

# **ENTREPRENEURIAL ORIENTATION AND FIRMS' PERFORMANCE: THE CASE OF TUNISIAN COMPANIES**

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## **Abstract**

*The purpose of this paper is to study the relationship between the three main dimensions of entrepreneurial orientation and the performance of 100 Tunisian companies. A survey of 100 small and medium companies revealed the existence of a direct and positive relationship between the three dimensions of entrepreneurial orientation, namely innovation, risk-taking and proactiveness, and performance. From this study, we can emphasize the idea that more the Tunisian companies are proactive, accept the risk of success or failure, and encourage the innovation, more they improve their performance. Moreover, the effect of the relationship between the three couples; innovation - performance, risk taking – performance, and proactiveness - performance is large and statistically significant. This article provides recommendations for companies of how their entrepreneurial orientation positively influences their performance.*

*Keywords: Innovativeness, proactiveness, risk-taking, entrepreneurial orientation, performance*

## **INTRODUCTION**

The debate on the relationship between entrepreneurial orientation and firm performance was stirred, for years, the research community in management science. It is not yet closed insofar as it provokes reflection researchers until now. This relationship has been studied directly or indirectly (e.g. Arbaugh, Cox, Camp, 2009; Davis et al., 2010; Grande et al., 2011; Hameed et al., 2011; June et al., 2006; Lumpkin, Brigham, & Moss, 2010; Su, Xie, & Li, 2011; Wang, 2008), through the inclusion of the moderating effect of several factors on this relationship. Some of the results point to a positive relationship between these two concepts (e.g., Frese, Branties, & Hoorn, 2002; Hult, Hurley, & Knight, 2004; Keh, Nguyen, & Ng, 2007; Lee, Lee, & Pennings, 2001; Sharma & Dave, 2011; Smart & Conant, 1994; Swierczek & Thai, 2003; Wiklund, 1999;

Wiklund & Sphepherd, 2005; Yusuf, 2002), others show a negative relationship (e.g. Hart, 1992). These relationships have affected overall business in general. The majority of studies were conducted in developed countries. However, very few studies have concerned the emerging countries, like Tunisia without giving a conclusive result. In this regard, we can cite for example the work of Li et al. (2011), Sharma & Dave (2011), Tang et al. (2008), and Yildirim & Saygin (2011).

Moreover, the concepts, entrepreneurial orientation and firm performance, commonly used in the managerial literature, appear to be two of the few examples of concepts stabilized in management science. They appear as solid and precise scientific constructs from which we will be able to develop a structure of accumulation and stable knowledge.

The literature considers the concept of entrepreneurial orientation as the perspective of policy development to improve efficiency. This concept refers to five dimensions that can be used to study, analyze, and test the behavior of companies. Chronologically, the first three dimensions were proposed by Miller (1983). For him 'an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch'. In other words, the propensity to innovate (innovativeness), risk-taking, and proactiveness are the key dimensions that are the most cited by the authors. Other two dimensions have been added by Lumpkin & Dess (1996). The first relates directly to the last words of the quotation from Miller (beating competitors to the punch). Lumpkin & Dess (1996) suggest that competitive aggressiveness is also an important dimension of entrepreneurial orientation. The second refers to the concept of autonomy.

In addition, Miller (1983) and Lumpkin & Dess (1996) argue that entrepreneurial orientation seems to be organizational processes, methods, and styles that allow companies to behave in an entrepreneurial way. In addition, they offer a theoretical construct which appears to be a lever for a good analysis and an understanding of the entrepreneurial behavior of any company. Otherwise, the relationship between entrepreneurial orientation and Tunisian companies' performance has not received a great attention by scholars. That's why, in the present study, we try to make three important contributions. Firstly, we extend our knowledge of entrepreneurial orientation in Tunisian companies. Secondly, we examine the relationship between each axis of the entrepreneurial orientation with performance of Tunisian companies. And finally, we present the tendency of these two elements after the Tunisian revolution that involved three types of change: mentality change, behavior change, and the establishment of a new institutional, managerial, and sociological order.

