

## The Influence of Entrepreneurial Orientation on SME Firm Performance: A Conceptual Model

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### Abstract

The current business environment is volatile and can be easily disturbed by changing conditions. Against this background, organizations inevitably face adversity that threatens functioning and performance. Many SMEs have the problem of low performance or even low survival rates. Based on previous studies, the dimensions of entrepreneurial orientation in this paper's conceptual model were chosen from Miller's (1983) three dimensions of innovativeness, proactiveness, and risk-taking, then addition autonomy and competitive aggressiveness dimensions proposed by Lumpkin and Dess (1996). In addition, the guanxi network dimension is added. This study's examination of several previous studies on the subject allowed the authors to develop a conceptual framework and six dimensions.

**Keywords:** Entrepreneurial Orientation, Innovativeness, Proactiveness, Risk-taking, Competitive Aggressiveness, Autonomy, Guanxi Network, SMEs, Firm Performance

### Introduction

According to strategic entrepreneurship scholars, studies have generally proven that entrepreneurial orientation, which refers to product market innovation, undertaking relatively risky ventures, and the act of initiating proactive ideas, is a positive trait that overpowers competitors Miller (1983) as well as crucial in improving a firm's performance (Igwe et al., 2019; Wahyuni & Sara, 2020; Huang, 2022). In addition, SMEs are important contributors to emerging countries' economic growth, and SMEs are seeking to gain a competitive advantage and firm performance (Susanto et al., 2023). Furthermore, there is still a need for these investigations in developing countries because a large number of research studies on this subject have been carried out in industrialized countries.

The problem of low performance in SMEs is largely because of insufficient innovation, lack of foresight to cope with opportunities and changes, poor risk-taking ability, insufficient autonomy, insufficient competitiveness, and poor guanxi networks. So, SEMs must look out for operational changes and make contingency plans to adjust their performance to gain

higher revenue from the market. As a result, this paper goes into great detail on how entrepreneurial orientation might SME firm performance.

Meanwhile, among the well-known concepts of strategic management and entrepreneurship, entrepreneurial orientation refers to a firm's strategic orientation. It is usually seen as the extent to which entrepreneurs demonstrate firm innovativeness, risk-taking, and competitive aggressiveness and act autonomously and proactively Lan et al (2023), which is probably the most influencing one when it comes to firms' performance (Isichei et al., 2020; Shah & Ahmad, 2019). For the development of enterprises, SME entrepreneurs will use their guanxi network to seek more social resources and external support, to increase access to resources, and to promote the improvement of performance (Badi et al., 2017).

The essential act of entrepreneurship is new entry which primarily surrounds firm-level action to deal with new or existing goods or services (Burgelman, 1983). Likewise, entrepreneurial orientation has been considered a crucial element of a firm's competitive advantage, growth, and performance (Šlogar et al., 2023). Several studies have revealed that entrepreneurial orientation is crucial for a firm's success and leads to outstanding business performance (Yue, 2023; Alvarez-Torres, 2019).

Businesses are likely to implement a variety of business procedures, develop new goods and services, support research and development (R&D), and embrace novel concepts in a market that is changing rapidly (Moustaghfir et al., 2020). SMEs make up the largest business sector in the world economy Culkin & Smith (2000), and governments around the globe are actively promoting and supporting SMEs' growth as part of their overall national development strategy (Eniola, 2014). Because of this, the great majority of established and developing countries depend on the dynamism, inventiveness, and willingness to take risks exhibited by SMEs to start and maintain the process of economic progress. In essence, SMEs are playing a critical role in economic growth, innovation, and job creation (Taiwo et al., 2013), and bringing forth increasing attention among governments, policymakers, and researchers (Belitski et al., 2021). Therefore, improving SMEs' performance and survival is a key concern for many governments (Zutshi et al., 2021).

The present study focuses on SMEs to determine the importance and contribution of entrepreneurial orientation dimensions toward firm performance. In past research, the dimensions of entrepreneurial orientation mainly focused on five dimensions: innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness. Then, according to the practice of SMEs, the "guanxi network" is taken as a dimension of entrepreneurial orientation. Thereafter, the six dimensions of entrepreneurial orientation in this study are determined, which are innovativeness, proactiveness, risk-taking, competitiveness, autonomy, and guanxi network. This is a pioneering study looking at the effect of these six dimensions on firm performance.

