

SBU Entrepreneurial Behavior: A Theoretical Model and Research Propositions

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Abstract. While many researchers have examined the entrepreneurial issues at the corporate level, little research was devoted to examine similar issues at the SBU level. The manuscript reports a theoretical model elaborating the linkages among a SBU's strategic orientations, entrepreneurial orientation, entrepreneurial behavior, and its market performance.

Keywords: Strategic Orientation, Entrepreneurial Orientation, Opportunity Recognition, Opportunity Exploitation.

1. Introduction

Due to globalization and abundance of product offerings in the marketplace, various B2B and consumer markets have become very competitive. As a result, companies are unlikely to sustain competitive advantages simply relying on existing technologies and practices. For this reason, firms need to recognize and exploit environmental and market opportunities with entrepreneurial actions (Covin & Miles, 1999). Entrepreneurial actions refer to the deployment and appropriation of firm resources to generate value through active and unique moves, frequently at a significant risk. To accomplish superior market results, firms have been advised to take proactive, innovative and risk-taking approaches toward business opportunities (Eckhardt & Shane, 2003). Despite entrepreneurial actions may occur at all levels of a business firm, research attention to their impacts at the SBU level has been sparse.

Research on SBU's entrepreneurial phenomena is warranted. A SBU is an important unit of analysis within various management fields. Competitive decisions are made at the SBU rather than the corporate level (Kuratko, Montagno, & Hornsby, 1990). A SBU has defined strategies and a group of managers with sales and profit responsibilities (Aaker, 1988). That is, SBU has its own objectives, products, operations, and outcomes, separately from those of other units in the same firm. Hence, a SBU's entrepreneurial actions are greatly associated with its resource utilization and strategic posture (Luke, Verreynne, & Kearins, 2007).

SBU's executives represent a key party in the SBU to formulate strategies and deploy resources (Kuratko et al., 2005). SBU's executives embrace entrepreneurial orientations different from those of the firm's top management. The former is responsible for developing and executing specific strategic programs of a SBU, whereas the latter considers the strategic schemes beyond a SBU's scope. Thus, it would be useful to study the factors that affect the entrepreneurial orientations of SBU executives.

The present manuscript reports a theoretical model which elaborates the relationships among a SBU's strategic orientations, entrepreneurial orientation, entrepreneurial behavior (in terms of opportunity recognition and opportunity exploitation), and a SBU's sales performance and new product development performance. It is expected that the posited model may pinpoint a new venue for future theoretical and empirical research.

2. Literature review

Prior research has examined the topics of entrepreneurial orientation and behavior extensively. The two constructs have been defined differently in the past literature. In this study, entrepreneurial orientation refers to the extent to which a SBU's executives demonstrate an inclination of pursuing business goals proactively, adopting innovative measures frequently, and undertaking market risks purposely (Miller & Friesen, 1983).

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Entrepreneurial behavior, in contrast, refers to the degree to which a SUB's executives are willing to allocate its resources to market opportunity recognition and exploitation activities (Kuratko et al., 2005). A distinction between entrepreneurial orientation and behavior is not only helpful for understanding prior research but also a basis of the current research.

Prior research on entrepreneurial orientation suggests that it is affected by an organization's external, internal and strategic variables (Covin & Slevin, 1991). External factors include technological complexity, environmental dynamism and industry life cycle. Internal factors include corporate values and philosophies, firm resources, organizational culture. Strategic factors include competitive schemes, strategic orientations, and organizational missions. Existing research has also shown that a firm's entrepreneurial orientation affects its market and financial performance (Covin et al., 2006).

3. Theoretical Model and Key Constructs

A theoretical model is created to study the antecedents and outcomes of entrepreneurial orientation and behavior at the SBU level (See Figure 1). Specifically, the model highlights the associations between a SBU's strategic orientation and entrepreneurial orientation. Strategic orientation is defined as a SBU's propensity of adopting specific strategies to adapt and react to dynamic environments to obtain a favorable market status performance (Gatignon & Xuereb, 1997). In addition, it may be deemed as a SBU's culture or a mindset for guiding a SBU's strategic decisions of dealing with its customers and/or competitors (Noble, Sinha, & Kumar, 2002). Next, this model considers the influences of a SBU's strategic orientations and entrepreneurial orientation on its own entrepreneurial behavior. Finally, the model shows the relationships between a SBU's entrepreneurial behavior and the SBU's market-related performance.

