Entrepreneurial orientation, learning orientation, and innovation in small and medium enterprises

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Abstract

From the resource-based perspective, entrepreneurial orientation and market orientation are two separate but complementary strategic orientations that emphasize the business philosophy and behavior in proactively detecting industrial environment, including market information and competitors strategy, in order to innovate and respond to the customers needs timely. Empirical studies have separately discussed the variables of entrepreneurial orientation and market orientation in relation to firm-level innovation performance. However, there is limited research simultaneously examined the direct effect of entrepreneurial orientation and market orientation on innovation performance, especially individual-level innovation performance. Scholars have suggested that future research may examine strategic human resource practices to explore if organizational factors may enhance or diminish the entrepreneurial orientation on innovation. Both entrepreneurial orientation and market orientation still require organizational learning practices to facilitate higher-order learning and innovation. Although scholars are interested in figuring out if additional moderator variables simultaneously affect market orientation and entrepreneurial orientation on firm performance, limited empirical studies have existed. An organization with high degree of entrepreneurial orientation and market orientation still require learning orientation mechanism to create an environment where mutually beneficial relationships between employees and their organizations to facilitate learning and innovation. Therefore, learning orientation may make an organization innovate effectively. As a result, the overall purpose of this study is to assess the influence learning orientation on relationships between entrepreneurial orientation, market orientation and individual-level job related performance variable, employee innovative behaviors.

Keywords: Learning orientation, Entrepreneurial orientation, Innovation
1. Introduction

With the emergence of globalization, the business environment has become more uncertain and complex. The environment is changing constantly and rapidly as well as the market and customers’ needs (Prajogo & Ahmed, 2006). Organizations are forced to learn new knowledge to develop new products in order to satisfy the new market and customer demographics. Thus organizations pursue innovation in marketing and entrepreneurial activities may attain competitive advantage (Barsh, 2007; Chapman & Hyland, 2004). From the resource-based perspective, entrepreneurial orientation and market orientation are two separate but complementary strategic orientations (Miles & Arnold, 1991). In fact, both market orientation and entrepreneurial orientation emphasize the philosophy and behavior in proactively detecting industrial environment, including market information and competitors strategy in order to innovate and respond to the customers needs timely. The nature of both entrepreneurial orientation and market orientation are highly emphasized on an organization’s willingness to innovate within the organization (Baker & Sinkula, 2009). In other words, these two distinct variables are described as organizational-level efficacy and capability in creating innovation to respond to the external environment and satisfy customer needs.

Although entrepreneurial orientation has been defined in many different dimensions, such as autonomy, innovativeness, proactiveness, competitive aggressiveness, and risk-taking, three dimensions, innovativeness, proactiveness, and risk-taking, have been adopted most frequently in defining entrepreneurial orientation (Lumpkin & Dess, 1996). Innovativeness means an organization is willing to pursue new ideas and concept in process, products, or services development. Proactiveness refers to an organization with a characteristic that is forward-looking and responsive in the industrial environment it involves in. Risk-taking means an organization pursues an entrepreneurial opportunity without regarding the resources it may have or may not have. Recently, entrepreneurial orientation has been viewed as a strategic approach in decision making process as well as means of explaining firm performance (Green, Covin, & Slevin, 2008). That is, firms with high strategic reactiveness tend to pursue, identify, create, and launch new venture opportunities and strategic renewal to sustain competitive advantages. In addition, market orientation represents an organization’s business philosophy on its market concept, which puts stresses on satisfying customers and market needs effectively and efficiently. The degree of market orientation represents an organization’s responsiveness toward market and customers demands. Most scholars have tended to adopt Jaworski and Kohli (1993) and Narver and Slater’s (1990) definition of market orientation that focus on an organization’s market behavior with three dimensions: intelligence generation, intelligence dissemination, and responsiveness. Hence, entrepreneurial orientation and market orientation share common theme but are two distinct variables.