In summary, entrepreneurial orientation has an impact on firm performance because when an organizational orientation is built on a synergistic alignment that supports a new entry venture, some of which become significant drivers of new value creation for the firm (Wales et al., 2020). The central tenet of RBV is that organizational resources are the key factors for sustained competitive advantage, and entrepreneurial orientation is one of these unique resources (Poudel et al., 2019).

## **Literature Review**

### **Relationship between Entrepreneurial Orientation and Firm Performance**

Entrepreneurial orientation is a key concept when executives are crafting strategies in the hopes of doing something new and exploiting opportunities that other organizations cannot exploit. It refers to the processes, practices, and decision-making styles of organizations that act entrepreneurially and has become a key construct in the entrepreneurship literature (George & Marino, 2011). According to Khandwalla (1976), organizational characteristics, environmental demands, and strategic decisions all have a major role in determining a firm's performance. Furthermore, aggressive strategic actions and a willingness to take on projects with unpredictable consequences are characteristics of the entrepreneurial typified. Miller (1983) defined an entrepreneurial approach to strategy by proposing that entrepreneurial organizations drive innovation, aggressively penetrate new markets, and accept a degree of strategic and financial risk in pursuit of new opportunities. Based on Miller (1983); Covin and Slevin (1991) posited the existence of a continuum used to plot a firm's strategic behavioral proclivities.

Nevertheless, entrepreneurial orientation is a strategic orientation aimed at enhancing the ability of firms to challenge and manage uncertainty in the external environment. It will develop new areas and markets through continuous innovation activities, and enhance the allocation of existing resources, to help the enterprise maintain its differentiation in an uncertain environment (Lomberg et al., 2017). The essence of entrepreneurial orientation is to identify new opportunities that can drive the enterprise to engage in new products, services, and technologies. It is an important driving force for enterprises to form new profit margins (Jia et al., 2013).

### **Innovativeness and Firm Performance**

Innovativeness refers to the degree to which an organization is willing to innovate the processes of organizational operation (Bhatti et al., 2020). This study is welcome to show the importance of innovativeness which can help organizations avoid offering similar products or services. On the contrary, SMEs will through innovativeness launch new products and services to improve their performance. Due to innovativeness and value addition in the products and services, firms strengthen their position in the industry allowing business growth and performance.

Innovativeness is an organizational approach that refers to implementing new ideas that lead to product and service innovation (Bigos & Wach, 2021). In addition, innovativeness in the products and services makes firms strengthen their position in the industry which allows business growth and performance (Isichei et al., 2020).

In the previous studies, Arabeche et al (2022) provided an empirical analysis and found that innovativeness has a positive relationship with business performance. Lomberg et al., (2017) also collected data from SME managers in the manufacturing sector and found innovativeness of SMEs has a significant positive influence on business performance. Therefore, it is an organizational approach that refers to taking initiatives toward advancing more core activities that drive firm performance in the industry.

### **Proactiveness and Firm Performance**

Proactiveness refers to the organization's capacity to forecast and proactively act on consumers' demands by introducing new products and services that no one in the industry is familiar with (Kallmuenzer & Pefactor, 2017). Proactiveness is the major internal factor

influencing organizational effectiveness. It enables the firm to assess present market demand and forecast future expectations, which is likely to lead to corporate growth and improved performance (George & Marino, 2011). Kusa et al (2021) analyzed and pointed out that proactiveness leads to firm performance. It opposes the posture of reactions after events. So, proactiveness teaches us to seize new market opportunities first and launch new products and services before competitors. It is also known how to modify and improve what already exists.

In addition, Isichei et al (2020) collected the data from 377 SMEs, the result showed that proactiveness significantly affects the SMEs' performance. Based on RBV theory, proactiveness is the capacity to mobilize resources to provide innovative products and services ahead of the competition and demonstrates a company's ability to spot and capitalize on lucrative market possibilities before its competitors (Basco et al., 2019). Therefore, proactiveness is not just related to current business activities but also allows businesses to anticipate new ideas and identify opportunities in the market. It is the effective implementation of ideas that predict business competitive advantage and performance.

