

Literature Study on Entrepreneurial Orientation and Firms Performance: An Assessment and Suggestions for Future Research

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Abstract

Purpose: The purpose of this study was to review the theoretical approach toward entrepreneurial orientation; examine the impact of entrepreneurial orientation on firm performance and explore the key entrepreneurial orientation dimensions from a Strategic Perspective.

Design/methodology/approach: The study approach is qualitative, and it is based on the study of entrepreneurial orientation and business performance literature from Scopus and Google Scholar. An overview of the entrepreneurial orientation dimensions that influences the performance of the firm. The scoping method of the literature review supported the summary of major findings.

Findings: The literature review indicated that entrepreneurial orientation is essential for small and medium enterprises (SMEs) to survive and sustain their businesses. The scoping approach towards the literature study indicated there is a significant relationship between firms' performance and the pro-activeness and innovativeness dimension of entrepreneurial orientation.

Research limitations/implications: This study proposes a conceptual framework that can be tested in the future by conducting empirical data either by using quantitative, qualitative, or mixed research methods.

Social Implications: This article may enable SMEs, academicians, researchers as well as entrepreneurial development policymakers to understand that factors like the innovativeness and pro-activeness dimensions of entrepreneurial orientation have a significant impact on firms' performance.

Originality / Value: This study contributes by demonstrating the present knowledge on dimensions of entrepreneurial orientation and its relationship with firms' performance. Moreover, this research may serve as a pathway for future empirical study.

Keywords: Entrepreneurial Orientations, Firm Performance, Pro-activeness, Innovativeness, Scoping Approach.

Introduction

Entrepreneurial orientation (EO) has been researched from theoretical as well as empirical aspects. Studies have indicated that in the current economic condition, academic scholars and enthusiastic entrepreneurs are interested to examine the critical issues of measuring business performance via the strategic influence of EO (Wales et al., 2020; Baysak et al., 2022). Covin & Wales (2019) discussed the word 'orientation' which indicates a direction of thought which last long. Researchers view EO as a process that depends on strategic decision-making as well as the nature of entrepreneurial activities that participate in a business (Omisakin et al., 2016).

Few studies argued that EO is independent action that enables the leaders to portray commitment like an entrepreneur and support to generate a new idea as well as constantly pursue provided strategic direction to capture new markets and gain market leadership (Mahmood & Hanafi, 2013).

However, certain factors can influence EO. For instance, [Karyotakis & Moustakis](#) (2016) claimed that the EO may influence by a unique blend of culture, entrepreneurs' work experience, decision, and risk-taking aspects as well as EO. Studies have conferred that factors like 'autonomy, pro-activeness, risk-taking, networking capabilities, and innovativeness' are the core dimensions of EO ([Le Roux & Bengesi](#), 2014; [Karyotakis & Moustakis](#), 2016)..

Few authors have discussed 'competitive aggressiveness' and 'entrepreneurial desire' as one the dimensions of EO ([Taatila](#), 2013; [Sriprasert](#), 2013). Thus, the consensus towards EO demonstrates that various dimensions/factors may have a significant impact on firm performance. However, all dimensions of EO remain relevant and entrepreneurial researchers often examine these aspects. For example, [Hernández-Perlines et al.](#) (2020) discussed that product and process as the main component of innovativeness for any firm, as this enables them to gain a competitive advantage. In contrast, [Lian & Yen](#) (2017) concluded that decision-making and risk-taking activities are important, and this requires action plans to sustain businesses and survive in competitive market conditions. Recent literature associated with key dimensions of EO examined and discussed five dimensions, which are:

1. Autonomy
2. pro-activeness
3. risk-taking
4. networking capabilities and
5. innovativeness

EO from a strategic perspective can be a new propensity to assess the accomplishment of novel ventures ([Kraus et al.](#), 2018; [Baysak et al.](#), 2022). Furthermore, for small and medium enterprises (SMEs) to create an entrepreneurial atmosphere, it is important that the firm constantly self-new, which will support them to focus and seize opportunities to sustain themselves in the market and be innovative ([Chirico et al.](#), 2011). Studies have shown that entrepreneurs combine and act together with their employees to form a business environment that may support them in capturing current markets by generating new business ideas ([Omisakin et al.](#), 2016); increasing market share by gaining competitive advantage via innovation, as well as obtain customers and employees to retain present businesses ([Tang & Tang](#), 2012; [Aftab et al.](#), 2022).

