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Entrepreneurial Orientation and Firm Performance

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Abstract

This chapter assesses the important contribution of entrepreneurial orientation’s strategic determinant that influences export performance. Based on survey data from 247 Portuguese small- and medium-sized enterprises (SMEs), findings suggest that entrepreneurial orientation has a positive and significant influence on export performance. This study deepens our understanding and provides novel insights into entrepreneurship and strategic management literature, since it combines multiple factors and has obtained the importance of each construct in SMEs business growth. Moreover, this chapter presents further evidences of the strategies that small firm managers should pursue and policy makers should promote.

Keywords: entrepreneurial orientation, export performance, Portuguese textile industry, SMEs, PLS-SEM

1. Introduction

Small- and medium-sized enterprises (SMEs) are increasingly confronted by challenges and opportunities in international markets. Together with large corporations, smaller firms are among the key players in international trade. Smaller firms that belong to traditional (low-tech and labour-intensive) industries can find here opportunity for growth or challenge their survival. In fact, they are particularly vulnerable to global competition, particularly from players located in low-labour-cost economies. In order to achieve competitiveness in this context, smaller firms need to develop unique, firm-specific assets [1].

In fact, developments in this global economy have changed the traditional balance between customer and supplier. New communications and computing technology, and the reasonably open global trading systems, mean that customers have more choices and supply alternatives
that are more transparent. Therefore, firms need to be more customer-centric, especially since technology provides low-cost information and customer solutions and constantly re-evaluates their value propositions [2].

Firm survival is the lowest when firms are small; thus, the development of effective strategies is critical for the continuity of business [3]. According to the extant literature, increasing business competitive position, particularly SMEs, is of pivotal importance for the development and renewal of national economies [4]. At present, although SMEs are recognised as important contributors to modern economies, our understanding of how they thrive in an increasingly competitive environment and achieve growth is limited [5]. Thus, it is important to understand the drivers of SME performance.

Our study is responsive to the call of Sousa et al. [6], which suggests that in the context of international markets, firms’ survival and expansion, and consequent economic growth of many countries, are strongly dependent on a better understanding of the determinants that influence export performance. In fact, the factors that set off SME growth (including exporting) are still in need of research [7]. Therefore, the purpose of this chapter is to broaden the boundaries of entrepreneurship and strategic management literature and test the following hypotheses—does entrepreneurial orientation positively influences small business export performance?

Our research specifically focuses on SMEs excluding larger organisations. This focus allows us to draw detailed conclusions for this specific context. Therefore, building on the entrepreneurship literature, this empirical study assesses the influence of entrepreneurial orientation on export performance of Portuguese textile SMEs.

The chapter is structured as follows. First, it reviews the relevant literature for entrepreneurial orientation and export performance before developing hypothesis. Second, it describes the research design of the empirical study. Thereafter, the study findings are presented, followed by the discussion of the research, which concludes with the limitations of the study and suggestions for future research.

2. Theoretical framework

2.1. Entrepreneurial orientation

First conceived by Miller [8], and later refined by Covin and Slevin [9, 10], entrepreneurial orientation (EO) is a firm’s behavioural tendency, managerial philosophy, or decision-making practice that is characterised by innovativeness, proactiveness and a willingness to take risks. The focus is not on the person but on the process of undertake [11].

Contemporary studies in small business and entrepreneurship have often placed firm growth at the centre of their inquiry [12]. The EO-performance literature is extensive. While Wiklund and Shepherd [13] findings indicate a positive relationship between EO and failure, there is some scholarly tendency to assume that firms with more EO have superior performance [14].
Several empirical studies indicate a positive correlation between entrepreneurial orientation and organisational growth (e.g. [8, 10, 15–17]). Similarly, other studies also confirm that entrepreneurial orientation has a positive correlation with export’s performance, enhancing business growth (e.g. [18, 19]). Clearly, this link seems to be one of the few “universal” ones in the management research. However, the strength of this positive association varies considerably across national contexts [20].