Lumpkin and Dess (1996) have proposed the importance of contingency perspective in explaining how entrepreneurial orientation enhances the firm performance. In other words, entrepreneurial orientation and market orientation are set of business beliefs and philosophy. Resource-based theory does not rule out the possibility that beliefs alone are of some value to outcome, especially individual-level related performance. It is organizational practice as the moderator play the vital role in promoting both firm-level and employee-level outputs. Both entrepreneurial orientation and market orientation still require organizational learning systems and practices to facilitate higher-order learning and innovation (Backer & Sinkula, 2009; Morgan & Berthon, 2008). An organization with high
degree of entrepreneurial orientation and market orientation still require organizational learning mechanism to create an environment where mutually beneficial relationships between employees and their organizations to facilitate learning and innovation. Developing the organization’s learning capability is one approach that enables an organization to keep pace with the changing environment. Hence, organizational learning may make an organization learn and innovate effectively.

Learning orientation, a kind of knowledge-based resource capability, has been acknowledged as a key process that contributes to successful innovation, which determines and supports an organization’s success (Casey, 2005). Organizational learning is defined as the process of acquiring, distributing, integrating, and creating information and knowledge among organizational members (Dixon, 1992; Huber, 1991). The processes of learning orientation involve key components that support knowledge productivity processes, which include searching for information, assimilating, developing and creating new knowledge on products, processes, and services (Verdonschot, 2005). Organizations require competent people to learn and interpret new market information and technology changes from the external environment (Birdthistle & Fleming, 2005; Casey, 2005). Organizational members not only need to have the capability to process information efficiently but also to create new knowledge faster than other competitors. The literature has also connected learning orientation to the principle means of achieving strategic renewal in an organization (Crossan & Berdrow, 2003). Therefore, learning orientation has been viewed as one foundational source of competitive advantage and has also become equated with innovative efficiency in the innovation literature (Lopez, Peon, & Ordas, 2005). In more recent years, strategic human resource management (HRM) practices have focused on learning and knowledge creation to enhance individuals’ innovation competencies and collaboration within organizations (Harrison & Kessels, 2003). Cano and Cano’s (2006) empirical study has also demonstrated that it is HRM practices that impact an organization’s employees innovation performance. HRM professionals often serve as facilitators in cultivating an organization’s structure and culture to encourage learning and innovation at every level within an organization. Saru (2005) has acknowledged that individual-level learning and innovation development can be facilitated under a clear linkage between corporate strategy and HRM practices. In other words, learning orientation must be coherent with an organization’s design, strategy, structure, and strategic HRM practices and context. As a result, learning orientation not only impacts organizational performance but also acts as a moderator in improving variables on individual performance (Bapuji & Crossan, 2004).

2. Problem Statement And Literature Review

The broad entrepreneurship literature for which entrepreneurial orientation is an important domain and the market orientation literature have separately discussed the variables of entrepreneurial orientation and market orientation in relation to firm-level innovation performance (Atuahene-Gima & Ko, 2001; Li, Zhao, Tan, Liu, 2008). Such research has not paid sufficient attention to the possible interaction between entrepreneurial orientation and market orientation. That is, there is limited research simultaneously examined the direct effect of entrepreneurial orientation and market orientation on innovation performance (Baker & Sinkula, 2009). Scholars have suggested future research to understand if the combination of these two variables may optimize the firm performance or one variable alone is sufficient to maintain competitive advantage. Moreover, existing research has not paid enough attention to considering entrepreneurial orientation, market orientation, and other organizational factors simultaneously. Dess and Lumpkin (2005) have suggested that future research may examine strategic human resource practices to explore if these factors may enhance or diminish the entrepreneurial orientation on firm performance. Such studies may provide practical implications for managers. Although scholars are interested in figuring out if additional moderator variables simultaneously affect market orientation and entrepreneurial orientation on firm performance, limited empirical studies have examined it (Frishammar & Horte, 2007).
In addition, the innovation literature has overly focused on organizational-level innovation performance, such as product innovation performance and firm-level entrepreneurship activities, which include strategic renewal, venturing, and innovation (Simsek, 2002; Zahra, 1996). Further, most prior entrepreneurial orientation and market orientation research has predominantly adopted the firm as the unit of innovation performance analysis and has overly focused on organizational-level innovation performance (Amo & Kolvereid, 2005). Although the sum of individual innovation is not equal to the whole organizational innovation, it is individual’s innovation performance contribute to the organizational innovation performance. That is, without an individual’s efforts focus and intention towards the new market, entrepreneurial, and innovation information, an organization would have difficulty achieving and initiating entrepreneurial and marketing activities. For this study, individual-level job-related performance, employee innovative behavior, will be used to test the influence of entrepreneurial orientation and market orientation, respectively.