Few authors argued that EO is the strategic practice that enables entrepreneurs to be creative and innovative ([Beliaeva](#), 2014; [Li et al.](#), 2017). Studies have conversed that to improve the entrepreneurial business, prominent internal factors like resources and capabilities are essential since they facilities to create entrepreneurial behavior among the employees and members of the firm ([Ferreira et al.](#), 2011). [Maruta et al.](#) (2017) demonstrated that strategic directions would have a significant impact on employees' behavior and actions to think and/or act like an entrepreneur. But implementing appropriate strategic directions that would enable and cultivate EO is challenging. On the other hand, [Shirokova et al.](#) (2016) discussed the influence of strategic direction to activate EO within an organization but conferred that it requires a longer time to see and measure the import of EO on the entrepreneurial actions of management and employees. This study reviews the literature associated with EO and firms' performance.

Definition and Concept of Entrepreneurial Orientation (EO)

Studies have conferred that the concept of EO emerged during the 1970s and it reflects the actual behaviour of the entrepreneurial firm ([Stambaugh et al.](#), 2017). According to [Covin & Wales](#) (2019), when a firm supports and manifests entrepreneurial behaviour with sufficient and regular attributes of the firm, then EO appears. The authors conversed that EO enables the firm to focus on the quality of the firm's performance, which begins when the management style, the configuration of organizational activities, and initiatives demonstrate the entrepreneurial theme.

Research scholars have discussed the EO demonstrate the pattern of how new entrants over a period exhibit the characteristics of innovation, risk-taking as well as pro-activeness in business activities to sustain and survive in the market and gain competitive advantage ([Wales](#), 2016). [Covin & Wales](#) (2019) conversed that EO refers to two distinct phenomena:

1. As a unitary construct that exhibits the organizational attribute with specific dominant features of entrepreneurship such as innovativeness and pro-activeness alongside risk-taking.

2. As a multi-dimensional construct where the EO refers to a process, practice, and decision-making activities that support new firms along with dimensional antecedents like autonomy, competitive aggressiveness, innovativeness, pro-activeness as well as risk-taking.

Furthermore, researchers have discussed that the strategic, entrepreneurial approach or behaviors can be found in activities like strategy developed by the management, the nature of the product offered, the business model used to serve the market, and internal organizational elements such as process, structure, and capabilities (Covin & Wales, 2019). Thus, the EO approach reflects the attributes of the firm with potential aspects of strategic, and entrepreneurial behaviors that support achieving/sustaining competitive advantage in the market through improved/enhanced performance.

Statement of Research Problem

Firms' performance may fluctuate depending on the business and market environment and to measure the success of businesses, multidimensional techniques and tools can be applied (Karyotakis & Moustakis, 2016). Ferreira et al. (2011) claimed that the elements like efficiency, effectiveness, and financial viability describe the success or failure of SMEs. The authors conversed that the measurement of EO dimensions supports measuring such elements of SMEs. SMEs play a vital role in economic growth and development, particularly in creating jobs. Henceforth the EO dimensions should be examined to understand the impact on SMEs' economic growth (Gupta and Batra, 2016).

Wales et al. (2020) have stated that even though several EO studies were carried out, still there are gaps that need to be dealt with. EO dimensions need to be examined regularly because entrepreneurial behaviors and activities are dynamic, and they may differ over a period (Lian and Yen, 2017). Furthermore, few authors have argued that appropriate strategic directions via EO can support SMEs to move forward to improve and enhance organizational business and strategic activity, but this is not fully researched (Ferreira et al., 2011; Aftab et al., 2022). Thus, the dimensions associated with EO are to be examined and its impact on a firm's performance needs to be researched. In such a scenario, there is a need for a study, which can provide a scoping review to understand EO and its dimensions as well as examine its impact on a business or firm's performance.

Research Questions

1. What is the theoretical approach toward entrepreneurial orientation?
2. What is the impact of entrepreneurial orientation on a firm's performance?
3. What are the key entrepreneurial orientation dimensions from a strategic perspective?

Research Objectives

1. To review the theoretical approach toward entrepreneurial orientation.
2. To examine the impact of entrepreneurial orientation on a firm's performance.
3. To explore the key entrepreneurial orientation dimensions from a strategic perspective.

