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## THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION, ENTREPRENEURIAL COMPETENCIES, ENTREPRENEURIAL LEADERSHIP, AND FIRM PERFORMANCE: A PROPOSED MODEL

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**Abstract:** This study develops a conceptual model and propositions for researchers to explore the direct and indirect relationship between entrepreneurial orientation, entrepreneurial competencies, entrepreneurial leadership and firm performance. Authors searched various databases including ProQuest, EBSCOhost databases, Scopus for peer reviewed Journals, books, and other relevant publications on the subject. A conceptual review provides direction for researchers to empirically examine the direct relationships between entrepreneurial orientation (EO), entrepreneurial competencies (EC), and firm performance and the mediating effect of entrepreneurial leadership (EL) in the relationship between EO, EC, and firm performance. We suggest the use of entrepreneurial orientation scale (EOS), The entrecomp framework (2016), Renko et al., 2015 entrepreneurial leadership styles scale (ENTRELEAD), and Santos & Brito (2012) subjective measurement model for firm performance for measurement of the constructs of EO, EC, EL and performance. For researchers and academics, the model provides a basis for further research by testing empirically the validity of the model. Testing of this model could provide a better understanding of the EO, EC constructs that better predicts strategic and financial performance.

**Keywords:** Entrepreneurial orientation, Competencies, Leadership, Strategic Performance, Financial performance

**JEL Classification:** M10, L10

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### INTRODUCTION

The role of entrepreneurship in national economies cannot be overemphasised. Entrepreneurial activities contribute to the continued existence and growth of business organisations. The essence of entrepreneurship is to create value from opportunities. The value-creating activities of entrepreneurship can be in the form of financial, cultural, or social values. We argue that entrepreneurial behaviours are a critical success factor to sustain competitive advantage. Entrepreneurial activities are described as catalysts that speed up economic growth and development of an economy (Antoncic & Hisrich, 2004; Kuratko, 2009). Entrepreneurial behaviour is a key driver of employment creation, wealth creation, and

expansion. Firms need to behave entrepreneurially in order to have a competitive advantage over competitors in the ever-dynamic and highly competitive business environments (see Kuratko et al., 2011; Kuratko, 2009). Several studies have been done on entrepreneurial orientation (EO) (Covin et al., 2006; Rauch et al., 2009; Covin & Miller, 2014). Drawing from this, several researchers have argued that EO, as a composite construct (Covin & Lumpkin, 2011; Covin & Miller, 2014), has three dimensions: innovativeness, proactiveness, and risk-taking (Covin & Slevin, 1989; Wiklund & Shepherd, 2003; Zhang et al., 2012). A number of studies have been conducted on the relationship between entrepreneurial orientation and organisational performance (Arief et al., 2013; Jia et al., 2014).

Rauch et al. (2009) assert that empirical findings show that the relationship between entrepreneurial orientation and organisational performance is unclear and inconclusive. Some researchers confirmed a positive relationship between entrepreneurial orientation and organizational performance (Arief et al., 2013; Jia et al., 2014; Karacaoglu et al., 2012; Zhang & Zhang, 2012), and others found a negative entrepreneurial orientation-performance relationship (Covin et al., 1994; George et al., 2001; Shamsuddin et al., 2012; Slater & Narver, 2000). Some other researchers have explored the mediating and moderating effect of other variables on entrepreneurial orientation-performance relationship (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Mohamad et al., 2011), while others have argued that entrepreneurial orientation needs to be combined with other business orientations such as market orientation, learning orientation, and employee orientation to enhance firm performance (Grinstein, 2008; Idar & Mahmood, 2011; Kwak et al., 2013). Entrepreneurial competencies are related to firm performance (Faggian & McCann, 2009; Mitchelmore & Rowley, 2010; Sanchez, 2012), growth and success of the business (Colombo & Grilli, 2005), and entrepreneurial competencies are a strong predictor of SMEs performance (Ahmad et al., 2010). Various studies have addressed entrepreneurial competency using different terms like characteristics, competencies, traits, and qualities (EntreComp: entrepreneurship competency framework 2016; Badal, 2014; Kaur & Bains, 2013; Pofeldt, 2014), as important factor for the success of SMEs (Sajilan & Tehseen, 2015; Griffin, 2012; Ropega, 2011). According to Entrecomp (2016), entrepreneurship competence represents the ability to transform ideas and opportunities into action by mobilising resources. These resources can be personal, material, or non-material. They identified 15 interrelated and interconnected competencies. Some researchers argue that entrepreneurial leadership is distinctive from other behavioural leadership forms, the entrepreneurs differentiate from employed managers (Chen, 2007; Kempster & Cope, 2010; Currie et al.