### **Risk-taking and Firm Performance**

Risk-taking is the tendency of an organization to take initiative and perform activities (Kallmuenzer & Peters, 2017), propensity and its effects vary at organizational and structural levels due to organizational goals and objectives (Lumpkin & Dess, 1996). Based on RBV theory, a risk-taking mindset refers to the extent to which managers are ready to use corporate resources to accomplish projects with unclear outcomes and significant failure costs (Basco et al., 2019). With this dimension, the strategies developed to achieve objectives are not reassuring. So, if a failure occurs, it can be fatal for the firm because it has put vital resources into it. Risk-taking leads to taking bold actions rather than putting oneself in a posture of distrust.

However, Ibrahim and Abu (2020) analyzed the SMEs, and data analysis shown risk-taking is positive and significantly related to firm performance. On the other hand, Isichei et al (2020) collected the data from 377 SMEs, the result showed that risk-taking has no significant effect the SMEs' performance. Therefore, risk-taking may be an inherent trait of entrepreneurs because they want higher growth and performance of the business.

### **Autonomous and Firm Performance**

Autonomous allows firms to make quick and self-reliant decisions to provide new markets with novel products or services (Li et al., 2009). Since autonomy as a dimension of entrepreneurial orientation appears self-contradictory different studies reveal different and mixed results (Akbar et al., 2020). Prior studies recommend that permitting autonomy to all participants in an organization can motivate and encourage action in an entrepreneurial manner, thereby improving firm performance.

Autonomy means giving freedom to agents of a company to self-direct in the research for ideas creating opportunities (Lumpkin and Dess, 1996). So, when the employee works on their idea or manages the project budget themselves. They will not hesitate to put all their knowledge and experiences to defend and make this new idea successful.

However, autonomy is a capstone dimension of entrepreneurial orientation, because if a firm cannot operate with autonomy, the other dimensions are limited in terms of their achievability (Zarrouk et al., 2020). Alvarez-Torres et al (2019) adopted a quantitative

approach to investigate a conceptual framework between entrepreneurial orientation and firm performance. The result shows autonomy enhances the SMEs' performance.

### **Competitive Aggressiveness and Firm Performance**

Competitive aggressiveness is an important concept that determines the potential to conquer new markets, outperform other market actors, attract investment, and develop (Falcicola et al., 2020). Furthermore, enterprises with competitive aggressiveness will have the capabilities to update the rules of competition, redraw industry boundaries, gain an entry advantage, and strengthen their marketplace position (Lumpkin & Dess, 2021). These actions enable firms to acquire market share and outperform competitors.

Competitive aggressiveness in business refers to a company's ability to achieve more sales or customer loyalty than its competitors due to the quality of its products and services (Lumpkin & Dess, 1996). For instance, some ways consist of reducing or increasing prices suddenly, directing advertisements towards competitors, to bringing a new strategy of marketing or distribution.

According to Chikán (2008), competitiveness is embedded into its macro-level contexts, and investigated by economics, business, and management studies. Competitiveness is the capability of a firm to sustainably fulfill its purpose which meeting customer demand at profit. Ibrahim and Abu (2020) showed that competitive aggressiveness was positive but contained insignificant influence on firm performance. Alvarez-Torres et al. (2019) show the competitive aggressiveness dimension of entrepreneurial orientation enhances SMEs' performance.

### **Guanxi Network and Firm Performance**

The Guanxi network may contribute to the explanation of the rapid growth of Chinese firms. A particular phrase in Chinese, guanxi network not only do individuals in China cultivate to promote their well-being, but managers use it to accomplish their company goals (Guo et al., 2020). Therefore, while managers may receive organizational benefits from knowing significant people, it takes time and money to establish guanxi with a network of entities (Yang et al., 2018). Mutually long-term cooperation with essential members from both supply chain and distribution channels is especially valued and sought after (Xie et al., 2016).