The academic interest in entrepreneurship with small and medium enterprises (SMEs) issues can be traced back to the late 1980s and early 1990s (Gibb, 1996). Scholars have acknowledged that there is a compelling need to better understand individual and organizational innovation in these smaller firms (Sadler-Smith, Gardiner, Badger, Chaston &Stubberfield, 2000). However, compared to the vast body of HRM literature on large firms, there is a lack of understanding on how HRM practices, innovation, and learning infrastructures can contribute to SMEs (Hill & Stewart, 2000). In addition, previous research on entrepreneurial orientation, market orientation, and innovation has traditionally targeted large and mature firms as the research settings (Park, 2005). Tzokas, Carter, and Kyriazopoulos (2001) have pointed out that there is limited empirical evidence on the effect of entrepreneurial orientation and market orientation in small and medium enterprises. As a result, the overall purpose of this study is to assess the influence of learning orientation on relationships between entrepreneurial orientation, market orientation and individual-level job related performance variable, employee innovation.

2.1 Entrepreneurial Orientation, Market Orientation, and Individual-level Innovation

The term entrepreneurial orientation was first proposed by Miller and Friesen in 1982. In entrepreneurship literature, entrepreneurial orientation has been positively associated with firm-level performance (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Zahra & Covin, 1995). Many studies have investigated the relationship between entrepreneurial orientation and firm-level performance, such as firm innovation (Wiklund & Shepherd, 2003), intra and extra-industry networks (Stam & Elfring, 2008) and financial performance (Wang, Hult, Ketchen Jr., Ahmed, 2009). In other words, firm-related performance variables were predominantly been adopted as the outcome variables in entrepreneurial orientation research.

Market orientation refers to an organization has the capability in collecting customers needs and disseminating the obtained customers and market information within the organization in order to react to the market timely (Deshpande & Farley, 1999; Kohli & Jaworski, 1990; Narver & Slater, 1990). An organization with market orientation kept it response to market before the competitors enter the market. In other words, organizations with strong market orientation stress on learning and innovation from customers, competitors, and external market environment. Conclusions drawn from the empirical studies have indicated that market orientation is positively associated with firm-level consequences, including financial performance and business performance (Jimenez-Jimenez & Cegarra-Navarro, 2007).

For this study, individual-level job-related performance, employee innovative behavior, will be adopted as the outcome variable. The term innovation and creativity at the individual-level are sometimes used interchangeably (Scott & Bruce, 1994). Amo and Kolvereid (2005) have defined innovative behavior as “an initiative from employees concerning the introduction of new processes, new products, new markets or combinations of such into the organization” (p. 8). Existing empirical studies on individual innovative behaviors can be divided into two streams: one is focused on the organizational contextual and mechanism factor as antecedent of individual innovative behavior; and the other is focused
on the individual differences as antecedents or moderator of individual innovative behavior (Glynn, 1996; Zhou & Shalley, 2003). However, individual differences may not fully explain the employee’s innovation performance. The differences among employees’ innovation behaviours are also explained by organizational factors. In Scott and Bruce’s (1994) individual’s innovative behaviour conceptual model, not only the individual’s attitudes but also the organizational innovation climate may further affect individual innovative behaviours. An innovative organization culture may facilitate its employee’s innovation performance. Entrepreneurial orientation and market orientation present an organization’s business philosophy in promoting and pursuing innovation. That is, workplace with high propensity to pursuing entrepreneurial orientation and market orientation may affect team members’ innovative behaviours. Therefore, the researcher hypothesizes that:

H1: Entrepreneurial orientation is positively associated with employee innovation.
H2: Market orientation is positively associated with employee innovation.

