

ENTREPRENEURIAL ORIENTATION AND ORGANIZATIONAL LEARNING ON SMES' INNOVATION

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Abstract

Entrepreneurial orientation (EO) is a driver of firms' innovation. The phenomenon of EO as a prerequisite for innovation has become a central focus of corporate entrepreneurship literature. Despite an abundance of research suggesting that innovation capability contributes to SMEs' performance, little is known how dimensions of EO specifically influence SMEs' innovation. Furthermore, although prior research has examined various factors that influence the EO–innovation relationship, few studies have address views how organizational learning influences the EO-innovation relationship in the SMEs context. Based on the literature review, our study attempts to fill this gap by postulating that entrepreneurial innovativeness, proactiveness and risk-taking are related to SMEs' innovation and that organizational learning positively moderates the EO–innovation relationships.

Keywords: Entrepreneurial orientation, organizational learning, innovation, SMEs

Introduction

Due to the vital role which SMEs play in economies and technological development, issues of SMEs' innovation are increasingly explored in the SME literature (Mueller et al., 2013). The dimensions of entrepreneurial orientation include innovativeness, risktaking and proactiveness behaviors. These key elements represent a directional approach for a firm's inclination to connect entrepreneurial actions with its growth. SMEs generally face with the significant resource constraint.

Unlike large companies, the relatively smaller size of SME's allows them to react to market changes expeditiously through innovative initiatives. SMEs have the potential to be able to facilitate innovative activities with proper strategies (Prajogo & McDermott 2014; Tang & Hull, 2012). To survive in today's competitive business environment, enterprises need to initiate new products and services; and sustain their competitiveness through innovation (Kreiser et al., 2010). Constrained by limited firm resources, SMEs' growth depends on their ability to adopt right strategies for

innovation (Mbizi et al., 2013; Mazzarol et al., 2014). Despite an abundance of research suggesting that innovation contributes to SMEs' performance, little is known regarding the extent to which salient dimensions of EO may influence SMEs' innovation outcomes.

Entrepreneurship is best studied through the understanding of its key elements such as originality, proactiveness and daring attitudes. Organizational learning strengthens the impact of the entrepreneurial orientation on firms' positive forces of growth, especially on SMEs innovation. Strategic management of SMEs through organizational learning can lead to improved and mobilized intellectual resources for effective innovation.

Prior research suggests that organizational learning influences firms' innovation performance (Alegre & Chiva, 2013). Innovation can be seen as the result of an organizational learning process which directs firms toward effectiveness, efficiency or breakthrough outcomes. Organizational learning is a dynamic process which enables firms to adapt quickly to the environment with advanced technologies and knowledge reflecting marketing changes. This process includes the application of new knowledge and skills with innovative approaches. However, few studies have expressly examined how organizational learning influences the EO-innovation relationship in the SMEs context. This study attempts to fill these research gaps by postulating that entrepreneurial innovativeness, entrepreneurial proactiveness and entrepreneurial risk-taking are positively related SMEs' innovation. Organizational learning, in turn, positively moderates EO-innovation relationship. This paper proceeds by first elaborating theoretical arguments and developing hypotheses. We then proceed with a discussion of the implication and conclusion.

Literature Review and Development of Proposition

Entrepreneurial Innovativeness and SMEs' Innovation

With respect to entrepreneurial orientation, innovativeness is defined as the capabilities and intention to initiate new products and services. Mbizi et al. (2013) define innovativeness of firms and individual employees as their capability to harness creativity and to execute that creativity in the face of challenges during the course of improving processes, procedures and products. As outlined in the definition, innovativeness is crucial for a firm for upgrading or radical changes on existing products and services. For some researchers, upgrading and innovativeness are different aspects of business development. For example, Kaplinsky and Morris (2003) consider innovation as the process through which a firm ensures that the product and processes in use are subjected to continuous improvement. Upgrading can also be equated as innovation only when it is present in a relevant context. Giuliani et al. (2003) alternatively describe upgrading as a function of innovativeness that is used to increase value to the firm or brand, often achieved by entering new markets, sectors and niches and generating new product/service functions.