Moreover, the Tunisian economy is characterized by an economic structure composed of traditional companies, most of them are family, engaged in traditional sectors with low growth

and weak opportunities for income generation; it must necessarily be open to new methods, products, and markets. The creation of jobs for the youth and the transformation of the economy are challenges that, only entrepreneurship can meet.

The purpose of this article, therefore, is to investigate the direct relationship between entrepreneurial orientation and firms' performance in the Tunisian context. It is to examine the link between each dimension of entrepreneurial orientation with the performance, in order to explain how risk-taking, proactiveness, and innovativeness affect performance.

The paper is organized as follows. Firstly, by reviewing literature on each concept, we establish the theoretical relationship between entrepreneurial orientation and firm performance. The literature review leads us then to a set of hypotheses, which in turn can be empirically tested. Secondly, we introduce research design, analytical procedure, and findings. Finally, we close by discussing results, and highlighting some research limitations and future directions.

## **LITERATURE REVIEW AND HYPOTHESES**

### **Entrepreneurial orientation**

The careful reading of the entrepreneurial literature leads us to consider entrepreneurial orientation as a process consisting of three pillars, namely; innovativeness, risk-taking, and proactiveness.

It is worth noting that innovativeness is a dimension that is strictly linked to entrepreneurship. Schumpeter (1934) was one of the first authors to show its significance. In a company, the propensity to innovate reflects a tendency to engage in and maintain the process of generating ideas, creativity, development opportunities that can lead to the emergence of new products, new services, and new technologies (Lumpkin & Dess, 1993). A number of scales are used to account for the variety of types, shapes and degrees of innovation, as well as the heterogeneity of procedures, practices and levels of engagement of firms.

For the risk-taking, it should be noted that, the specialized literature agree to recognize that risk is an essential characteristic of entrepreneurial behavior. Its issues, definitions, levels, and measurement are not obvious to treat. Multiple meanings of risk coexist in different contexts in which the term is used. More to the point, the risk can be seen through three points: the filters of preference or aversion, the perception behavior, and the propensity, which refers to all that many ways to study the phenomenon. In management literature, Baid & Thomas (1985) propose three types of risk: venturing into the unknown, 'committing a relatively large portion of assets', and 'borrowing heavily'. The first type involves a risk of uncertainty. The other two types are related to both resource commitment of owning a business or the resulting debt.

The concept of proactiveness refers to the taking of initiative. In this context, initiative is part of anticipation and a vision of a desired future. In this direction Lumpkin & Dess (1996) write the following idea, 'by taking initiative and anticipation in emerging markets, it has in addition become associated with entrepreneurship'. So, proactiveness is found at high levels in companies which behave as a leader and not a follower.

### **The concept of performance**

The concept of performance has seen major developments affecting its meaning, its dimensions, its determinants, its aspects, and its measurement indicators, without some universal consensus on the concept. This is what explains the existence:

- of four main approaches: the economic approach, the social approach, the systemic approach, and the political approach (Morin, Savoie, & Beaudin, 1994).
- of several explanatory currents of performance (Ngobo & Stephany, 2001): the school from Mason (1939) and Bain (1956) research, the Chicago school (Demsetz, 1975; Stigler, 1964), and the school qualified 'Resource-Based View' (Wernerfeld & Montgomery, 1984; Barney, 1991) or the Resource theory.
- of different performance measurement models (Caby, Clerc-Girard, & Koehl, 1996), Morin, Savoie, & Beaudin, 1994)

It seems worth noting that currently done research, specifically, on American data show that the specific effects to the companies play the greatest role in corporate financial performance (Ngobo & Stephany, 2001). Ultimately, we can say that the performance of a company or a product can be considered relative to its own objectives without reference to other companies or products. Indeed, a company is deemed to be effective when it arrives:

- to evolve with the same rhythm of the market;
- to create the differential;
- to make their way into the environment in order to achieve their objectives effectively, efficiently, and relevant.

The challenges are to achieve access to the prowess of companies in developed through judicious detection of the most critical performance factors.