Entrepreneurial orientation has been characterised by certain constructs that represent organisation’s behaviour. Starting from Miller’s [8] definition, three dimensions were identified: innovativeness, proactiveness and risk-taking. Innovativeness is the predisposition to engage in creativity and experimentation through the introduction of new products/services as well as technological leadership in new processes. Risk-taking involves taking bold actions by venturing into the unknown and/or committing significant resources to ventures in uncertain environments. Proactiveness is an opportunity-seeking, forward-looking perspective characterised by the introduction of new products and services ahead of the competition and acting in anticipation of future demand [21]. Collectively, these dimensions can enhance firm’s ability to recognise and exploit international market opportunities well ahead of its competitors [22].

EO influences firm performance when firms strategically acquire, develop and leverage resources for opportunity exploitation in order to gain competitive advantage. Therefore, EO should be associated with the concept of competitive strategy [23].

2.2. Export performance

The use of efficient worldwide communications technology and transportation, the decrease in governments’ protectionist policies and the decrease of geographically protected markets have made it possible, and necessary, for many firms to view their operating domains as global [22]. Moreover, small countries with constricted domestic markets depend on the success of small firms who can export successfully and grow to a scale beyond that which their home market could support [24].

Literature on export performance is extensive, but arguably, it has not yet achieved the consensus required to prescribe exporting strategies to small firm [24]. Exporting is an early phase in the internationalisation model established by Johanson and Vahlne [25, 26], grounded on the assumption that new exporters can gradually engage with foreign markets, depending their exploitation strategy on knowledge and other resources. This export research, however, was not pertinent for small exporters [24], since its unit of analysis was large firms.

In a recent literature review, Sousa et al. [6] concluded that, along with internal capabilities and competencies, the main determinants of export performance are firm size and international experience. Actually, internationalisation processes have been mainly studied with reference to multinational corporations and less for SMEs because smallness is usually considered as a problem, as these firms often have a disadvantage in resource access [27]. This, however, does not support small firm managers in search of a growth strategy through exporting.
Conversely, the number of small firms operating in international markets has increased and represents the majority of firms in most countries, and therefore, they play an important role in the economic growth of their countries. Therefore, the internationalisation process of SMEs has become a topic of academic and governmental attention [27].

The increase in research is due to various macro- and micro-level benefits associated with the export development. On the one hand, at the macro-level, superior export performance is an efficient vehicle for economic growth, employment creation and an overall improvement in the standards of living. On the other hand, there are numerous benefits at the firm level such as growth opportunities, higher market shares, superior margins and diversification of risk. Hence, export performance is one of the most researched construct in management [28]. Export activity is one of the most important instruments in the internationalisation of many SMEs. Export is a mean for penetrating international markets, entails the least risk and effort when comparing with other solutions like joint ventures or subsidiaries, and, together with the fact that SMEs that have limited resources and capabilities (economic or human resources, or international experience, managerial experiences in these areas, etc.), means that export is an important mechanism to initiate business internationalisation processes [29].

Motivational factors are among the most important dimensions to export readiness and can be divided into proactive/reactive motivators. Proactive motivators signify a firm’s willingness to exploit a unique organisational competence or market opportunity, and reactive motivators can be a response to internal or external pressures [7].

In terms of geographic concentration versus diversification as internationalisation strategies for SMEs, Brouthers et al. [30] studied small firms exporting from Greece and the Caribbean region that are contextualised in mature, traditional and low-technology industries. The authors concluded that these firms should concentrate their internationalisation efforts and pursue a single export market strategy. On the other hand, this does not apply to the small New Zealand firms, where the most successful are R&D based and are operating across several overseas markets [24]. Of course, such dissimilarities in findings are perhaps due to different contexts and types of small firms.

3. Hypothesis derivation

Zahra and Garvis [19] argued that operating successfully in the global market requires creativity, ingenuity and risk-taking. In the process of international expansion, firms need to learn and use different skills from those used in their domestic markets, and this requires experimentation and risk-taking. Thus, when firm intends to internationalise, EO can be a competitive advantage, either in existing markets or in new markets (e.g. [8, 31]).