Our study argues that decision to go for innovation is often based on entrepreneurial innovativeness of SMEs, although these firms often calculate factors that bring about the variation in products, services and processes. Four different directions those are available to firms to follow for innovativeness, including process, product, chain or functional upgrading (Kaplinsky & Morris, 2003). Humphrey and Schmitz (2003) argue that these categories are important contributions to the international debate over on innovativeness

and have gained recognition in the international sphere rapidly. Researchers have believed that technological innovation is equivalent to up-gradation within a firm. In this context, Habaradas (2008), for example, suggests that technological innovativeness in a firm consists of many steps, such as technological, scientific and commercial steps. SMEs with high entrepreneurial innovativeness will invest with organizational and financial resources in each of these steps leading the firm to being innovative. The most important activities involved in these steps are critical for actual delivery on research and development, training of staff, setting up of tooling, sales and marketing which eventually contribute to innovation in SMEs.

Innovation can be described as creative application of traits held suitable in action to business development (Lyons et al., 2007). It would therefore be safe to say that innovativeness is the process of generating original concepts by using methodologies that are generally used to place creative ideas in action. Roberts (1999) proves a direct correlation between innovation and profitability (Lyons et al., 2007). It has been demonstrated that the early and fast introduction of innovation in the enterprise brings in highest possible market returns since the firm becomes the first one to introduce a product or good into the market (Hitt et al., 2001).

Innovation is important for SMEs to earn monopoly profit, although it is for a short term duration and is valid only till a competitor arrives in the scene. Competitive advantage is a direct outcome of innovation between competitor brands and hence, innovativeness is close to being the lifeline of a firm's strategy and therefore, an integral part of entrepreneurial orientation (Hamel, 2000). SMEs with high entrepreneurial innovativeness can hit the jackpot if their

entrepreneurial orientation is driven by a thrust to innovate at each and every step of the work. It has positive effect on not only the market performance but also on the brand's long term reputation helping firms to retain customers after the initial product breakthrough. Out of this discussion the following proposition emerges:

Proposition 1: Entrepreneurial Innovativeness is positively related to SMEs' Innovation.

Entrepreneurial Risk-taking and SMEs' Innovation

Entrepreneurial risk taking is another key dimension of entrepreneurial orientation which is embedded on SMEs' operational activities substantially. Risk taking is a combination of bold intension and activities that a firm takes to improve its business returns and effectively increase the growth. These operations include venturing into unknown markets, investments in ventures that have uncertain outcomes and borrowing large quantities from the market (Baker & Sinkula, 2009). Risk taking can be defined as management's willingness to obligate significant resources to seek out opportunities that have both a chance of failure and the opportunity for success (Eggers et al., 2013; Nasution et al, 2011; Ireland et al, 2006).

Generally firms in the market which are built on EO are often classified or characterized by their risk taking potential or strategies. These would include taking on large debts or making large commitments of resources towards projects that secure high market returns by making the most of opportunities in the marketplace. In short, risk taking is a measure of the firm's ability to venture into the unknown and break away from the conventional path. Hughes & Morgan (2007) suggest that EO encompasses the

undertaking of risks necessary to secure sustainable growth in the ongoing competitive markets. McGrath (2001) elaborates this view through his study and argues that following conventional paths leads to high mean performance while risk taking has variable outcomes for businesses and have potential for long term profitability. Dess et al. (2011) and Tang et al. (2014) note that entrepreneurial risk taking has a positive influence on organization and business growth. Risk taking and innovation are relatable aspects of EO as they have a positive impact on the growth of a business by virtue of improved brand awareness in the market and introduction of competition in the processes. Crucial factors in innovation that receive a boost through risk taking are product and services innovation which according to Hoonsopon and Ruenrom (2012) have a positive impact on the competitive advantage of SMEs. SMEs with high entrepreneurial risk-taking can create opportunities to contribute to innovative outcomes and provide benefits to their customers as well as enhance their cost advantage over competitors by offering new services and products at low costs in suitable markets (Zhou et al., 2005; Hoonsopon & Ruenrom, 2012). The following proposition then emerges:

Proposition 2: Entrepreneurial Risk-taking is positively related to SMEs' Innovation.

Entrepreneurial Proactiveness and SMEs' Innovation

The level of entrepreneurial proactiveness in a firm often decides the extent to which it will survive in a changing market, especially for SMEs which have limited resources and R&D capability to sustainably compete with large companies. Proactiveness is often defined as opportunity seeking and exploitation of resources that can be a source

of innovation, competitive advantage and first-mover benefits in the marketplace (Eggers et al., 2013; Ireland et al., 2006). A forward looking approach and a positive mindset can help the firm use existing techniques or adopt advanced knowledge to overcome impending change in the market place.