The Guanxi network is defined as a collection of people connected by specific interpersonal ties that are cultivated and maintained through trust, obligation, and reciprocity (Chen et al., 2015). Top managers' guanxi networks may aid corporate growth by giving flexibility, institutional advantages, and the resources needed. As a result, the more the environmental uncertainty, the more likely that entrepreneurs will rely on social relationships to gain competitive advantages.

In addition, Su and Sohn (2015) through the empirical results indicate that the guanxi network has positive effects on financial performance. The Guanxi network may contribute to the explanation of the rapid growth of firms. In conducting business in China, the guanxi network is a valuable intangible resource and is considered as accumulating social capital for firms to manage business relationships (Ding & Jie, 2020). Previous studies have found that the guanxi network has a significant positive relationship with market orientation, customer thrust, and performance (Chung, 2011; Nie et al., 2011).

## The Conceptual Model

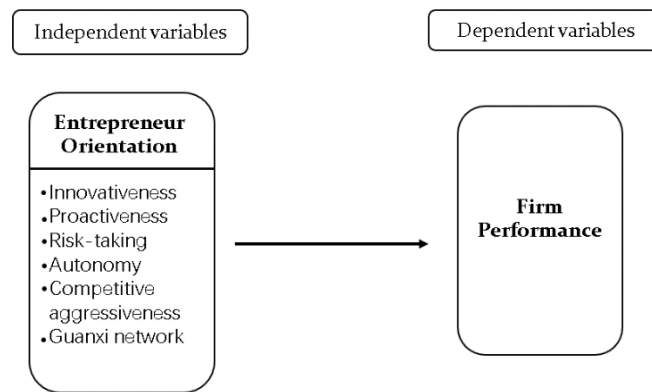


Figure 1: Conceptual framework of the impact of entrepreneurial orientation on SME firm performance

### Propositions

Based on the above literature review, the following propositions will be addressed such as

P1: Innovativeness is significantly related to SME firm performance.

P2: Proactiveness is significantly related to SME firm performance.

P3: Risk-taking is significantly related to SME firm performance.

P4: Autonomy is significantly related to SME firm performance.

P5: Competitive aggressiveness is significantly related to SME firm performance.

P6: Guanxi network is significantly related to SME firm performance.

### Conclusion

The present study focuses on the SMEs, to determine the importance and contribution of entrepreneurial orientation dimensions toward the firm performance. First of all, in the past research, the dimensions of entrepreneurial orientation mainly focused on five dimensions: innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness. Then, according to the practice of SMEs, the “guanxi network” is taken as a dimension of entrepreneurial orientation. Thereafter, the six dimensions of entrepreneurial orientation in this study are determined, which are innovativeness, proactiveness, risk-taking, competitive aggressiveness, autonomy, and guanxi network. This is a pioneering study looking at the effect of these six dimensions on firm performance. For managers, it is highly relevant to assess the degree to which their firm is entrepreneurial which is related to firm performance.

The relationship between entrepreneurial orientation and firm performance has received a lot of attention. Entrepreneurial orientation is a strong predictor of company performance, and more research is needed. Given the effect of entrepreneurial orientation on firm performance, the study suggests that firms gain from developing innovativeness, proactiveness, risk-taking, autonomy, competitiveness, and guanxi network attitude.

The current study extends the literature on entrepreneurial orientation by investigating how six dimensions impact firm performance. The model developed in this paper also has several research implications. Just as future empirical research should address the configurations of entrepreneurial orientation that lead to the highest levels of firm performance. This study provides important insights into the particular structural



characteristics that encourage firm performance, as well as how these characteristics interact with the sub-dimensions of entrepreneurial orientation.

By integrating the models proposed in this study, they can better understand the variables that affect SME firm performance, help managers identify the real reasons that affect firm performance. Based on this model, entrepreneurial orientation is an important research component of entrepreneurship theory and an important means of building and reconfiguring firm resources. Entrepreneurial orientation is an important source of motivation for updating technology, expanding business, and improving firm performance, both for start-ups and established firms. Therefore, this is very beneficial for the long-term benefit of the SMEs.

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