposto incentiva as MPEs a aprimorarem suas orientações empreendedoras, visando a captação externa de conhecimento para inovar suas ações, visando um melhor desempenho.

Palavras-chave: Orientação empreendedora; Capacidade de absorção; Ambidestria Organizacional; Desempenho da Inovação; Desempenho Organizacional.

Introduction

To understand the role of entrepreneurial orientation, empirical research has sought to demonstrate the influence of entrepreneurial orientation on company performance directly (Adamu and Musa, 2021; Al-Henzab et al., 2018; Mason et al., 2015; Mtshali and Chinyamurindi, 2021), or when mediated by absorptive capacity (Hernandez-Perlines, 2018; Hughes et al., 2018; Sarsah et al., 2020), or by organizational ambidexterity (Nofiani et al., 2021). Studies were also identified in which innovation mediated the relationship between entrepreneurial orientation and performance (Carvalho and Sugano 2016; Saeidi and Chavoshinezhad, 2019).

The literature of entrepreneurially oriented performance considers that companies with more entrepreneurial orientation perform better (Frare et al., 2019; Lee and Chu, 2017; Lumpkin and Dess, 1996; Zahra and Covin 1995). However, other research has shown lower correlations between entrepreneurial orientation and performance (Dimitratos et al. 2004; Hoque, 2018; Lumpkin and Dess, 2001), or even found no significant relationship between these factors (George et al., 2001). Thus, the literature indicates a variation in the reported relationships between entrepreneurial orientation and business performance.

In this context, the literature presents partial explanations for understanding the effect of entrepreneurial orientation on organizational performance, involving absorptive capacity, organizational ambidexterity and innovative performance. Therefore, this research aims to fill this gap, through a conceptual model, which includes entrepreneurial orientation, absorptive capacity, organizational ambidexterity, innovation performance and organizational performance.

In this sense, this research presents as a differential the integration of constructs as factors that explain the innovation performance and the organizational performance of companies; these include entrepreneurial orientation, absorptive capacity and organizational ambidexterity.

In this context, we ask the following research question: How to explain the relationship between entrepreneurial orientation and organizational performance in micro and small companies? orientation and performance in micro and small companies?

As an objective, an integrated model is proposed, using the constructs of entrepreneurial orientation, absorptive capacity, organizational ambidexterity, innovation performance and business performance.

This work is classified as a theoretical essay (Boava et al., 2020; Meneghetti, 2011; Soares et al., 2018).

The research presents a model to be included in the literature and encourages the discussion of the importance of entrepreneurial orientation focused on innovation in the performance of micro and small enterprises.

Furthermore, although managers of micro and small companies seek to achieve higher innovation performance through entrepreneurial orientation, aiming at a competitive differential in the organizational performance of their companies, they should also note that both the potential absorption capacities and the realized capacities have a significant role to play in this relationship, in order to develop innovation actions that are incremental, radical and balanced.

Theoretical Background

Entrepreneurial Orientation

The conceptualization of entrepreneurial orientation has been the focus of systematic investigation in the literature (Lumpkin and Dess, 1996; Zahra and Covin, 1995).

The entrepreneurial orientation is concerned with strategic aspects, such as how the organization innovates, takes risks and competes to explore opportunities and generate new business. (Babalola and Nwanzu, 2020; Cho and Lee, 2018; Lumpkin and Dess, 1996) and the effectiveness of these actions probably depends on the company's ability to deploy its knowledge resources to take superior strategic decisions (Hughes et al., 2018).

Along the same lines of understanding, entrepreneurial orientation embraces the uncertainty of entering new market arenas and mobilizes resources to identify new customers and business partners and analyze potential new markets and competitors (Lumpkin and Dess, 1996).

Lumpkin and Dess (1996) divided the entrepreneurial orientation into five dimensions, which they determined as: autonomy, innovation, risk-taking, proactivity and aggressiveness.

For Lumpkin and Dess (1996), entrepreneurial orientation can contribute to better performance, facilitating a company's ability to identify innovative opportunities with potentially large returns, as well as to separate premium market segments and obtain pioneering advantages.