With regard to the individual dimensions of EO, previous research suggests that each can have a universal positive influence on performance [14], and it increases the commitment to innovation, which contributes, for example, to the creation of new products and services, the search for new opportunities and new markets (e.g. [8, 17]). Hence, innovative companies,
creating and introducing new products and technologies, can generate higher economic performance and are seen as engines of economic growth [32]. Proactive companies can create first-movers advantage, target premium market segments, charge high prices and reach the market ahead of competitors [31]. The link between risk-taking and performance is less obvious. However, while good or effective strategies may lead to high performance, risky strategies leading to performance variation—because some projects fail while others succeed—may be more profitable in the long term [14].

H1: Entrepreneurial orientation is positively associated with export performance.

4. Method

4.1. Sample and data collection

The population of this empirical study has been drawn from Portuguese textile industry firms. Questionnaires were used as primary data sources and were carried out over the period of February 16 to April 30, 2016. The identification of companies was done through the Portugal’s Textile Association (Associação Têxtil de Portugal) [33] database. Therefore, in this study, we use a non-probabilistic and convenient sampling.

A total of 247 complete and validated questionnaires accounting for 25% of the population were obtained. This response rate is considered quite satisfactory, given that the average of top management survey response rates is in the range of 15–20% [34].

4.2. Statistical analysis

We used the PLS-SEM path modelling to test our hypothesis, specifically the software SmartPLS 3.0 [35, 36]. We believe that the PLS-SEM path modelling is best suited to estimate our research model since (1) this study focuses on prediction and explanation of constructs variance (in our case 2); (2) our research model has a complex structure; (3) the relationship between entrepreneurial orientation and export performance can be measured directly and indirectly via competitive advantage; (4) this study uses first- and second-order reflective constructs and (5) the sample (n = 247) is somewhat small.

4.3. Measures

This study uses well-validated scales from previous studies to operationalise the key constructs and adapted them to the particular context of our empirical setting.

Independent variables—To assess EO, we adopted Covin and Slevin’s [9] measurements for the three dimensions of innovativeness, proactiveness and risk-taking.

Dependent variable—Performance is a construct that is difficult to operationalise holistically since it may refer to different aspects of the organisational effectiveness [22]. Researchers face particular challenges when trying to fully understand SMEs. The majority of SMEs are
privately held and, thus, are not required to provide detailed financial information. Many SME managers are unwilling to provide correct information about their financial performance such as revenue, annual sales and return on investment. To address these problems in SME research, it is recommended using subjective measures, such as managers’ perceptions, rather than objective measures in SME research [37]. Hence, perceived export performance was measured with five items, using Okpara’s [18] measurement instrument, which includes profitability indicators such as growth in sales, profit, activities and operations and performance in general.

All constructs were assessed on a five-point Likert scale.

5. Results

5.1. Non-response bias and common method bias

The structural equation model is a multiple regression analysis, with reflective indicators that are presented as an image of the unobserved theoretical construct, representing observed variables or measures, with the objective of strengthening the relationship of influence between the constructs [38].

In this study, we performed a univariate test of significance (t test), to examine existing differences between respondents who answered our questionnaire quickly and those who did not. The results ($p < 0.05$) showed the absence of significant differences between the two groups of respondents. Hence, we can assure that our sample is free from non-response bias. The methods used to reduce the risk of common method bias were several. In the survey design itself, already validated in previous investigations, short and concise items were used to reduce misunderstandings. A pretest was conducted to a group of several university experts and business specialists. Similarly, following the recommendation of Podsakoff et al. [39], a distribution of items of dependent and non-consecutive independent variables was used. Finally, before assessing the relationships between dependent and independent variables, Harman’s single-factor test was performed. Unrotated factor analysis using the eigenvalue-greater-than-one criterion revealed six factors, the first explaining 17.0% of the variance. This suggests that common method bias is not a serious threat to the validity of our study.

Next, in order to analyse and interpret the PLS-SEM results, we will assess the measurement model and evaluate and test the structural model.