### **About Entrepreneurial orientation and firm performance**

The literature review leads us to emphasize that the study of the relationship between entrepreneurial orientation and performance goes back more than two decades. Some studies on this subject have largely shown that companies with high entrepreneurial orientation perform

better than the others (Wiklund, 1999; Zahra, Jennings, & Kuratko, 1999; Zahra & Covin, 1995). More recently, Rauch et al. (2004), based on a meta-analysis of 37 studies, concluded that the relationship entrepreneurial orientation-performance is moderately large, and that firms benefit from entrepreneurial orientation.

Researchers have proposed and documented a positive relationship between entrepreneurial orientation and firm performance (e.g. Keh, Nguyen, & Ng, 2007; Lee, Lee, & Pennings, 2001). But they have not studied, if that relationship exists infinitely. Some studies have shown that entrepreneurial orientation is significantly related to firm performance (e.g. Becherer & Maurer (1997); Smart & Conant, 1994). The potential role of entrepreneurial orientation as a vector of performance has been analyzed both theoretically and empirically. Theoretically, entrepreneurial orientation has been demonstrated as a factor having a positive impact on performance of the firm through the creation of a competitive advantage that translates into significant financial results (Wiklund, 1999). Empirically, a number of studies have found a positive relationship between entrepreneurial orientation and firm performance (e.g. Frese, Branties, & Hoorn, 2002; Hult, Hurley, & Knight, 2004; Lee, Lee, & Pennings, 2001; Smart & Conant, 1994; Swierczek & Thai, 2003; Wiklund, 1999; Wiklund & Shepherd, 2005; Yusuf, 2002).

If we want to go further in the analysis, we can note that other empirical studies have also marked the first decade of the 2000s. They have emphasized the existence of a close relationship between entrepreneurial orientation and business performance in several countries such as Korea (e.g. Lee, Lee, & Pennings, 2001), Namibia (e.g. Frese, Branties, & Hoon, 2002), Vietnam (e.g. Swierczek & Thai, 2003), U. S. A. (e.g. Hult, Hurley, & Knight, 2004), and Sweden (e.g. Wiklund & Shepherd, 2005).

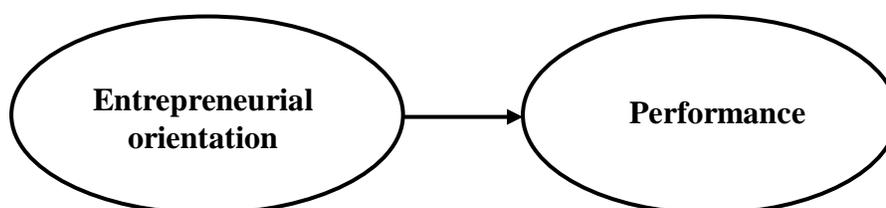
Many authors are also concerned about the direct relationship between entrepreneurial orientation and firm performance (Dess, Lumpkin, & Covin, 1997; Lyon, Lumpkin, & Dess, 2000; Wiklund & Shepherd, 2003). Others have suggested the moderation of this relationship by a variable like the nature of the environment or other organizational factors (Dess, Lumpkin, & Covin, 1997; Lumpkin & Dess, 1996; Zahra & Covin, 1995). Similarly, other researchers using samples of non-US companies have received the support of a direct relationship between entrepreneurial orientation and firm performance (Wiklund, 1999; Lee, Lee, & Pennings, 2001).

Lumpkin & Dess (1996) suggested that the relationship between entrepreneurial orientation and performance is influenced by the context of the company. Thus a number of factors come into account to explain this linking. The explanation given by the researchers was highlighted by existing research. In the same vein, the moderating effect of configurationally approach has been used to explain the conflicting empirical results on the relationship between

entrepreneurial orientation and firm performance. In this context, we may mention for example the research of Li, Zhang, & Chan (2005) who found that, when the environment is uncertain or when the company has very strong marketing skills, entrepreneurial orientation has a positive relationship with the performance of the company. Tang et al. (2008) provided an excellent study that finds an inverted – U relationship, which must also be taken into account during the investigation of the impact of entrepreneurial orientation on the performance of the firm. So, they suggested another explanation conflicting empirical results: the relationship between the two constructs may not be linear. Although, this idea was new and little attention was granted.