Therefore, an analysis of the nexus between entrepreneurial orientation as an internal catalyst of innovation capabilities and absorptive capacity as a resource for externally generated knowledge can provide significant insight for micro and small enterprises (Aljanabi, 2017), a condition that is relevant in the discussion of absorptive capacity which is to be addressed.

Absorptive Capacity

The term “absorptive capacity” was first mentioned by Cohen and Levinthal (1989), who defined it as the ability of a company to recognize, assimilate and apply knowledge. Thus, the absorptive capacity stems from the ability of the company or its managers to recognize new information as relevant, and assimilate and apply it for commercial purposes, thus generating a differential for the institution (Cohen and Levinthal, 1990; Zhai et al., 2018).

Absorptive capacity can be divided into two subsets, potential absorptive capacity (PACAP) and realized absorptive capacity (RACAP). The first subset comprises acquisition capabilities, which refers to a company's ability to identify external information which is relevant to the total amount of information that surrounds the company (Zahra and George, 2002).

The second subset, known as realized absorptive capacity (RACAP), focuses on transformation, which is the ability to modify and adapt external knowledge and combine it with existing and internally generated knowledge, as well the ability of the company to reorganize their routines in search of combining existing knowledge with new knowledge (Zahra and George, 2002).

Thus, companies with high absorptive capacity incorporate routines into tasks, into tools, as well as processes, and have people to analyze and absorb external knowledge to meet market needs (Fernhaber and Patel, 2012). Small and medium-sized companies that present attributes of high absorptive capacity, such as higher levels of education, personnel development and propensity to innovate, also showed greater orientation towards growth and performance (Gray, 2006).

According to Kranz et al. (2016), to identify and assess the potential for disruptive innovations, absorptive capacity is essential, while ambidexterity is a vital organizational capacity to unite and integrate exploitation and exploration strategies in relation to new and established business models.

Organizational ambidexterity

Organizational ambidexterity began to be debated when March (1991) proposed that organizations should engage in conflicting activities, such as exploration and exploitation, because according to

organizational learning theory, organizational ambidexterity refers to the ability of companies to engage simultaneously in learning through exploration and exploitation (March, 1991).

Based on the research by March (1991), scholars conceptualized ambidexterity as a capability at the organizational level that allows companies to deal with tensions between conflicting activities associated with exploration and exploitation, such as adaptation and alignment, incremental innovation and radical development, and product marketing (Gibson and Birkinshaw, 2004; Luger et al., 2018; Raisch and Birkinshaw, 2008).

Ambidexterity represents a dynamic capability that allows companies to create value and maintain competitive advantage, through the continuous reconfiguration of exploration and exploitation (Huang et al., 2020; O'Reilly and Tushman, 2008).

Ambidexterity can be measured by the absolute value of the difference between exploration and exploitation, when balance is emphasized (Cao et al., 2009); by the sum between exploration and exploitation, when there is a combined construction (Jansen et al., 2009); by the product between exploration and exploitation and, in this case, the synergistic combination (Cao et al., 2009); by the latent congruence model, which examines the fit between exploration and exploitation by evaluating the difference scores, namely, congruence, while controlling the mean scores, namely, level (Fernhaber and Patel, 2012) and by the product subtracted from the square root of the square of the difference between exploration and exploitation (Hughes et al., 2021).

In this context, organizational ambidexterity plays a key role in innovation performance, because it increases a company's adaptability to the changing environment and, therefore, becomes important for long-term success (Li et al., 2020).

Ambidexterity in micro and small enterprises simultaneously requires the ability to take risks, to be proactive and to reconfigure resources with the ability to perceive changes and signals around them (Lubatkin et al., 2006; O'Reilly and Tushman, 2008). Thus, it is relevant to understand the following aspect, known as innovation performance.

Innovation Performance

Innovation is linked to research and development activities that, in turn, create value for a company's shareholders (Mamun et al., 2017). Product innovation involves introducing new or improved products or services to the market and focuses on identifying new customer needs, managing product quality and developing an effective market expansion strategy. Process innovation refers to the adoption of new or improved methods to produce goods and services (Boer et al., 2001). Thus, innovation can provide related services to the organization, its suppliers and consumers through new technologies, new processes, new methods, new services and new business development methods and can obtain a certain value (Zhai et al., 2018).