Specifically, the model consists of three strategic orientation factors: market orientation, growth orientation, and short-term orientation. Market orientation refers to a SBU's organizational culture that focuses on market intelligence and interfunctional coordination to create superior customer value (Narver & Slater, 1990). Growth orientation refers to the extent to which a SBU desires to pursue fast growth and business expansion (Brown, Davidsson, & Wiklund, 2001). Growth orientation encourages a SBU to acquire customers as fast as possible, through exploiting market knowledge, utilizing internal resources, capitalizing business opportunities, and confronting competitors (Stevenson & Jarillo, 1990). Finally, short-term orientation refers to a SBU's preference on using a short-term period to consider its strategic issues (Das, 1991). That is, with a short-term orientation, SBUs are inclined to use a shorter time horizon, rather than a longer one, in crafting its strategies and action plans.

A second component of the framework is entrepreneurial orientation of a SBU's executive team (Covin & Slevin, 1991). Entrepreneurial orientation is defined here as a SBU management's characteristics, which include proactiveness, innovativeness, and risk-taking (Covin et al., 2006). A third component, SBU's entrepreneurial behavior, refers to a SBU's approaches toward business opportunities. It includes two variables: opportunity recognition and opportunity exploitation (Ireland, Covin, & Kuratko, 2009). Finally, the current framework includes a SBU's market performance as its outcome variables, which consist of two factors: sales growth rate and new product introduction rate to represent the influences of a SBU's entrepreneurial behavior.

4. Research Propositions

The first strategic orientation considered here is market orientation. It has three dimensions: customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990). Customer oriented companies devote extensive resources to identify customers and study their current and future demands. Competitor oriented companies monitor their competitors' activities to identify the rivals' resource strengths and weaknesses, strategies, and capabilities. Interfunctional orientation refers to the extent to which a firm engages in the coordinated usage of its internal resources and knowledge to develop superior customer value.

A SBU's top managers with richer customer and competitor information may perceive a lower level of decision uncertainty (Shane & Venkataraman, 2000). This increases their confidence in assessing and

dealing with the changing conditions of the market, and thus encouraging them to compete more aggressively with their competitors. Further, such knowledge may help SBU executives accept innovative ideas and/or facilitate the development of new products. Finally, a SBU, which stresses interfunctional coordination, is likely to utilize market information in a more effective way. This tendency may heighten SBU executives' tolerance for situational ambiguity and promote their risk-taking attitudes (De Carolis & Saporito, 2006).

Growth oriented SBU executives favor a quick growth of their business. Fast-growing strategies tend to require large financial resources and assume high risks (Hambrick & Crozier, 1985). SBU with a higher growth orientation is likely to accept larger opportunity costs and engage in proactive and novel actions to achieve greater success (Gundry & Welsch, 2001). Moreover, SBU managers with short-term orientation act forcibly to make changes, rather than wait to anticipate market trends (Bateman & Crant, 1993). This characteristic requires the SBU to better serve its customers and respond fast to the threats of competition (Hughes & Morgan, 2007). Therefore, short-term orientation might stimulate a SBU's executive team to adopt new ideas more quickly, take more aggressive actions and/or make more risky decisions. Based on the above discussions, it is thus suggested that:

Proposition 1: A SBU executive team's (a) market orientation, (b) growth orientation, and (3) short-term orientation, respectively, is positively related to the team's entrepreneurial orientation.

The present model includes two factors of SBU entrepreneurial behavior: opportunity recognition and opportunity exploitation (Ireland et al., 2009). They refer to the extent to which SBU executives are willing to allocate resources to seize possible market opportunities (Shane & Venkataraman, 2000). Entrepreneurial executives tend to take proactive, risk-taking and innovative moves toward product and market development. Hence, they are more sensitized to business opportunities surrounding them. Specifically, proactive oriented SBU managers are prone to put resources to discover and confirm hidden business promises (Eckhardt & Shane, 2003). Likewise, SBU managers who are risk-taking and innovative minded may be favorable with novel opportunities and deploy resources to exploit them (Choi & Shepherd, 2004). As a result, it is proposed that:

Proposition 2: A SBU executive team's entrepreneurial orientation is positively associated with the SBU's (a) opportunity recognition behavior and (b) opportunity exploitation behavior, respectively.