2.2 Entrepreneurial Orientation, Market Orientation, and Learning Orientation

Entrepreneurial orientation act as an organization’s behaviors and belief with an emphasis on proactively acquiring entrepreneurial opportunities and creating innovation. Marketing orientation refers to an organization with the capability in collecting market forecasts and customers needs, acquiring market information and disseminate within the organization, and responding to the market and competitors. That is, both entrepreneurial orientation and market orientation are very similar to the knowledge creation processes. Ketchen Jr, Hult, and Slater (2007) have indicated that such strategic resources may need to align with learning systems in order to realize its potential and maximize its performance. Therefore, only the strategic resource well fit with the learning practices, an organization’s innovation may reach its strongest status.

The learning practices with four subprocesses, information acquisition, distribution, assimilation, and organizational memory, leverage the organization’s existing industrial knowledge (organizational memory) and new external marketing and entrepreneurial information in anticipating and reacting to industry requirements (Dixon, 1992; Huber, 1991). In other words, organizational learning practices facilitate an organization’s intelligence in collecting, sharing, and disseminating the market and entrepreneurial information effectively to become a market-driven and entrepreneurial-driven organization. The learning literature has provided management researchers with knowledge in understanding market and entrepreneurial knowledge creation processes. Researchers have pointed out the approach an organization uses to process market and entrepreneurial information is grounded in the learning concept (Slater & Narver, 1995). How an organization proactively engages in acquiring, exploiting, and developing marketing and entrepreneurial information is similar to the learning process. In addition, empirical research has shown that organizational learning has a positive effect on a firm’s purchasing information processing and strengthens the fast cycle time purchasing process (Hult, Hurley, Giunipero, & Nichols Jr, 2000). Hult’s (1998) empirical study has indicated that the market-driven organizational learning strategy helps domestic and international strategic business units improve customer satisfaction and commitment. Recent empirical studies have demonstrated that organizational learning stimulates an organization’s market-oriented behavior, which has positive influences on an organization’s economic as well as non-economic performance (Jimenez-Jimenes & Cegarra-Navarro, 2007; Santos-Vijande, Sanzo-Pérez, Álvarez-González, & Vázquez-Casielles, 2005) More recently, Wang, Hult, Ketchen, and Ahmed (2009) have pointed out an organization’s market orientation should be integrated with an organization’s internal knowledge processes activities to successfully organize and accumulate market information. In other words, learning processes facilitate the learning on market, customers, and competitors as well as benefit an organization’s assimilation and interpretation of new market and entrepreneurial information to understand the industrial environment. Therefore, organizational learning may represent a developmental approach that helps to translate the innovative belief in entrepreneurial orientation and market orientation into better employee innovation performance. As a result, the researcher hypothesizes that:
H3a: Learning strengthens the relationships between entrepreneurial orientation and employee innovative behaviours.

H3b: Learning strengthens the relationships between market orientation and employee innovative behaviours.

3. Potential Contribution to Academia

Many SMEs, especially high technology firms, are being challenged to maintain competitive advantages to compete with large firms through continuous innovation and learning. Scholars have tended to investigate SMEs and innovation issues from an entrepreneurship perspective (Gibb, 1996). But recent calls in the literature have suggested a need to broaden such research with insights drawn from other disciplines, such as strategic HRM and learning. Therefore, in addition to the organizational culture on entrepreneurial orientation and market orientation, this study will provide insights on how organizational learning practices may benefit SMEs in promoting learning and development to generate innovation and impact innovation performance.

From a pragmatic perspective, this empirical study will explore organizational learning on individual-level innovation performance that will have implications for HRM professionals. As HRM professionals’ roles have shifted from traditional operational functions to an organizational consultancy role, HRM professionals have become more proactive as strategic advisors of the organization. A range of environmental pressures have contributed to the emergence of HRM strategic activities and practice. From the strategic HRM perspective, learning and innovation at the individual, group, and organization levels is a critical imperative in organizations, and the essence of learning in improving organizational effectiveness and performance has become one important organizational competency and practice. However, HRM professionals who are recognized as learning specialists are being increasingly challenged to help develop such learning and innovation infrastructures (Dixon, 1992). Many scholars have articulated the applications and practice of learning from the management perspective and literature (Bapuji & Crossan, 2004), but the findings from this study will have specific applications and utility for HRM professionals and managers.

References