Innovation performance can be defined as the company's ability to develop innovative products, the speed of the development process, and the ability to introduce the product into the market on time (Abdallah et al., 2018). On the other hand, innovation performance refers to the number of new product innovations introduced by the company, the percentage of sales of new product innovations and the relative frequency of introduction of innovations compared to competitors (Atuahene, 2005).

In this sense, organizations demand more creative and innovative ideas from employees, who can contribute to innovation performance, benefiting both the company and the employee directing the focus to the company's performance (Dedahanov et al., 2017), topic to be addressed in the next topic.

Organizational Performance

Performance refers to the level of objective achieved by an organization or the effectiveness of individuals, groups and organizations (Masa'deh et al., 2018). The concept of performance can be defined as an ability to assess the level of success of a business organization, whether large or small. Small and medium-sized companies can be evaluated in terms of employment level, company size, strength in working capital, as well as their profitability (Daftshehu and Mahmood, 2015). Company performance refers to a general assessment of the company's achievements, in relation to the effectiveness and efficiency of its business processes (Ghasemaghaei, 2018), and the performance assessment must be aligned with what was strategically defined in a systematic and integrated way (Silveira-Martins et al., 2014), providing a wide variety of benefits for organizations and their employees (Saeidi and Chavoshinezhad, 2019). In the case of micro and small enterprises, performance is the ability and capacity to meet their goals and objectives through the effective and efficient application of their various types of resources (Daft, 2001). Zahra and Covin (1995) see the performance of small and medium-sized companies as the engine that drives their marketing and financial performance.

Thus, organizational performance is the level of success at which it can achieve its objectives using various available resources (Ismanu and Kusmintarti, 2019).

Performance measures can be seen from the perspective objective perspective, that is, growth in the financial evaluation of business performance in terms of return on equity, return on assets and sales growth, while other studies indicate non-financial or subjective measurements to measure the performance of small and medium-sized companies (MinaI and Lucky, 2011; Shehu and Mahmood, 2015). The non-financial dimensions include client satisfaction, employee satisfaction, innovation ability, internal business process proficiency, efficiency, market share, productivity, behavioral and attitudinal measures (Almatrooshi et al., 2016; Dekker et al., 2015; Selvam et al., 2016).

Accurately measuring performance can provide companies with reliable information about what the effects of performance are, as well as how companies use and organize resources, develop better strategies, meet consumer expectations, and compete favorably (Ali et al., 2017; Madrid-Guijarro et al., 2007).

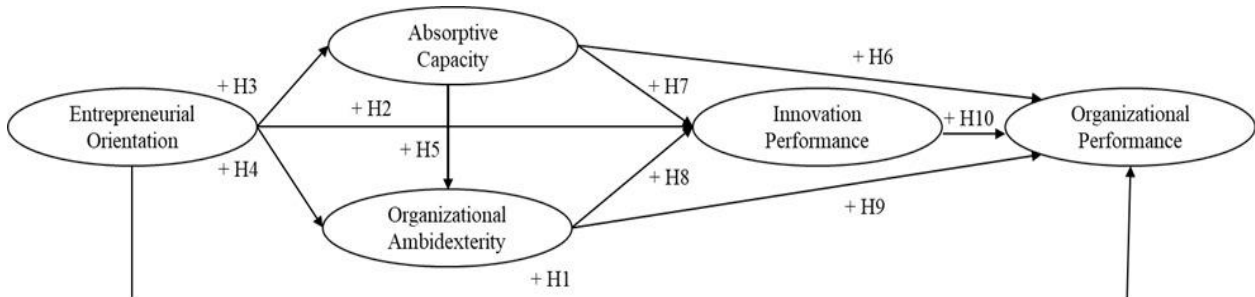
Development of the theoretical model

To identify new theoretical and empirical findings, it is intended to verify the following relationships: the direct relationship between entrepreneurial orientation and company performance, between entrepreneurial orientation and innovation capacity, between entrepreneurial orientation and absorptive capacity, and between entrepreneurial orientation and ambidexterity. The direct relationships between absorptive capacity and ambidexterity, absorptive capacity and company performance, and absorptive capacity and innovation performance will also be analyzed. The model also verifies the relationship between ambidexterity and innovation performance and ambidexterity and company performance. Finally, there is the direct relationship between innovation performance and company performance.