Review of Literature

Theoretical Approach towards Entrepreneurial Orientation

Scholars used theories and models to determine and examine several factors and aspects of EO. Covin & Lumpkin (2011) studied entrepreneurial theory and practice to discuss the development of EO and conferred that to understand the behavior of the entrepreneurs and risk-taking aspects associated with SMEs the entrepreneurial theories should be examined. Researchers examined these theories to seek answers on what, why, and how EO attributes enable firms to perform effectively and efficiently as well as bring business success.

It is indicated that some of the studies have used contingency theory or approach to determine the dimensions of EO and converse on the entrepreneurial characteristics (Gupta and Batra, 2016; Stambaugh et al. 2017), the contextual factors that affect the relationship between EO and the performance of the firm. The study concluded that environmental contingencies like the demand for growth and intensity of competition have a greater influence on the EO and firm performance. Furthermore, the contingency approach is based on behavioral aspects, the EO dimensions can be specified as risk-taking, autonomy, and competitive aggressiveness (Tautila, 2013; Ranasinghe et al., 2018; Aftab et al., 2022).

In contrast, Ferreira et al. (2011) used resource-based theory to discuss EO as a key source for the resource and capability of small firms, which helps to grow and sustain in the market. The authors suggested that the firms need to set resources and capabilities along with EO to gain competencies and promote growth. They

also claimed that EO acts like the predictive value of growth and so it is vital for firms to develop strategies to improve or enhance various aspects of EO like pro-activeness and innovativeness. Further, learning theories have been used to depict the experiences of entrepreneurs and to examine entrepreneurial intention ([Ranasinghe et al.](#), 2018). It was conferred that the learning theory supports learning of the business setting and associated business stakeholders. This will further support firms to make decisions, learn from mistakes, and create business opportunities and networking, which are part of EO aspects. Thus, it can be implied that the theoretical analysis supported researchers to develop the EO construct and structure.

Entrepreneurial Orientation and Firm Performance: Empirical Studies

[Fairoz et al.](#) (2010) conducted a study to examine the extent of EO and the effect of the EO dimensions such as risk-taking, and pro-activeness on the performance of SMEs which indicated that about half of the SMEs demonstrated a moderate level of EO and the dimensions of EO, have a positive effect on the performance of SMEs. They came up with the importance of an entrepreneurial mindset among entrepreneurs/employees and how the government should promote EO. [Frank et al.](#) (2010) developed a contingency and configuration model to evaluate the effect of EO and firms' performance, indicated that EO has a positive effect on firms' performance in a certain dynamic environment. It was highlighted that EO might have a negative impact on firms' performance in some configurations. [Mahmood & Hanafi \(2013\)](#) investigated the mediating effect of competitive advantage on the relationship between the performance and EO of SMEs owned by women in Malaysia. They highlighted that a strong relationship exists between performance and EO and that competitive advantage affects this relationship. Further, they indicated that the importance of an entrepreneurial mindset in attaining a competitive advantage in the market.

[Arshad et al.](#) (2014) analyzed the impact of EO's five dimensions on the performance of technology-based SMEs in Malaysia. They indicated that only four dimensions of EO – risk-taking, competitive aggressiveness, proactiveness, and innovativeness, influence the performance of technology-based SMEs in Malaysia. [Aziz et al.](#) (2014) evaluated the effect of EO on the business performance of SMEs in Malaysia. The study highlighted that EO has a positive effect on the performance of SMEs and claimed that EO is vital for the survival of SMEs. [Oluwatoyin et al.](#) (2018) examined the effect of the entrepreneurial dimensions on the performance of SMEs in Nigeria using a survey that focused on non-oil export and low-technology manufacturing SMEs and the results indicated that entrepreneurial dimensions – proactiveness, risk-taking, and innovativeness, put together had a positive effect on the performance of the business, but the entrepreneurial innovativeness amongst the SMEs in Nigeria was found to be low. They highlighted that by cultivating foreign and local technological networking entrepreneurial innovativeness can be improved.

[Ranasinghe et al.](#) (2018) examined the existing literature on EO and business performance, proposed a new conceptual model that consists of the dimensions of EO like innovativeness, entrepreneurial drive, risk-taking, networking capability, and proactiveness. They claimed that the existing literature does not cover the challenges of young graduate entrepreneurs and there was a lack of awareness about EO among entrepreneurs as well as employees. [Fang et al.](#) (2022) discussed that entrepreneurial self-efficacy does have a positive effect on the firm's performance, but it deteriorates over time and that EO is only valuable to matured firms. This study added value to the existing literature as it was the premiere study to examine the long-term impact of EO and self-efficacy. They suggested that empirical research must be conducted to further understand the link between EO and business performance. [McGee & Peterson](#) (2019) studied the long-term impact of EO and entrepreneurial self-efficacy on the performance of the firm, assessed the effect of these two aspects on the performance of the businesses.