2008; Ruvio et al., 2009; Nicholson, 1998) as leadership performed in entrepreneurial environment (Leitch et al., 2013; Kempster & Cope, 2010; Prabhu, 1999). Entrepreneurial leadership is a relatively young field, whereas general leadership theory is more mature (Cogliser, 2004). Wang et al (2012) identified two major research gaps in entrepreneurial leadership literature. First, there is limited research on the conceptual development of entrepreneurial leadership (Jensen & Luthans, 2006). Also, there has been limited themes and trends between entrepreneurship and leadership (Vecchio, 2003). Santos & Britos (2012) conceptualise firm performance based on the stakeholder theory, which allows distinguishing between performance antecedents and outcomes. They add that the use of stakeholder theory allows resolving the issue of differentiating between performance antecedents and outcomes. Rauch et al., (2009) argue that the relationship between entrepreneurial orientation and organisational performance is complex and needs to be examined by considering all possible related variables or factors that interact with organisational performance. It is on these assumptions that entrepreneurial leadership is introduced in the proposed conceptual model to play a mediating role in the relationship between entrepreneurial orientation, entrepreneurial competencies, and firm performance. While a lot of past studies have investigated both direct and indirect relationship between entrepreneurial orientation and organizational performance, no study, to the knowledge of the authors have explored (1) the relationship between entrepreneurial orientation, entrepreneurial competencies and firm performance and, (2) the mediating effect of entrepreneurial leadership in the relationship between entrepreneurial orientation, entrepreneurial competencies, and firm performance. Thus, the objectives of this study are twofold:

- 1) propose an EO-EC-EL Performance Link model
- 2) suggest propositions for empirical study based on the proposed model.

## **1. LITERATURE REVIEW**

### **1.1 Entrepreneurial Orientation**

EO measures the entrepreneurial behaviour of an organisation. Entrepreneurial orientation explains the behavioural pattern of firms. Pearce et al. (2010), suggest that EO comprises risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness dimensions. It is also defined as a strategic orientation that an organisation uses to adapt to changing business environment and to outperform its competitors (Karacaoglu et al., 2012). Entrepreneurial orientation is unidimensional as well as a multidimensional in nature. Otache and Mahmood (2015), in a study of 297 bank managers in Nigeria examine the relationship between entrepreneurial orientation and performance, and the mediating role of teamwork in the relationship. They concluded that entrepreneurial orientation is positively related to organisational performance and that organisational performance will be greater if employees work collaboratively as a team. Arief et al. (2013) found that EO is positively related to firm performance, and strategic flexibility plays a mediating role in the relationship. Karacaoglu et al. (2012) study the relationship between financial performance and corporate entrepreneurship in 140 industrial manufacturing firms which are publicly trading at Istanbul Stock Exchange (ISE). The result shows that innovation, risk taking, and proactiveness has a positive relationship with the financial performance of the firms, while autonomy and competitive aggressiveness variables did not have a positive relationship. Jia et al., (2014) conducted a survey of entrepreneurial-oriented enterprises in China by exploring the relationship between entrepreneurial orientation and corporate performance. They found that entrepreneurial orientation does improve corporate performance, and the positive influence is mainly in two dimensions, which are innovation and antecedence. Miller (1983) posits a three-dimensional model of corporate entrepreneurship along three dimensions: innovation risk taking and proactiveness and innovativeness. Some researchers suggest that

there exists the fourth dimension of entrepreneurial orientation known as competitive aggressiveness. According to Kreiser et al. (2002), and Hughes & Morgan (2007) the dimensions can vary independently from each other. Innovation is considered to be important in the entrepreneurial process. The EO dimension of innovativeness is about creativity and developing new ideas that will add value to various stakeholders. The second dimension is proactiveness. Proactiveness refers to looking and exploiting new opportunities within and outside the organisation. The third dimension, risk-taking, is often used to describe the uncertainty that follows from behaving entrepreneurially. Autonomy gives employees the freedom to develop and the entrepreneurial initiatives (Lumpkin et al., 2009). Competitive aggressiveness demonstrates the firms' capabilities to provide services and products better than competitors.