Figure 1 demonstrates the design of the theoretical model proposed in this work, as well as a defense of the model.

Figure 1

Framework



Thus, it can be said that in a micro and small enterprise, it all begins at entrepreneurial orientation. This, envisioning the best business performance, can influence an absorption of external knowledge aligned with incremental and radical innovation decisions, with the balance of these drivers providing good innovation and business performance.

For Zahra (1991), in a study that highlighted the association between corporate entrepreneurship and the company's financial performance, the correlation between these constructs was corroborated, using alternative risk measurements or by exploring the effect of corporate entrepreneurship on non-financial performance criteria.

In the same sense, when evaluating the entrepreneurial orientation scale, Kreiser et al. (2002) state that the sub-dimensions of entrepreneurial orientation can vary independently, but aggregate measurements of entrepreneurial orientation can still be useful when a differential relationship is not expected.

Ali et al. (2017) analyzed the relationship between entrepreneurial orientation and company performance and proposed a model to explain the relationship. Furthermore, in response to the growing importance of the concept of entrepreneurial orientation, there has been increasing attention given by the literature to the impact of entrepreneurial orientation on firm performance (Al-swidi and Mahmood, 2012).

Jeong et al. (2019) concluded, researching 321 South Korean industrial firms, the existence of a positive relationship between entrepreneurial orientation and company performance. In a survey, which included the participation of 165 small and medium-sized manufacturing companies in Mexico, Ibarra-Cisneros and Hernandez-Perlines (2019) also found a positive support between entrepreneurial orientation and company performance. A survey with 240 small and medium firms in Adamawa State, Africa (Adamu and Musa, 2021) supported positive relationship between autonomy, inovativeness and pro-activeness dimensions of entrepreneurial orientation and organizational performance and Mtshali and Chinyamurindi (2021) studying 117 small companies in South Africa concluded by the direct relationship between the two constructs studied here. Therefore:

H1 - Entrepreneurial orientation is positively related to organizational performance.

Enterprises with entrepreneurial orientation seek to engage in innovative processes and new ideas, while being able to locate a market niche to introduce new products and adapt these products to the specific needs of customers, which can help improve product innovation performance (Keh et al., 2007).

Therefore, companies with an entrepreneurial orientation prefer to dominate markets through proactive and aggressive actions, presenting new products ahead of their competitors and serving their

target markets. Furthermore, using aggressive tactics, entrepreneurial companies tend to undertake strategic renewal to meet future customer and market demands (Keh et al., 2007; Tang et al., 2014).

Thus, companies can continuously follow the entrepreneurial orientation strategy, which includes competitive aggressiveness, proactiveness, innovation and risk-taking, in order to maximize innovation performance and continuously improve the company's core competitiveness to promote the performance of this innovation (Zhai et al., 2018).

Therefore:

H2 - Entrepreneurial orientation is positively related to innovation performance.

Entrepreneurial orientation and absorptive capacity have been found to increase strategic agility and innovation capabilities, business model innovation, company growth, and profitability (Kohtamäki et al., 2020, Sjödin et al., 2019). Then, entrepreneurial orientation allows companies to build their absorptive capacities by identifying and evaluating new opportunities (Hernández et al, 2017; Zahra et al., 2009). Entrepreneurial orientation can therefore be thought of as an antecedent of absorptive capacity (Brettel and Rottenberger, 2013).

In a work that had the participation of 226 micro and small companies, Raisal et al. (2021) supported the hypothesis of a positive relationship between entrepreneurial orientation and absorptive capacity. In this regard:

H3 – Entrepreneurial orientation is positively related to absorptive capacity.