Entrepreneurial Orientation Dimensions - a strategic perspective

As mentioned earlier, many studies have conferred that innovativeness, proactiveness, risk-taking, autonomy, networking capabilities, and competitive aggressiveness were the key dimensions of EO. [Ranasinghe et al.](#) (2018) conferred that the firm needs to promote a specific range of EO aspects like innovativeness and proactiveness and risk-taking to have a potential influence on organizational performance. This is likely to attract various stakeholders in entrepreneurship development and activities. [Manzano-García & Ayala-Calvo](#) (2020) included strategic context in the EO dimensions, which provided a broader range of organizational configurations and elements ([Ranasinghe et al.](#), 2018; [Mozumdar et al.](#) 2022). The three dimensions – innovativeness, pro-activeness and risk-taking aspects from a strategic perspective were considered for further analysis so as to examine the impact of these EO dimensions on firms' performance.

Innovativeness Aspects

Studies claimed that innovativeness enables firms to offer several types of services or products in the market and entry into the market by entrepreneurs can be considered innovative (Kreiser & Davis, 2010). Few studies stressed the importance of innovativeness for firms to exhibit entrepreneurial behavior, since this will enable them to bring changes in product lines through innovation (Hernández-Perlines et al., 2020; Fang et al., 2022). Tajeddini's (2010) quantitative study on 156 hotel managers and owners in Switzerland results showed a statistically positive relationship between the magnitude between EO and innovativeness. The authors discussed that EO can be viewed as an incremental process within the firm, which results in innovations. However, managers or entrepreneurs must maintain an EO that suits the needs of changing market conditions. The author concludes that entrepreneurs can be considered a market-based element that is affected by innovativeness. Similarly, Alhakimi & Mahmoud (2020) used empirical data collected from 206 SMEs and the study results indicated that factors like customer and supplier orientation have a significant on innovativeness in the context of Yemeni SMEs. Thus, it can be implied that innovativeness is one of the most important dimensions of EO, as it emphasizes that the firms need to attain technological leadership and ascertain innovative ideas/products/processes to survive and sustain in highly competitive market conditions.

Risk-taking Aspects

Sriprasert (2013) examined the impact of EO on the success of community enterprises, discussed that entrepreneurs who are risk-takers and proactive can enhance the success of community enterprises and they indicated that risk-taking aspects have a significant impact on the entrepreneurs' level of satisfaction. Karyotakis & Moustakis (2016) conversed that risk-taking aspects are significantly influenced by the level of changes in the internal and external business environment. In contrast, Lian and Yen's (2017) confirmed that the risk-taking tendency significantly affects entrepreneurial satisfaction among pure-play entrepreneurs. Thus, it can be implied that the EO dimension of risk-taking refers to the tendency where the management or manager takes an unexplored path and be innovative in building a strategy for organizational development.

Pro-activeness Aspects

The pro-activeness of the EO dimension refers to those organizational activities which were developed and carried out to avoid future problems and changes are made to suite the new business opportunities. Kraus et al. (2012) analyzed the impact of EO on the performance of a business during an economic crisis, showed that proactiveness in firms has positive effect on SMEs' performance during the economic crisis. Mozumdar et al. (2022) discussed that SMEs should refrain from taking up high-risk projects during the economic crisis as it might have a negative impact on their performance. Further, confirmed that innovativeness in firms allow them to perform better during uncertain times. Le Roux & Bengesi (2014) indicated a strong relationship between the pro-activeness EO dimension and SME performance. They confirmed that pro-activeness demonstrates the nature of entrepreneurial actions to measure future opportunities concerning product or service development in synchronizing the market demand. Similarly, LawanShamsu & Fakhru Anwar (2015) indicated that pro-activeness is crucial to EO, as it suggests a forward-looking perspective and to be innovative. Mohammad et al. (2021) stated that the innovative behaviors of the entrepreneurs support the businesses to perform better in the market as innovations act as mediating variables between EO and firm performance.