However, other studies point to the lack of significant impact of entrepreneurial orientation on performance (e.g., Li, Zhang, & Chan, 2005; Stam & Elfring, 2008). Other researchers have suggested a negative relationship between these two axes (Hart, 1992). The above advanced ideas allow us to propose the following model:

Figure 1: Conceptual Model



Under such circumstances, we hypothesize that the relationship between entrepreneurial orientation and performance is positive. Precisely:

- H1.** Innovation is positively associated with firm performance.
- H2.** Risk-taking is positively associated with firm performance.
- H3.** Proactiveness is positively associated with firm performance.

## METHODS

### Sample and Data collection

Data for this research were collected through a survey. Questionnaire design, the essential tool of our investigation, required the recourse to several previous studies, bearing on the same topic, and the realization of twelve interviews with persons in charge having an overview of the management of their company. The questionnaire, once prepared, then, was pre-tested with fifteen companies excluded thereafter from the final study. Our goal is the contextualization and finalization of the questionnaire.

In this study, we focused on Tunisian firms working in almost all areas of activity: industry, trade, and service. A sample of 250 companies (each one with at least 100 employees - a criterion of small and medium-size company defined by the Tunisian Agency for the Promotion of Industry) is randomly selected from the database developed by the Tunisian Agency of Promotion of Industry. The person asked to complete the questionnaire is either the general manager of the company or the management controller. We chose face to face and sending e-mails as methods of administering the questionnaire. After ten months of work (distribution of the questionnaire, direct contacts and telephone reminders), a total of 100 valid questionnaires were received and then used in the analysis, representing a response rate of 40 %. ANOVA tests were carried out in order to examine the non-response bias possible, as suggested by Armstrong and Overton (1977).

### **Variables and measures**

The measures adopted in our research originate in the existing literature and previous studies validated by researchers. But their use, first of all, has required an adaptation to the Tunisian context. To assess construct validity, through the items - scales, we used the Principal Component Analysis with Varimax rotation. We examined the dimensionality and the convergent validity of construct with a confirmatory factorial analysis.

### ***Independent variables***

In our research, we used the three dimensions of the entrepreneurial orientation retained by a large number of researchers such as Miller (1983), Covin & Slevin (1989), Tan (1996), Lumpkin & Dess (1996), and Wiklund & Shepherd (2005), Keh, Nguyen, & Ng, (2007). It is innovation, risk-taking and proactiveness.

For innovation, the focus is on three items summarized in the consideration by the leaders of the importance of research and development, technological leadership, innovation, marketing a wide variety of new product lines, and the nature of the evolution of products and services.

The same applies to risk-taking; we retained three items concerning the behavior of leaders to the high-risk projects and possible costly decisions.

For proactiveness, the three items retained are articulated around the response of management to the behavior of the competitors and the encouragement of people to think in an original and innovative way.

The measurements of items are based on Likert scales five points (ranging from (1) not at all agree to (5) strongly agree). The alpha reliability of the scale is 0,939.

### **Dependent variable**

We used three items to measure the performance of companies: (1) evolution of the return on capital, (2) sales growth, and (3) the increase in earnings per share. The answers were obtained by using a Likert scale ranging from (1) too worse to (5) much better. The alpha reliability of the scale is 0,841. It is important to emphasize that in our research, we used the same format of answer to avoid confusion of respondents. It is a Likert scale of 5 points.

### **Validation of measurement scales**

To study the measurement scales, we used a principal components analysis to eliminate the least relevant items and check the unidimensionality of the measuring instrument (scrubbing). We then tested whether the factor analysis allows having good results, using SPSS 18.0.

Thus, the Kaiser-Meyer-Olkin (KMO) for measuring the sample accuracy is significant (greater than 0, 5) as the Sphericity of Bartlett's test (less than 1%). In order to investigate the reliability of the scales, we used Cronbach's alpha. The tables below show the psychometric properties of the scales used.