Collectively, the dimensions of entrepreneurial orientation illustrate a characteristic of the organization which stimulates the company's openness to new technologies, innovation and cooperation. It is noteworthy that to carry out exploitation and exploration at the same time, these actions can find the potential market through other channels for their already underexplored innovation (Cheng and Huizingh, 2014; Keh et al., 2007).

As ambidexterity deals with the ability of companies to balance and reconfigure their exploitation and exploration efforts, ambidexterity can counterbalance the dimensions of entrepreneurial orientation to improve new product performance (O'reilly and Tushman, 2008; Simsek, 2009).

Companies with a strong entrepreneurial orientation are therefore more likely to pursue exploitation and exploration as they adapt and shape the market environment (Hult and Ketchen, 2001). In this sense, the following hypothesis is presented:

H4 – Entrepreneurial orientation is positively related to organizational ambidexterity.

The realized absorption capacity helps organizational units to incrementally improve existing products and processes, which leads to exploitation. At the same time, the realized absorptive capacity also aims to develop and use the newly acquired external knowledge, which leads to exploration. Between exploration and exploitation, and if the realized absorption capacity is positively associated with both, it can be suggested that the realized absorption capacity leads to ambidexterity (Jansen, 2005).

Absorptive capacity allows organizations to be able to innovate through exploitation (incremental) and exploration (radical) simultaneously (Zhang et al., 2018). Klinger (2016), through his literature review, concluded that the greater the absorption capacity, the more exploratory and exploitative innovations would become simultaneous. In this context, the following hypothesis is presented:

H5 – Absorptive capacity is positively related to organizational ambidexterity.

As the purpose of absorptive capacity is to apply information acquired externally for commercial purposes (Cohen and Levinthal, 1990) and that absorptive capacity helps to generate a competitive advantage (Zahra and George, 2002), this, as a consequence, improves the performance of the company (Flatten et al., 2011).

By integrating implicit and explicit knowledge, companies' innovative capabilities are enhanced. Therefore, business performance depends on the ability to exploit external knowledge and how this knowledge is used to develop new goods and services (Gopalani and Shick, 2011; Scuotto et al. 2016).

Hernández-Perlines et al. (2017), in a study with 218 Spanish family businesses, verified the existence of the influence of absorptive capacity on company performance. In the same sense, Raisal et al. (2021) validated the hypothesis of a positive relationship between absorptive capacity and company performance in a survey which had the participation of 226 micro and small enterprises. Forte et al (2022) verified the positive relationship between the absorptive capacity and the organizational performance of micro and small Brazilian enterprises. Thus, the following hypothesis is presented:

H6 – Absorptive capacity is positively related to organizational performance.

Absorptive capacity can affect, directly or indirectly, innovation performance (Al-Hakimi et al., 2021). Absorptive capacity has significant impacts on the speed of innovation, the frequency of innovation and the degree of innovation. Absorptive capacity can help organizations better apply external knowledge in collaborative innovation (Hong et al., 2019). Companies with strong absorptive capacity have greater learning capacity and are therefore able to effectively integrate and translate external knowledge into their own knowledge and this allows these companies to successfully innovate (Chen, et al. 2009; Hong et al., 2019).

Furthermore, investing in the absorptive capacity of the business unit allows them to gain critical skills, which contribute to the company's competitiveness (Tsai, 2001). A company's higher absorptive capacity is positively related to its innovative performance (Chen et al., 2009), since companies with higher levels of absorptive capacity retain greater ability to connect new knowledge to commercial purposes (Tsai, 2001). Therefore, the absorptive capacity is a determinant of the companies' innovation capacity (Scuotto et al., 2016).

In addition, companies with higher levels of absorptive capacity are more likely to gain a pioneering advantage in exploring new technologies, since absorptive capacity facilitates the identification and exploitation of specific technological knowledge (Cohen and Levinthal, 1989). Therefore, we present the following hypothesis:

H7 – Absorptive capacity is positively related to innovation performance.

The combination of exploitation and exploration results in an ambidextrous organization, which can control profits generated by existing and future products and markets, and reduces the risk of overemphasizing the performance of any specific capability (Peng and Lin, 2019).