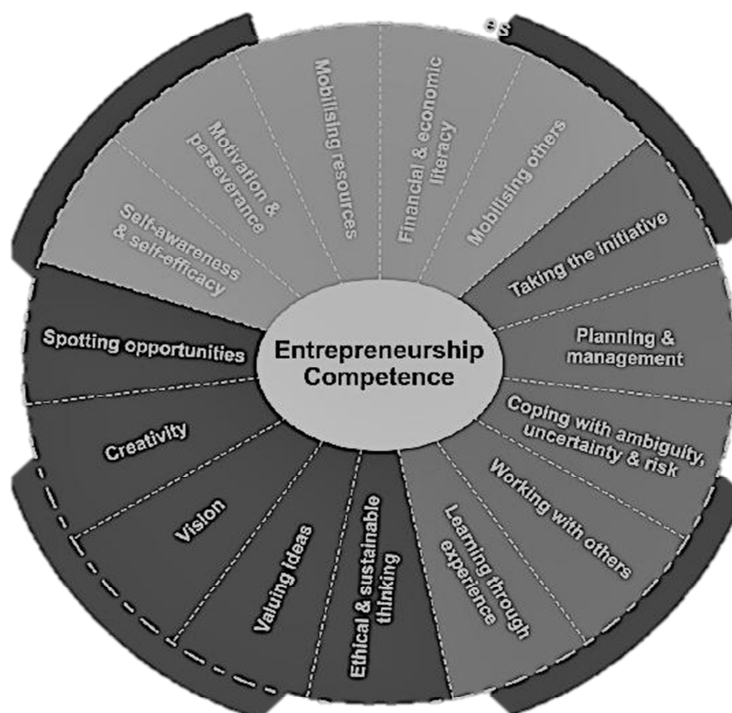
### **1.2 Entrepreneurial Competencies**

Entrepreneurial competency is an important factor that determines the success or failure of an organisation. Sanchez (2012) conducted a study on the influence of entrepreneurial competencies of SMEs in Spain. The result shows that entrepreneurial competencies influence firm performance, having both direct and indirect effects on firm performance. This is also affirmed by Ahmad et al. (2010) who reported that entrepreneurial competencies are strong predictors of business success for SMEs. We support the view that entrepreneurial competencies enhance firm's performance and competitive position. Sajilan & Tehseen (2015) argue that entrepreneurial competencies of Malaysian entrepreneurs are important for the survival, success, and growth of Malaysian SMEs. Nasuredin et al., (2016) conducted a study on the mediating role of dynamic capabilities in the relationship between entrepreneurial competencies and performance of selected SMEs in Malaysia. The finding shows that dynamic capabilities represent one of the important predictors in enhancing the relationship between EC and performance of SMEs in Malaysia. They argue that entrepreneurial competencies enhance firm

performance and competitive advantage. Wickramaratne et al., (2014) examine the impact of entrepreneurial competencies on entrepreneurial orientation (EO) of 109 tea manufacturing firms in Sri Lanka. They concluded that entrepreneurial competencies lead to innovativeness and overall EO of tea manufacturing firms. Mohamad & Sidek (2013) explored the mediating effect of entrepreneurial competencies in the relationship between microfinance and small business growth. The result shows that entrepreneurial competencies have a partial mediating effect on microfinance

and small business growth. Researchers argue that integrative list of entrepreneurial competencies is contextual and situational. According to Ahmad et al. (2011) characteristics such as knowledge, skills, motives are very important for the growth and success of a firm. Chu et al. (2007) posit that environmental conditions and skill are the most critical success factors for entrepreneurs. The entrecomp framework is made up of the 3 competency areas and 15 competencies as illustrated in figure 1 below.