Table 1. Psychometric properties of the scale of innovation

<b>Items</b>	<b>Means</b>	<b>Component</b>
<b>Innovation</b>		
Innovation 1	4,520	0,824
Innovation 2	4,640	0,803
Innovation 3	4,680	0,684
Kaiser-Meyer-Olkin (KMO)	0,703	
Bartlett's Test of Sphericity	0,000	
Eigenvalue	2,311	
% of variance	77,034%	
Cronbach's alpha	0,837	

Table 2. Psychometric properties of the scale of risk-taking

<b>Items</b>	<b>Means</b>	<b>Component</b>
<b>Risk-taking</b>		
Risk-Taking 1	4,680	0,825
Risk-Taking 2	4,730	0,750
Risk-Taking 3	4,710	0,708
Kaiser-Meyer-Olkin (KMO)	0,702	
Bartlett's Test of Sphericity	0,000	
Eigenvalue	2,284	
% of variance	76,133%	
Cronbach's alpha	0,843	

Table 3. Psychometric properties of the scale of proactiveness

Items	Means	Component
<b>Proactiveness</b>		
Proactiveness 1	4,680	0,825
Proactiveness 2	4,710	0,708
Proactiveness 3	4,730	0,750
Kaiser-Meyer-Olkin (KMO)	0,702	
Bartlett's Test of Sphericity	0,000	
Eigenvalue	2,284	
% of variance	76,133%	
Cronbach's alpha	0,843	

Table 4: Psychometric properties of the scale of performance

Items	Means	Component
<b>Performance</b>		
Performance1	4,520	0,824
Performance 2	4,640	0,804
Performance 3	4,650	0,687
Kaiser-Meyer-Olkin (KMO)	0,705	
Bartlett's Test of Sphericity	0,000	
Eigenvalue	2,315	
% of variance	77,159%	
Cronbach's alpha	0,841	

The found results indicate that the scales are all reliable. According to Nunnally (1978), the value of alpha must be higher than standard 0.7 for an exploratory research. As shown in this research, all the scales have acceptable reliability above this value (0.837-0.939). The means for independent and dependent variables are relatively high. Thus, they allow us to move to the hypothesis testing.

## ANALYSIS AND RESULTS

### Testing of hypotheses

Multiple linear regressions were performed to test the research hypotheses. The usual indicators used in this type of analysis are the coefficient of determination ( $R^2$ ) which describes the explanatory power of the regression model,  $\beta$  which reflects the direction of the relationship and  $p$  which confirms the significance.

Table 5: hypothesis testing

Hypothesis	Results	Conclusion
<b>H1.</b> Innovation is positively associated with firm performance.	R2 = 0,946 $\beta = 0,985$ $\rho = 0,000$	Hypothesis 1 was supported
<b>H2.</b> Risk-taking is positively associated with firm performance.	R2 = 0,556 $\beta = 0,973$ $\rho = 0,000$	Hypothesis 2 was supported
<b>H3.</b> Proactiveness is positively associated with firm performance.	R2 = 0,556 $\beta = 0,973$ $\rho = 0,000$	Hypothesis 3 was supported

We can, thus, say that more the Tunisian companies are proactive, accept the risk of success or failure, and encourage the innovation, more they improve their performance. Moreover, the effect of the relationship between the three couples; innovation - performance, risk taking – performance, and proactiveness - performance is large and that association is strong.

H1, H2, and H3 tested the direct relationship between each dimension of entrepreneurial orientation and performance. The results for these regressions are presented in the following paragraphs. Hypothesis 1 was supported, demonstrating a positive relationship between innovation and performance. Indeed, the innovation contributes significantly to predict the performance of the Tunisian companies ( $t = 41,271$ ,  $\rho = 0,000$ ).

Additionally, hypothesis 2 was supported, indicating that the risk-taking contributes significantly to predict the performance of the Tunisian companies ( $t = 11,073$ ,  $\rho = 0,000$ ).

Also, for hypothesis 3, our findings indicated support for the relationship between proactiveness and performance. Without a doubt, proactiveness contributes significantly to predict the performance of the Tunisian companies ( $t = 11,073$ ,  $\rho = 0,000$ ).

