

# Chapter 9

## Strategic Entrepreneurial Orientation and Small Business Growth

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### ABSTRACT

*This chapter aims to define a coherent theoretical framework enabling a broader understanding of the strategic entrepreneurial orientation (SEO) and to evaluate their effects on small firm growth. A sample made up of 211 small Portuguese firms from various different sectors of activity was surveyed by questionnaire. The results demonstrate how the life-cycle of companies, their resources, capacities, motivations and surrounding environment all influence the SEO of small companies. The empirical evidence shows how SEO, and across four specific dimensions – proactiveness, innovativeness, risk taking and competitive aggressiveness, clearly impacts on the growth of these small firms. The study contributes both theoretically (through advancing knowledge on the field of strategic factors for small business growth) and practically (when designing support policies strategically orientated towards small firms).*

### INTRODUCTION

The business reality demonstrates how strategic entrepreneurial orientation (SEO) generates a significant contribution to a firm's success (Stevenson, 1984). The importance of strategic management to the growth of businesses in general

and small firms in particular has become a very important and generally accepted topic (Davidsson, 1989; Covin & Slevin, 1991; Smallbone et al., 1995; Delmar, 1996; Davidsson & Wiklund, 1999; Fayolle, 1999; Davidsson & Wiklund, 2001; Davidsson et al., 2002; Moreno & Casillas, 2008). Moreno and Casillas (2008) focus on

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the strategic orientation-growth relationship in order to identify several simultaneously ongoing relationships between strategy, environment, resources and growth.

Given the great variety of factors presented as growth stimulators, it is not possible to trace the development of a single theory concerning growth at small firms. Several approaches have been proposed in attempts to appropriately study this growth process. Theory and previous research suggest that, for firms to grow and obtain a good performance, they need to have an SEO (Covin & Slevin, 1991; Zahra, 1993; Wiklund, 1998; Ferreira, 2010). According to Wales et al. (2013), entrepreneurial orientation encapsulates a firm-level strategic posture toward the pursuit of new opportunities for organizational growth and renewal. Core to the notion underlying SEO is how firms most probably seek to embrace creation and pursue new markets and opportunities (Lumpkin & Dess, 1996; Miller, 2011; Wales et al., 2013). Moreover, firm-level SEO motivates and supports efforts to leverage absorbed knowledge into value-creating resource bundles (Wiklund & Shepherd, 2003; Wales et al., 2013). Wales et al. (2013) conclude that SEO enhances the financial performance and firms with higher levels of SEO achieve higher levels of absorptive capacity (the company's ability to acquire, assimilate, transform, and exploit new knowledge).

However, when examining the relationship between SEO and growth, recognition of the multidimensional nature of the growth construct becomes essential (Davidsson, 1989; Zahra, 1991). The extent to which growth throughout one particular dimension reflects on another is an empirical question that requires testing (Zahra, 1991; Wales et al., 2013). It is hard to imagine small firms capitalizing on opportunities and making a considerable impact on the market without actually growing. Thus, growth seems to stand out as an important actual representation of the entrepreneurial behavior of small firms (Davidsson, 1989;

Kozan et al., 2006; Tang et al., 2008). Despite the complexity and controversy that revolves around this theme, further research is claimed.

In this context, the present research strives, within the framework of a strategic approach, to empirically examine the relationship between strategic entrepreneurial orientation (SEO) factors and growth in the small business context. The study contributes both theoretically (through advancing knowledge on the field of strategic factors for small business growth) and practically (when designing support policies strategically orientated towards small firms).

## **SEO AND SMALL FIRMS GROWTH**

Essential to the context of the current research is the identification of the strategic variables reflecting the practice, the process, the organizational methods and the style of decision-making that small firms implement and that most probably shape their growth patterns. Nevertheless, the literature review reveals how this strategy represents a broad and deep concept with not only many different definitions of strategy but also typologies to the possible strategic choices available to small firms (Covin & Slevin, 1989; Lumpkin & Dess, 1996; Ferreira, 2010). As a starting point to identifying the most important strategic dimensions to small firms, we may consider the firm strategy typologies put forward by authors taking a theoretical approach to organizations (e.g. Porter, 1980; Miles & Snow, 1978; Davidsson, 1989; Lumpkin & Dess, 1996). Each of these models relates a group of variables which do not depend on organizational growth. In addition, the Miles and Snow (Hambrick, 1983; Zahra & Pearce, 1994; Gimenez, 1999) and Porter models (Miller, 1983) were empirically tested to validate that relationship.

Previous researches do consider the dimensions to SEO as of great importance (Mintzberg, 1973; Miller & Friesen, 1984; Miller, 1987; Lumpkin,

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