Yaskun (2021) confirmed that innovations have a significant impact on product innovations as EO and product innovation has a significant relationship and a significant impact on business performance, while Hoque et al. (2018) confirmed that pro-activeness supports firms to seek opportunities to introduce innovative products or services to meet the potential demand. Ribeiro et al. (2021) indicated EO influences the performance of the firm, but networking plays a vital role and suggested that women entrepreneurs need to be proactive in creating networks as results indicated a positive and strong relationship between government agencies and resource acquisition among the tourism businesses owned by women. They conferred the mediating effect of business ties between EO and performance.

From the above literature review, it can be implied the pro-activeness aspect of EO requires the firm to be actively involved in exploiting the opportunities. It can be considered as a process where the firm needs to respond to future needs and take initiative changes as well as anticipate future problems to take proactive measures.

Research Methodology

The research question and objectives were addressed based on the literature study conducted. To provide a scoping literature review, the theoretical and empirical aspects of EO were examined, followed by reviews of studies associated with EO dimensions and impacts on the firm's performance.

A qualitative approach was used, and the study findings are based on the literature review of earlier studies related to EO and its impact on firms' performance. The secondary data source was used to suggest a conceptual framework that can be tested in the future by conducting empirical data either by using quantitative, qualitative, or mixed research methods. The literature study was conducted using Google scholar and Scopus. The literature study scope was between 2010 to 2022 and the key search words were 'entrepreneurial orientation' and 'firm performance'. Forty-three papers were selected based on the search criteria shown in Table 1.

Table 1. Summary of Search Criteria

| Key Words | Papers from 2010 to 2022 | Total papers (downloaded and reviewed) | Papers considered |
|------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------------|-------------------|
| Entrepreneurial Orientation; Entrepreneurial Orientation and business/firm performance; Dimensions of Entrepreneurial Orientations | 17,800 | 50 | 32 |
| Entrepreneurial Orientation and SMEs | 17,500 | 20 | 11 |
| Total number of papers considered for this study | | | 43 |

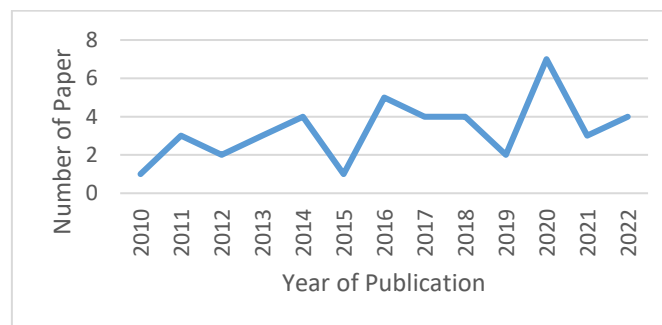


Fig. 1 Reviewed Papers

Fig. 1 shows the graphical representation of the total number of papers that were reviewed for this study. Many studies have examined the relationship between entrepreneurial orientation and firms' performance and most of the studies used a meta-analysis approach to determine the entrepreneurial orientation-business performance relationship. Most study results indicated that the association between EO and the performance of a firm is large and robust (see Table 2). The authors highlighted that future studies should examine additional moderators along with environmental and internal moderators as some studies did not examine this aspect.

Findings

Table 2. Summary of Key EO Aspects in Firm's Performance

| Authors | Findings | Implications |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Karyotakis & Moustakis (2016) , Lian & Yen (2017) , Hoque et al. (2018) , Ribeiro et al. (2021) | Proactiveness supports foreseeing the changes that may occur in the future market. Risk-taking-decisions in uncertainty; implementation of projects entailing significant chances of costly failure. | The number of internally generated innovations is positively associated with proactivity and risk-taking. Developing innovations rather than adopting them is positively correlated with proactivity and risk-taking. A dynamic environment produces a much stronger effect on |

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Gupta and Batra (2016), Stambaugh et al. (2017), Hernández-Perlines et al. (2020), Alhakimi & Mahmoud. (2020), Fang et al. (2022).</p> | <p>A new idea can be created or developed through the innovativeness dimension of EO. It also helps to find novel solutions to any problem.</p> | <p>risk-taking than a stable environment. In terms of innovation generation, pro-activeness and risk-taking are both associated with the number of innovations launched in the marketplace, but neither had an impact on the number of innovations adopted by others.</p> |
| <p>Sriprasert (2013), Mahmood & Hanafi (2013), Lian & Yen (2017), Ranasinghe et al. (2018), Mozumdar et al. (2022), Fang et al. (2022).</p> | <p>The effects of EO can be significant on human capital, customer capital, structural capital, as well as intellectual capital. To fully optimize intellectual capital for innovation, risk-taking, innovativeness, and proactiveness are essential characteristics.</p> | <p>Studies results indicated that from a strategic perspective, EO and market orientation dimensions like innovation, proactiveness, and risk-taking have a significant influence on the firm's performance.</p> |