Research indicates that a higher level of organizational ambidexterity leads to higher and more sustainable financial performance, as the company shows efficiency in managing current business demands, while having the necessary flexibility to adapt to new challenges and opportunities in the environment (Gibson and Birkinsha, 2004; He and Wong, 2004) and in Lubatkin et al. (2006) with small-to medium-sized firms. Therefore, we offer the following hypothesis:

H8 – Organizational ambidexterity is positively related to organizational performance.

Studies have shown that exploitation and exploration are not mutually exclusive within the company and or business unit. The most convincing theoretical explanation is in the form of ambidexterity, when both exploitation and exploration can, jointly or independently, influence business performance (Gibson et al., 2004; He and Wong, 2004; Morgan and Berthon, 2008; Tian et al., 2021).

Benner and Tushman (2002) argued that exploitation involves improvements to existing components and is based on the existing technological trajectory, while exploration involves a change to a different technological trajectory. In the same vein, He and Wong (2004) defined exploitation as technological innovation activities aimed at improving the market domains of existing products and exploration as technological innovation aimed at entering new product market domains. The perspective of combined organizational ambidexterity proposes that high levels of exploration and exploitation will improve innovation performance.

In the same sense, Tian et al. (2021) and Jacob et al. (2022) found that the interaction between exploitation and exploration learning strategies had a positive and significant effect on the innovation performance of micro and small enterprises. Therefore, the following hypothesis is presented:

H9 – Organizational ambidexterity is positively related to innovation performance.

Analyzing the effects of innovation on organizational performance has usually been a challenge due to certain difficulties, such as the weakness between inputs and outputs within the company, the number and complexity of other internal and external variables which affect the organizational behavior, and because company indicators aimed at financial markets are more focused on management and technological efficiency than on innovation indexes (Dávila et al., 2018).

The relationship between innovation performance and organizational performance has been explored in some studies, and most of these have identified positive links between these constructs, making it possible to consider, for example, the empirical study by Jiménez-Jiménez and Sanz-Valle (2011), in which it was found that innovation performance directly and positively influences organizational performance, as well as the study by Dávila et al. (2018) about the generation of innovation performance influencing company performance.

In this way, innovative performance can be considered an intermediate variable between certain business processes and the company's overall performance, thus allowing for a better picture of actions and effects within the company. Furthermore, it is important to note that previous research has shown a positive link between innovation performance and organizational performance (Alegre et al., 2006; Calantone et al., 1995).

Gomes and Wojahn (2017) verified the positive relationship between innovation performance and organizational performance with 92 small and medium-sized Brazilian companies in the textile sector. Last, in a survey with the participation of 84 small and medium-sized companies, Ismanu and Kusmintarti (2019) supported the hypothesis of the relationship between innovation and company performance. In this way, we offer the following hypothesis:

H10 – Innovation performance is positively related to organizational performance.

We point out as limitations of this study, the possible reductionism of reality, such as the non-inclusion of institutional and industry latent variables, but we bet that the organizational resources and capabilities studied are spectra of action and reaction of the external environment.

Final Considerations

We proposed a framework based on theoretical gaps in order to integrate constructs in a broader way to understand the influence of entrepreneurial orientation on organizational performance. Ten theoretical hypotheses were presented.

It was found that entrepreneurial orientation provides elements which enable the company to absorb and realize external knowledge, as well as to decide on the type of incremental or radical innovation that micro and small enterprises should follow. As the absorptive capacity ends with the realization and implementation of knowledge, there is a direct positive relationship between absorptive capacity and organizational ambidexterity, since as the company innovates, its innovative performance must be ascertained, and, at the same time, the resulting impact verified by the company's expected performance.

We defend that the integrated model developed in this essay is viable and innovative, since, despite the biunivocal relationships here densed are presented in the literature, therefore, with partial explanations, the integration of constructs in the model proposed has not yet been addressed in the literature

We suggest testing this integration of constructs, based on scales already validated in the literature in micro and small companies, with the support of structural equation modeling, evaluating the direct and indirect effects of the mediating variables and performing multigroup analysis with control variables such as size, sector and age of firms.

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