5.2. Evaluation of measurement model

Results from Table 1 show that the measurement model meets all general requirements. First, all reflective items have a load higher than 0.707, which means that the reliability of individual indicators (loading$^2$) is higher than 0.5. Second, all composite reliability values and Cronbach’s $\alpha$ values are higher than 0.70, suggesting acceptable model reliability. Third, the average variance extracted (AVE) values of all constructs are higher than 0.50, indicating
an adequate convergent validity and implying that our set of indicators represent the same underlying construct [35].

Finally, regarding discriminant validity, this chapter presents two necessary approaches: (1) the first approach suggests that the AVE should share more variance with its assigned indicators than with any other construct (Fornell-Larcker criterion) and (2) the second approach suggests that no item should have a higher factor load with another construct than with the one, which is assigned to measure. The results shown in Table 2 confirm the existence of discriminant validity in our study.

5.3. Evaluation of structural model

Once the measurement model is defined and validated in all its components, we will proceed and create the second-order model, following previous research (e.g. [19]), where the latent variables of the measurement model behave as constructs’ measurement variables, specifically, entrepreneurial orientation (innovativeness and proactiveness) and export performance.
In Tables 3 and 4, we present the results of reliability, convergent validity and discriminant validity corresponding to the second-order model. All data confirm the strength of our model.

Next, we will follow the five steps of Hair et al. [35] in order to measure the structural model, namely, (1) collinearity assessment between constructs, (2) structural model path coefficients, (3) coefficient of determination ($R^2$ value), (4) predictive relevance ($Q^2$) and (5) the bootstrapping method. In order to obtain coefficients magnitudes, we used the path model analysis. **Figure 1** and **Table 5** summarise these results.

Since the fundamental objective of our PLS-SEM technique is the prediction of export performance, the quality of our theoretical model will be determined by measuring the strength of each path ($\beta$), that is the relationship between entrepreneurial orientation (EO) in the predictability of the endogenous construct export performance (EP). Thus, to study our dependent variable, the value that we have to maximise is $R^2$. According to Hair et al. [35] and Sarstedt et al. [36], this coefficient measures the amount of construct variance that is explained by the model, where values of 0.5 are considered to be moderate and values of 0.25 are considered to be weak.

Finally, and applying the non-parametric bootstrapping test, we evaluated the significance of mediation effects. The results show significance of coefficients shown in **Figure 1**.

Results from **Table 5** indicate that EO significantly and positively influences export performance (EP), which supports H1 ($\beta = 0.273$). Hence, innovative and proactive firms achieve superior export performance.

### Table 2. Latent constructs correlation (Fornell-Larcker Criterion).

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<td>1. Export performance</td>
<td>0.880</td>
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<tr>
<td>2. Innovativeness</td>
<td>0.513</td>
<td>0.861</td>
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<td>3. Proactiveness</td>
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<td>0.303</td>
<td>0.876</td>
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### Table 3. Convergence validity and reliability indexes of the second-order model.

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### Table 4. Discriminant validity index of the second-order model.

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6. Discussion and conclusions

This chapter seeks to contribute to the development of the literature on EO as a factor that influences export performance of small firms through a robust empirical study. The central context of this research is on SMEs, as in most world economies, which constitutes the vast majority of firms in Portugal. Understanding the effects of decisions made by management in selecting strategic orientations is crucial and highly relevant to both theory and practice. Hence, this study allowed us to conclude that entrepreneurial orientation, particularly innovation and proactiveness, has a positive and significant impact on EP (H1 supported), validating previous research (e.g., [8, 31]). Portuguese textile SMEs seek to support and stimulate new ideas, experimentation and creativity that surely result in new products, services and processes. Indeed, technological innovation encompasses research and engineering efforts focused on developing new products and processes. Product innovation includes market research, design and investment on advertising and promotion. Administrative innovation is related to the development of management systems, control techniques and organisational structure. Thus, embracing innovation can generate competitive advantage and promote superior source of growth [40]. In the long run, proactive SMEs, complemented by innovative activities [17], can be market leaders in the development of new products and technologies rather than simply follow trends [8, 9], identify future customer needs, anticipate changes in demand and search new business opportunities [40]. Certainly, export firms need to continually search for new strategies and processes to obtain a better understanding of their new countries. These results can be explained by the particular characteristics of the textile sector. In this sense, each season, firms have to launch new collections (product innovations) and try to differentiate themselves from the competition (market innovations).