As mentioned above, the proposed model also indicates that a SBU's entrepreneurial behavior is subject to the influences of its strategic orientations. Specifically, market orientation emphasizes using knowledge of customers and competitors, internal sharing of market information, and coordinating multi-functional resources. It would positively affect a SBU's discovery and usage of market opportunities (Rose & Shoham, 2002). Moreover, growth oriented SBUs look for chances to expand their business. To achieve growth objectives, they would be highly sensitive to the changes of customer demands and market conditions. Hence, SBUs with a greater degree of growth orientation are more likely to engage in the activities of opportunity recognition or exploitation to capture emerging opportunities (Zahra, Kuratko, & Jennings, 1999). Finally, SBU executives emphasizing on short-term orientation desire to achieve their objectives as fast as possible. Thus, they are alert to emerging chances continually (Barringer & Bluedorn, 1999). For this reason, the following proposition is advanced:

Proposition 3: A SBU executive team's market orientation is positively related to the SBU's (a) opportunity recognition behavior and (b) opportunity exploitation behavior.

Proposition 4: A SBU executive team's growth orientation is positively related to the SBU's (a) opportunity recognition behavior and (b) opportunity exploitation behavior.

Proposition 5: A SBU executive team's short-term orientation is positively related to the SBU's (a) opportunity recognition behavior and (b) opportunity exploitation behavior.

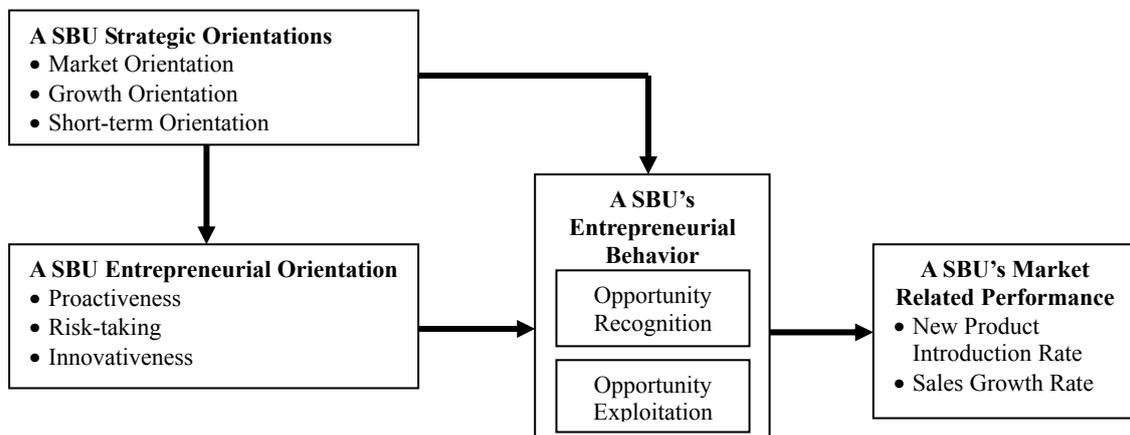
The relationship between entrepreneurial behavior and firm performance has been examined in an extensive way (Zahra and Garvis, 2000; Wiklund and Shepherd, 2005). Previous research suggests that entrepreneurial behavior is an important path to new product development and sales growth (Dess et al., 1999). Specifically, opportunity recognition and exploitation represent a SBU's mechanisms to generate market knowledge for the SBU's discovery of new product and revenue opportunities (Shane and Eckhardt,

2003). Such knowledge encourages a SBU to capitalize its resources into new product, service and/or technology development. The result of such resource investment may be an increase of new product introduction into the marketplace as well as sales growth (Luke, Verreyne, & Kearins, 2007).

Proposition 6: A SBU's (a) opportunity recognition behavior and (b) opportunity exploitation behavior is positively related to the SBU's new product introduction rate.

Proposition 7: A SBU's (a) opportunity recognition behavior and (b) opportunity exploitation behavior is positively related to the SBU's sales growth rate.

Figure 1: A Theoretical Model of a SBU's Entrepreneurial Behavior



5. Research Summary

This manuscript presents a theoretical model regarding the antecedents and outcomes of entrepreneurial orientation. This research extends previous research by exploring the entrepreneurial phenomenon and influences at the SBU level, in contrast to the corporate level. The reason for this research extension is that the managers of corporate and business levels are responsible for different strategic objectives and hold distinct managing perspectives. Therefore, it might be of certain value to examine how the concept of entrepreneurial orientation and behavior functions at the SBU level. The present research represents an initial attempt to address this unexplored topic.

6. Reference

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