However, a firm has maximum chances of enjoying first mover benefits. However for a firm to maximize its chance of enjoying first mover benefit, it needs to combine proactiveness with innovativeness and come up with a novel solution that is brand new to the market place and therefore, accepted as a breakthrough. Entrepreneurial orientation rests on the capability of a firm to use its existing resources to introduce new products or services in the marketplace or redefine its investments and develop processes and products that are completely new to the marketplace. Proactiveness has the capacity to not just project the firm into the future market but also shape the environment in the market and give new edge to existing competitive capabilities. Capitalizing in emerging markets is the main requisite of the spirit of proactiveness (Tang & Hull, 2012). Proactiveness is expected to be significant in securing superior firm performance (Baker & Sinkula, 2009). It is easier for them to target premium markets and extract first entrant advantages like skimming the market much ahead of their competitors (Tang & Hull, 2012; Lumpkin & Dess, 2001).

Conventionally, innovations are classified as radical or incremental, depending upon the degree of novelty in their applications (Nieto et al., 2013). Studies on innovation management and the amount of proactiveness show that firms which succeed in balancing their existing expertise to create improved incremental innovations by using proactiveness are more prone to experiencing

market success, while they are required to simultaneously develop new technologies to bring about major breakthroughs (Chang et al., 2011). Needless to say that in order to fulfil this requisite, a firm must be able to balance internal dilemmas between innovation pathways against challenges related to demands of contradictory nature on the firm by the external market environment that creates external pressure on the firm (Jansen et al., 2006). A firm therefore is able to learn the art of striking the balance between radical and incremental innovative actions to accomplish superior sustainable performances. A firm that is unable to strike this balance will end up becoming mediocre and uncompetitive in the market (Chang et al., 2011).

Entrepreneurial proactiveness can be a drive for innovativeness since SMEs with this orientation tend to start innovation protocols to meet the emerging customers or market needs (Nieto et al., 2013). The approach utilizes original designs, new markets creation, and new channels of distribution which are developed through due diligence and proactiveness. Alternatively, incremental innovations can be derived by exploiting current capabilities alongside seeking continuous upgradations as a result of incremental innovation that generate consistent and positive returns (Nieto et al., 2013). The firms expand on skills and the knowledge which exists currently. They also enhance the recognised designs and expand on the existing products and associated services, which increase the efficiency of existing distribution channels (Chang & Hughes, 2012). Hence, it is only natural that incremental innovations build on existing knowledge and organization learning frameworks and bring into focus existing skills, structures and processes (Jansen et al., 2006).

It is important to note here that product and service innovations are normally cate-

gorised by closeness to novel or existing technologies, functions and product features; customers, market segments and the market routes (Chang & Hughes, 2012). Enhancing product and service innovations therefore must be focused upon original and emerging customer needs in new, creative or rising markets through the use of novel technologies, features and functions which are significantly separate from existing processes and products. Likewise, incremental innovations of both products and services meet current market needs and those of customers with enhancements in modern technologies.

Innovations completely rely on using an inventive and proactive approach that is considered through prototyping, tests, research and discovery. SMEs with high entrepreneurial proactiveness tend to proactively bring in a change in the way of operating to entry into unknown markets and introduce new services and products by applying new technologies and information in order to improve the total performance of the firm (Nieto et al., 2013). As a result, such SMEs are potentially able to generate more innovation for the market than those lacking proactiveness. Based on the foregoing, we thus hypothesize:

Proposition 3: Entrepreneurial Proactiveness is positively related to SMEs' Innovation.