Finally, our results reveal that entrepreneurial orientation was positively related to performance. H1, H2, and H3 confirmed a significant positive relationship between innovation and performance, risk-taking and performance, and proactiveness and performance in the Tunisian companies. Discussion of these findings, research limitations, and future direction are provided in the following sections.

## DISCUSSIONS

This research has further consolidated the results found by the other authors, on the existence of a positive relationship between, entrepreneurial orientation and business performance. So, because Tunisia is today in a critical period of its transition, following a revolution which led the country on the way of an economic transformation, in order to be able to succeed, it must face

the major problems which are the unemployment and the poverty that particularly affect youth, in a country whose population is relatively young.

Admittedly, the Tunisian companies introduce encouragements, programs and reforms to boost entrepreneurship at the national and local level. The access to the financing is improved by the new funds and loan guarantees, capital, and start-ups are supported by the new companies' incubators, the training and coaching of the entrepreneurs to improve their qualifications and their competences in this field. Therefore, the potential for improving performance is great.

Several contributions distinguish this study. Firstly, it advances our understanding of entrepreneurial orientation. A large number of studies suggest a positive effect of the entrepreneurial orientation on business performance, but the empirical results are inconclusive. Two reasons are used to explain this phenomenon, the impact on the performance of entrepreneurial orientation is specific to context (Lumpkin & Dess, 1996) and the relationship between entrepreneurial orientation is linear. Our results confirm this idea.

Secondly, the existing research which emphasizes the contributions of entrepreneurial orientation, as the search for new opportunities, wealth creation, innovation facility, and growth increase.

Finally, we use survey research in the four regions of Tunisia (East, West, North, and South) to test our hypotheses. Although the entrepreneurial orientation has been widely studied in developed economies, few studies have been conducted in the emerging economies (e.g. Zhou & Lie, 2007).

Our results, not only empirically generalize the findings on the positive and direct impact of the entrepreneurial orientation on performance, but they also put forward the idea that the revolution has revived entrepreneurship, through universal claims, such as health, prosperity, and the right to work, in an Arabic country like Tunisia.

Overall, this study joins a small number of recent studies on entrepreneurial orientation and took part in a series of research that pushes theoretically research on entrepreneurial orientation in emerging economies.

## **RESEARCH LIMITATIONS AND FUTURE DIRECTIONS**

In addition to important contributions and managerial implications, the findings of our study should be considered in light of its limitations. On the conceptual level, this study developed a conceptual model and focuses on the relationship between entrepreneurial orientation and firm performance. Future research examining the link between entrepreneurial orientation and performance in Tunisian companies should focus more on other dimensions namely aggressive

competitiveness and autonomy, specifying not only the nature of the relationship, but also the relative importance of each dimension in achieving performance.

On the empirical level, the results of our study are obtained from a survey developed in an emerging country and after a revolution; therefore, they must be considered carefully when we want to generalize them to other contexts. Indeed, it has relied on transverse data from an investigation of 100 companies. The sample size was not large enough to test both measurement and structural model; this study should be replicated with a larger sample and out period of revolution or crisis. Thus, the longitudinal approach is needed in future research.

Moreover, there are several interesting and important topics for future research. Those should pay more attention to the conditions under which the entrepreneurial orientation can be a brake to the performance. Another research question would be to determine the relative importance of the entrepreneurial orientation compared to the other performance factors such as governance, corporate social responsibility, and business ethics.

## IMPLICATIONS

Despite its limitations, our study contributes to the understanding of the relationship between entrepreneurial orientation and business performance by providing empirical evidence to support the positive impact of innovativeness, risk-taking, and proactiveness on the performance of Tunisian companies. Entrepreneurial orientation has an undeniable impact on the performance of companies regardless of their size and their status, their economic circumstances and factors that may moderate the effect of entrepreneurial orientation on firm performance. The managerial implications are, for Tunisian companies; the challenges to channel their entrepreneurial resources towards the improvement of the company performance are particularly of two levels: First, the entrepreneurial orientation should be the path to be followed at various levels within the company. Second, Tunisian companies are often characterized by a vigilant management of their financial resources. Defending entrepreneurship as a factor that enhances the performance of the company can help the business succession planning to ensure continuity and manage risks concerning the Tunisian companies.

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