From literature studies, it can be implied that based on EO application and relevance to organizational performance, three core dimensions that are innovativeness, pro-activeness, and risk-taking have a significant impact on a firm's performance from a strategic viewpoint. For instance, pro-activeness involves firms taking initiatives to influence the business environment and to gain competitive benefits and innovativeness, as well as risk-taking, providing a path for businesses to grow and improve performance.

Conceptual Framework for Future Study

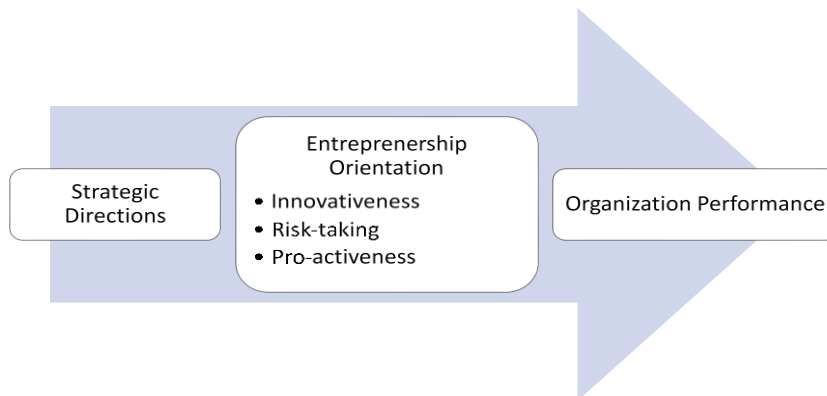


Fig 2. Conceptual Framework of EO with Strategic Directions

Based on the literature study, the proposed conceptual framework is shown in fig 2. This gives future scope for the study to evaluate the proposed conceptual framework with empirical data. The literature study indicated that in the field of EO, there is limited research that examines the impact of strategic direction on EO in the context of SMEs. Although studies have measured and tested the positive link between EO and firm/business performance ([Fairoz et al.](#), 2010; [Mahmood & Hanafi](#), 2013; [Arshad et al.](#), 2014; [Aziz et al.](#), 2014; [Adesanya et al.](#), 2018; [Ranasinghe et al.](#), 2018; [McGee and Peterson](#), 2019; [Ribeiro et al.](#), 2021; [Yaskun](#), 2021), yet limited studies have viewed the impact of strategic directions on the EO. Thus, based on the outcome of the literature study of this study, a conceptual framework is proposed, which can be assessed by conducting empirical data either by using quantitative, qualitative, or mixed research methods.

Conclusion

A conceptual model for EO in terms of strategic aspects was proposed in this study, the model focused on innovativeness, proactiveness, and risk-taking which are three dimensions of entrepreneurial dimensions. The study provided a detailed review of the existing literature on EO and business performance from a strategic point of view. The suggested conceptual model focuses on three dimensions, which seems to have a positive impact on the performance of the business.

The critical review of existing studies is useful in generalizing the findings of similar studies and in cases where the findings vary the theories must be revisited, in this study the relationship between EO and business

performance was analyzed. The theoretical study conducted indicated that EO has a positive impact on the performance of the firm. However, an empirical study must be conducted to further examine this relationship. The findings of this study hinted that EO may have a negative impact on business performance in certain settings and this indicates that further research should be undertaken to critically analyze the configurations of EO – business performance relationships from a strategic perspective. Studies suggested that EO is desirable in evolving environments and firms with access to financial resources. In this case, the firm's innovativeness is likely to prosper during uncertain times. However, in the case where firms' financial resources diminish, the focus should be put on improving performance rather than EO.

It is important to analyze the findings from international studies that are conducted based on country-specific settings as it enables us to understand the similar trends observed as well as understand the impact of a different culture on the relationship. Moreover, replication studies are preferable as they improve the dependability and rationality of the general findings.

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