Organizational Learning and SMEs' Innovation

Prior studies suggest that organizational learning is an integrated combination of a number of organizational activities including knowledge acquisition and information sharing that consciously influence firms' innovation performance (Sakiet al., 2013). Firms' innovation relies on a steady stream of organizational learning in the firm that is

inspired by entrepreneurial orientation. Organizational learning allows the firm to make strategic moves by facilitating innovative activities and creation (Sakiet al., 2013). Organizational learning and entrepreneurial orientation have a close relationship because organizational learning sits at the roots of firms' innovation and entrepreneurial ventures. Organizational learning has a positive impact on innovation by preventing repetition of existing protocols (Renko et al., 2009 Avolonitis & Salavou, 2007). It is thus important to note that future profit streams in entrepreneurial firms from existing operations are uncertain and therefore businesses need to use organizational learning to maintain a search for new opportunities because of the ever shortening life cycle of products in today's fiercely competitive environments (Hamel, 2000). Empirical studies undertaken in this regard support the view that organizational learning has a positive impact on entrepreneurial firms and performance (Zahra, 2012; Eggers et al., 2013).

Organizational learning also has a positive impact on the quality of performance (Tang & Hull, 2012). The intensification of pioneering entrepreneurship is a significant purpose for any new enterprise. This increases its receptiveness to a global and varying market settings. Today's firms cannot survive fast change and novelty which they are compelled to experience if they fail to uphold entrepreneur's skill (Eggers et al., 2013). SMEs invariably lack the competence, market control and resources of other big firms. To a great extent, their success depends on their innovative behavior and the ability to formulate competitive strategies, implement them and respond to the market challenges posed by the changes (Mbizi et al., 2013).

Organizational learning form SMEs is pretty direct and impactful requisition since there may be less focus on innovation and

more focus on expansion and enhancement of services in these firms. From SMEs' perspective, internationalization is an entrepreneurial activity and entering new geographic markets on a large scale is to be regarded as equivalent to adopting new practices, up-gradations and implementing organizational learning (Johnson Jr. et al., 2013). Prior research suggests that SMEs differ from larger enterprises because of differences in their leadership styles, internal operations, organizational structures, existing assets, and environmental reaction (Mbizi et al., 2013). SMEs often understand and try to emphasize innovation to achieve high growth with exciting variances in a given period of time. However, failure rate can be high in the innovation phase due to high uncertainty, risk taking and chaotic factors if organizational learning is not integrated in the process (Mueller et al., 2013). Appropriate organizational learning cultivates essential firm capabilities for innovation (Chiva et al., 2013) and it increases SMEs' ability to sense new opportunities in products and services of innovation (Maes & Sels, 2013).

Oke et al. (2007) suggest that SMEs are more engaged in creating product and service innovations based upon important lessons derived from organizational learning and previous innovation drives (Saki et al., 2013). As is well known, innovations are aimed at the creation and commercialization of improved products and services, in a way so as to meet demands of current customers and markets (Mueller et al., 2013). Such innovations have successful outcomes which are known to customers and firm builders and therefore have a low risk capability.

Organizational learning is known to travel on a trajectory. Organizational strategists build upon previous experience, core competencies, organizational learning, with effective linkages to the market and field

knowledge (Kollmann & Stöckmann, 2014). There is no doubt that in SMEs' operating today, economies of scale and scope increase the firm's profit margins greatly, and directly affect operational efficiency and profitability. SMEs are known to hold the gift of experience over new entrepreneurs and as they apply their knowledge and new ways of learning in order produce extensions from present product lines. SMEs must keep in mind that effectiveness of innovation might be influenced by organizational learning curve. In addition, innovations are presumed to enhance the life cycle of the SME's offerings as too many resources are not required and profit gains are observed within a very short duration of time (Mueller et al., 2013). Out of this discussion the following proposition emerges:

Proposition 4: Organizational learning positively moderates the relationship between Entrepreneurial Innovativeness and SMEs' Innovation.

Proposition 5: Organizational learning positively moderates the relationship between Entrepreneurial Proactiveness and SMEs' Innovation.

Proposition 6: Organizational learning positively moderates the relationship between Entrepreneurial Risk-taking and SMEs' Innovation.

Figure 1 illustrates the expected relationships that form the basis of the propositions and reviews the extant literature on the construct in relation to the conceptual framework.

Discussion

Entrepreneurial orientation acts as the fundamental poise of a firm which many SMEs have actually been able to adopt. Our

study contributes to the literature of SME strategy management with analysis of the strategic effect of entrepreneurial orientation on firm innovation. SMEs' strategic development of entrepreneurial orientation can effectively increase their innovation capabilities. We address the unexplored issues in the literature vis-a-vis the three dimensions of the entrepreneurial orientation essential for SMEs in terms of innovation.

