Chapter 29
Entrepreneurial Orientation and Organizational Learning Ability Analysis for Innovation and Firm Performance

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ABSTRACT

Organizational Learning Ability (OLA) and innovation performance playing a mediating role in the Entrepreneurial Orientation (EO) and firm performance, as per this research. Results also suggest that EO improves OLA and innovation performance, which in turn improves firm performance. Innovation performance performs as a mediating variable between EO and firm performance. Our findings make an important contribution to the recent extension of the EO–firm performance research stream focusing on the intermediate links between EO and firm performance. In this paper, we also suggest that the relationship between EO and innovation performance cannot studied as a direct relationship, but it is also conditional or dependent on OLA, the organizational factors that facilitate the organizational learning process. EO is a managerial attitude that must be support by certain organizational conditions that facilitate learning and have positive implications for performance. The results support our conceptual model and show its utility in illustrating differences in intra-industry firm performance.

INTRODUCTION

Entrepreneurship is attracting the interest of a growing number of scholars (Runyan, Dröge, and Swinney 2008). Sharma and Chrisman (1999, p. 17) state that entrepreneurship covers the organizational creation performs and replacement falling out within or outside organization. However, management research has focused on the entrepreneurial orientation (EO) (Ireland and Webb 2007) that illustrate how entrepreneurship is put into practice. EO can be studied as a managerial attitude toward the strategy-making processes that furnish organizations regarding entrepreneurial decisions and actions (Richard et al.

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2004). Although EO is theoretically good for firms (Ireland and Webb 2007) and a positive relationship with performance could be expected (Rauch et al. 2009). In addition, Dimitratos, Lioukas, and Carter (2004) found a non-significant relationship between EO and firms' international performance. George, Wood, and Khan (2001) found no significant correlation between EO and return on assets nor return on equity in the banking industry. This might be due to the concept of firm performance that can be influenced by internal and external variables to the organization (Thoumrungroje and Tansuhaj 2005) and to the long-term benefits of EO come to the realization (Madsen 2007). Moreover, Zahra, Nielsen, and Bogner (1999) suggested that research should focus on identifying to decide the contribution of EO to firm performance. Therefore, this research could look more deeply into the EO–firm performance, relationship by identifying intermediate steps between these two variables (Baker and Sinkula 2009; Zahra, Sapienza, and Davidson 2006). Wang (2008) found that the learning orientation of the firm was mediating the link between EO and firm performance. In this study, we aim to extend this line of work by offering a wider EO–firm performance relationship. On the one hand, there is a growing body of work connecting entrepreneurship and organizational learning (Blackburn and Kovalainen 2009; Wang 2008). Organizational learning is defined as the process which organizations change or modify their intellectual models, rules, processes, or knowledge, to support or improve their performance (Dibella, Nevis, and Gould 1996) that is close to the concept of entrepreneurship. Organizational learning ability (OLA) is defined as the organizational and managerial characteristics or factors that facilitate the organizational learning process or allow an organization to learn (Goh and Richards 1997; Hult and Ferrell 1997).

There is considerable debate about the scientific domain of entrepreneurship and there is a lack of agreement on many key issues regarding what constitutes entrepreneurship and how it relates to performance. Recently, this has been noted in a number of texts and possible remedies have been suggested (see, e.g., Shane & Venkataraman, 2000). Reviewing research on growth and referring to previous reviews, Davidsson and Wiklund (2000) found that despite hundreds of studies being conducted in the area, knowledge about what facilitates and hinders firm growth is still scattered and limited. As a consequence, the field has failed to develop a cumulative body of commonly shared knowledge.

In certain areas of entrepreneurship, however, the development has been more promising. A large stream of research has examined the concept of entrepreneurial orientation (EO). EO is a term that addresses the mindset of firms engaged in the pursuit of new ventures and provides a useful framework for researching entrepreneurial activity. Many scholars have used EO to describe a fairly consistent set of related activities or processes (e.g., Ginsberg, 1985; Knight, 1997). Such processes incorporate a wide variety of activities which include planning, analysis, decision making, and many aspects of an organization's culture, value system, and mission (Hart, 1992). Thus, an entrepreneurial orientation may be viewed as a firm-level strategy-making process that firms use to enact their organizational purpose, sustain their vision, and create competitive advantage(s). Consensus has started to arise concerning what EO represents, both conceptually and empirically. Further, measurement scales of EO have been developed and widely used, and its relationship with other variables has been examined. Thus, EO represents one of the few areas of entrepreneurship where we are beginning to see a cumulative body of knowledge developing.

However, there is still some debate about EO, in particular concerning its relationship to performance. Several studies have found that those businesses that adopt a more entrepreneurial orientation, perform better (e.g., Wiklund, 1999; Zahra, 1991; Zahra and Covin, 1995). However, these findings are not uncontested. Auger, Barnir and Gallaugher (2003) and Smart and Conant (1994), for example, we are unable to find a significant relationship between EO and performance, whereas Hart (1992)