Thus, entrepreneurial orientation has a positive and significant impact on export performance, confirming Wiklund and Shepherd [14] beliefs. Moreover, this confirms the commitment to innovation, supported by Lumpkin and Dess [17] and Miller [8], regarding the creation of new products and services, search for new opportunities and opening of new markets; and with proactiveness, firms will be able to achieve superior performance compared to competition [31].
Small traditional firms represent a very important part of the economic system in many European countries. Their significant contribution to the gross domestic product (GDP), national exports, and job creation makes them an important policy target [1]. In fact, and according to Portugal’s Textile Association (ATP), this industry in 2016 accounted for 20% of industrial employment, 9% of GDP and 10% of Portuguese industrial exports.

We can only speculate that the Portuguese textile industry faces considerable challenges not only regarding the economic crisis in international markets, which restricts access to resources, but also concerning consumption patterns. Furthermore, international competitiveness does not allow SMEs to develop a competitive strategy based on differentiation, thus changing their business model paradigm. Indeed, mature industries are characterised by increased competition and price deflation due to overcapacity [41]. As reported by the ATP [33], globalisation pressures, such as textile trade liberalisation, have considerably affected the industry. The textile sector is being subjected to strong pressures in a fast-changing business environment due to market volatility and strong competition worldwide.

6.1. Theoretical and practical implications

Our study is responsive to the call of Sousa et al. [6], which suggests that in international market context, firms’ survival and expansion, and consequent economic growth of many countries, are strongly dependent on a better understanding of the strategic determinants that influence export performance.

We also highlight the contribution of this study to the theory of strategic management. It is known that strategy includes deliberate and emergent initiatives adopted by management, comprising resource and capabilities used to improve business performance [42]. In order to remain competitive, firms must assess which strategic determinants give them an advantage over their competitors. The findings are a contribution to clarify the influence of entrepreneurial orientation in export performance of small firms.

Additionally, our findings provide guidance to business practitioners, since they indicate that entrepreneurial orientation is a predictor of performance. The research has also shown the positive influences of generic strategies on firm performance. Therefore, for small firm managers, competitive strategy does matters, and the development of one type of competitive advantage, alongside with firm’s resources, is a major performance driver.

By building on the literature entrepreneurship and strategic management, this study aims to support the strategic development of business management policies designed to increase firms’ performance in foreign markets and to add value to the current context of change.

6.2. Research limitations

While this research provides valuable insights into SMEs in the textile industry, the study is not without its limitations. First, the state of the economy might have affected our results. The low scores of willingness to take risks might be influenced by the current context of economic crisis. In fact, in a turbulent market, risk-taking is negatively associated with the SME performance [43] and is in fact related to firm’s failure [23]. Second, it would have been interesting to
control our analysis. The fact that the research does not consider the effect of control variables such as age, location and target market of the respondents can be seen as a limitation. Third, we used an online study to collect our data. While electronic data collection methods are becoming more common, strategies to encourage a greater response rate are lacking compared to other survey implementation methods. Finally, the fact that the sampling is non-probabilistic and convenient is a limitation. Therefore, we advise prudence in the generalisation of results.

6.3. Future lines of research

First, this study has been based on a mature sector, that is, the textile sector in Portugal. The results obtained should be understood in this context. Therefore, new research could be done in more modern industries to test again the proposed relations. Second, given the irregular nature of business growth, a snapshot survey may not be able to capture strategy and performance variations over long periods of time. As such, further studies with a longitudinal perspective would be of added value to investigate why these differences persist. In other words, to find how and why some small exporters become highly successful while others, in the same industry, struggle to raise their export strengths to survive.

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