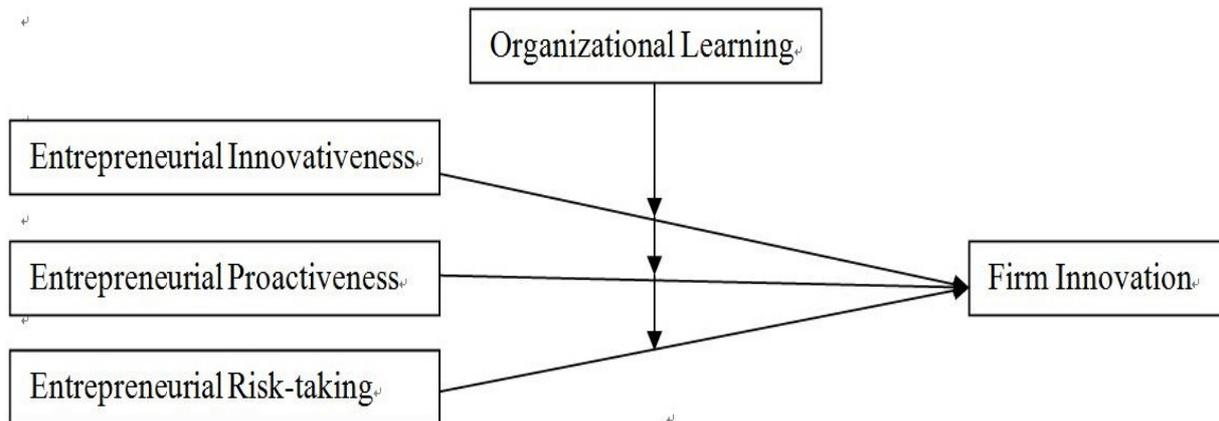
Entrepreneurial risk-taking orientation is applied to explore opportunities associated with innovation for the business expansion. SMEs' initiative for testing and introducing the innovative products or service to new markets requires a critical step of strategic risk-taking. The dynamic strategy based on the entrepreneurial proactiveness is a significant drive of SME innovation. With entrepreneurial innovativeness embedded in the entrepreneurial process, SMEs' focus will be on entrepreneurial course of action for actual innovation. Although the entrepreneurial orientation is common to all ventures, SMEs adopting the approaches by linking three aspects of EO with innovation are able to create unique opportunities for their survival and growth. The extent to which entrepreneurs and SMEs utilize innovation determines the extent to which they will succeed or even fail.

Our study also contributes to the literature of SME innovation by exploring the moderating effect of organizational learning in the relationships between innovation and entrepreneurial orientation of SMEs, which is rarely addressed by previous studies. The SMEs intending to embrace innovation and raise their productivity and survival odds must be able to be ahead of the changing markets by learning advanced technologies and knowledge, combining and utilizing both external and internal resources. SMEs should be open to new information, advanced

technologies and knowledge in order to be able to indulge in innovation and sustain their competitive advantage in the market. Their

survival and growth critically depend on their effective organizational learning to overcome their limited resources for innovation.

Figure 1. The proposed framework for Entrepreneurial Orientation and SMEs' Innovation



Organizational learning plays a propelling role in an organization forward to achieve SMEs' goals of creativity and innovation. As one may say survival of the fittest applies even in case of entrepreneurial orientation and SME innovation, which is particularly applicable in a competitive market. Product differentiation and market penetration are two key elements of competitive advantage. Constant learning for innovation is the only way-out. Organizational learning allows SMEs to identify the new trend of customer demands and take a new perspective to business development and the process of innovative entrepreneurship. To add to this mix, the role of SMEs in innovation and economic development has grown.

economic behavior. The entrepreneurial strategy conducted by entrepreneurship is a combination of internal and external factors that are influencing the business at a certain point of time. External factors that affect companies and influence their individual entrepreneurship strategies include competition, technological turbulence and demand uncertainty. Due to these changing external factors, firms must constantly react to the dynamic challenges emanating from the markets, build competitive advantages and sustain their business for the future through organizational learning, and rely on new patterns experienced in the business development of SME entrepreneurship.

Conclusion

Entrepreneurial orientation is a process that results in destruction of old business practices and leads to the establishment of new, innovative, risk-taking patterns of business development that secures a firm's

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