

APPENDIX 7

LITERATURE REVIEW

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Entrepreneurial orientation (EO)

Risk-taking, innovativeness and proactiveness are 3 of 11 entrepreneurial dimensions of strategy discussed by Miller and Friesen (1978). In his influential 1983 literature review, Miller derives a firm's actions relative to these as the dimensions of entrepreneurship:

'An entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch.'

Using this definition and prior literature, entrepreneurship researchers have used the term entrepreneurial orientation to describe a 'fairly consistent set of related activities or processes' (Lumpkin and Dess, 1997; Miles and Arnold, 1991; Morris and Paul, 1987; Smart and Conant, 1994)

Based on Khandwalla (1970), Miller went on to develop an instrument for empirically assessing these dimensions within a firm (presented in Miller and Friesen 1983). This instrument in turn was developed by Covin and Slevin (1986, 1989). Two further dimensions, competitive aggressiveness and autonomy were added to the scale by Lumpkin and Dess (1996, 1997).

EO contributes to performance, defined as 'a compound measure incorporating dimensions of growth as well as financial performance' (Wiklund, 1999) and therefore 'risk-taking, innovativeness and proactiveness keep small firms ahead of competitors.' Competitive advantage derived from EO is also asserted to be sustainable and therefore worthy of the investment by small firms.

Miller, Covin and Slevin argue that the dimensions of EO should covary, i.e. a firm should score equally on all dimensions; if they score highly on one dimension, they will naturally score highly on the others.

So-Jin Yoo (2001) questioned the validity of the Covin and Slevin variation of the scale. Though they argued that their scale 'validated a convergent validity resulting from one factor solution (unidimensionality), they did not (or could not) go further to investigate whether [risk-taking, innovativeness, proactiveness] actually were indicated or not.'

Lumpkin and Dess (op. cit.) contend that the dimensions needn't covary and thus should be modelled in combination; they call this multidimensional EO. Adding competitive aggressiveness and autonomy to the original three dimensions, Lumpkin and Dess argue that, while all five are necessary to understand the entrepreneurship process, the combination will depend on the type of entrepreneurial opportunity pursued.

Opportunity recognition (OR)

However, the dimensions of EO lack reference to opportunity, considered for some time to be a key factor in successful entrepreneurship. Stevenson (1983), for example, described entrepreneurship as management pursuing opportunities without reference to resources currently controlled (e.g. Brown and Davidsson, 1998). Before an opportunity can be considered worthy of pursuit, though, it must first be recognised.

It was Kirzner (1973) who first identified the central importance of the discovery of opportunities to entrepreneurship: 'Entrepreneurs find and exploit opportunities by taking advantage of economic disequilibria by knowing or recognising things that others do not.' Vesper (1980) and Cooper (1981) marked the beginning of the study specifically of OR for researchers (de Koning and Brown, 2001).

Prior customer and market knowledge and responses to specific problems have been considered to be the key antecedents to OR (e.g. Hills and Schrader, 1998; Shane, 2000). Hills and Schrader found the same obtained for exceptionally successful and more randomly selected entrepreneurs.

As a response to economic disequilibria, OR has been theorised as an event dependent on opportunity alertness, the 'ability to notice, without search, opportunities that have hitherto been overlooked' (Kirzner, 1979). Opportunity alertness, as the necessary antecedent to OR, an element of the entrepreneurial process, is thus arguably the cornerstone of a firm's entrepreneurial behaviour (Koning and Brown op.cit.).

Lumpkin, Hills and Schrader (2001) question this approach as too static, assuming that opportunities exist *a priori* to be found and argue for a recursive process perspective. Their study takes up Long and McMullan's 1984 four-stage model of OR (pre-vision, point of vision, opportunity elaboration and decision to proceed) and develops it to produce an approach that 'suggests that OR is inherently a creative process and [they present] a model of OR based on creativity models found in the psychology literature,' principally Wallas (1926). The five components of their model are preparation, incubation, insight, evaluation and elaboration; these are 'necessary and sufficient to explain multiple diverse methods of OR.'

Drawing on Cohen and Levinthal (1990), Shepherd and DeTienne (2001) assert that prior knowledge is what makes an individual more creative. Once the knowledge is obtained 'they find associations and linkages that before were not available to them.'

Entrepreneurial self-efficacy (ESE)

Taking up the idea that opportunities are constructed and not found, Krueger (2000) argues that the perception of opportunities depends on an individual's perception that the situation is controllable and positive: 'Perception of self-efficacy is a substantial antecedent of perceived opportunity. If we see ourselves as competent we are more likely to see a course of action as feasible, thus we are more likely to see an opportunity.' (Quoted in Dellabarca, 2001).

Static personality traits or predispositions of individuals have been found to be ineffective at predicting entrepreneurial activity (e.g. Sandberg and Hofer, 1987). There has been a move, therefore, toward adapting cognitive construct, such as ESE, from the organisational behaviour literature (Bandura, 1995).

Drawing on social psychology, Kim and Hunter (1993) showed that intentions predict behaviour and attitudes predict intentions. Krueger (1999) transposes this to entrepreneurship thus: the act of venture creation is planned behaviour, so entrepreneurial intent is a predictor for an individual taking further entrepreneurial action. The individual's perception of self-efficacy in the field of entrepreneurship, Krueger argues, is therefore a positive influence on her entrepreneurial intent which will then be achieved as entrepreneurial action.

According to Bandura (1986), individuals gradually accumulate self-efficacy through prior cognitive, social and physical experiences (Gist, 1987); prior successful enactment reinforces the sense of self-efficacy. High levels of self-efficacy help individuals sustain effort until goals are reached. In the case of the entrepreneur, high self-efficacy sustains her through the early stages of the start-up process when ambiguities concerning the role and possible success of the venture are high (De Noble et al, 1999).

The positive effect of self-efficacy on individual motivation and performance is supported by e.g. Stajkovic and Luthans' 1998 meta-analysis of 114 earlier studies of SE and found significant correlation between SE and work-related performance.

Chen et al 1998 conducted the first empirical study into specifically ESE. They found ESE had a significant and positive effect on the likelihood of an individual becoming an entrepreneur. Also, innovativeness and risk-taking were found to distinguish entrepreneurs from managers. These cognitive capabilities they asserted to be a more significant part of ESE than assessment of one's technical, functional or managerial skills. The latter had previously formed the basis of analysis – i.e. the focus had been on one's belief in ability in those fields, not in specifically entrepreneurial areas, such as OR and driving the venture to fruition.

Since ESE is a cognitive construct, it can be learned. Mindsets, however, as Krueger (1997) points out, are less tractable, 'particularly in communities where learned helplessness is rampant.' He goes on, 'The most promising efforts to increase entrepreneurship in the inner city focus specifically on changing the mindsets of disadvantaged individuals (Todd, 1995) and by providing needed skills and the belief in those skills (Hood and Young, 1993b).' Krueger cites the example of the Northeast Entrepreneur Fund which, following the example of the Grameen Bank model, provides not only small amounts of seed capital for nascent businesses, but also information and psychological support for clients, former iron-ore miners in the economically devastated north-eastern Minnesota. Through promoting an 'owner,' not an 'employee' mindset, the NEF 'dramatically increases their client's perceptions that self-employment is feasible.'

Bibliography at Appendix 9.