Fig. 1: The EntreComp Framework 2016



Source: Bacigalupo, Kamylyis, Punie & Van Den Brande, 2016

The EntreComp Framework (2016) is made up of 3 competence areas: 'Ideas and opportunities', 'Resources', and 'Into action'. Each area includes 5 competencies, which together represent the core of entrepreneurship as a competence. The framework develops the 15 competencies along an 8-level progression model. Also, it provides a comprehensive list of 442 learning outcomes, which offers inspiration and insight for those designing interventions from different

educational contexts and domains of application (The EntreComp framework, 2016)

### 1.3 Entrepreneurial Leadership

Gupta et al., (2004) assert that entrepreneurial leadership creates visionary scenarios which are used to mobilise the support of participants, who become committed by the vision to the discovery and exploitation of strategic value creation. Thus, high level corporate executives who show entrepreneurial behaviour

(Covin & Slevin 2002; Gupta, et al., 2004; Thornberry 2006), adopt leadership roles in order for their companies to grow (Ensley et al., 2006; Gupta, et al., 2004; Jensen & Luthans 2006), and focus on distinctions or similarities between leaders and entrepreneurs (Ensley et al., 2006; Vecchio 2003). Entrepreneurial behaviour represents an important condition of success. Nicholson (1998) and Chen (2007) argue that entrepreneurial leadership is distinctive from other behavioural leadership forms, and differentiates the entrepreneurs from employed managers (Kempster & Cope, 2010). Authors like Ruvio et al. (2009) posit that an entrepreneurial leadership is not necessarily performed in an entrepreneurial environment (Ruvio et al. 2009; Currie et al. 2008). Wang et al (2012) identified two major research gaps in entrepreneurial leadership literature. First, there is limited research on the conceptual development of entrepreneurial leadership (Jensen & Luthans, 2006). Also, there has been limited themes and trends between entrepreneurship and leadership (Vecchio, 2003). Opportunity seeking is central in the literature on entrepreneurial leadership. Specific competencies are needed to be able to identify opportunities within and outside the organisation. Entrepreneurial leadership is based on a leader creating, identifying and exploiting opportunities in an innovative, risk-taking way (Currie et al., 2008. p. 3). The ability to influence others, managing resources for opportunity seeking and advantage seeking behaviour (McCarthy, 2010. p. 1; Covin & Slevin, 2002; Rowe, 2001). Gupta et al. (2004) argue that being a leader and managing resources for opportunity seeking, projects into formulating an entrepreneurial vision and inspiring a team of competent and competitive people to enact the vision. Prabhu (1999) was the first to conclude that entrepreneurial leadership is built on leadership literature where he defined entrepreneurial leadership simply as leadership performed in entrepreneurial ventures (Leitch et al., 2013; Kempster & Cope, 2010; Prabhu, 1999). Entrepreneurial leadership defined as leadership performed in entrepreneurial ventures means that entrepreneurial leadership is based on different

leadership styles (Li et al., 2013). Which leadership style is used in an entrepreneurial venture, depends on the vision of the entrepreneur. Indicating different leadership styles means also that there are various visions among entrepreneurs (Ruvio et al. 2009, p. 3). Thornberry (2006) suggests that entrepreneurial leadership is viewed to be more transformational than transactional in nature, but with some fundamental differences. Makri & Scandura (2010) introduce two dimensions of strategic leadership, termed "creative" and "operational". They suggest that an effective leader is one who is able to simultaneously invent, develop, and commercialise. Creative leaders, on the other hand, tend to be characterised by a focus on talent management (Mumford et al., 2002). However, studies which combined entrepreneurial orientation with leadership attributes and used its construct to measure entrepreneurial leadership style have found a positive relationship between entrepreneurial leadership and business performance of SMEs (Mgeni, 2015; Pieper, 2014; Chandrakumara et al., 2009). Samad (2012) argues that transformational leadership and innovation can significantly enhance organisational performance. Previous studies on leadership theories show that they are incomplete without the characteristics of creative leadership. According to numerous researchers (for example, Horth & Vehar 2012; Carmeli et al., 2010; Vlok, 2012; Shavinina, 2011; Deschamps, 2003), this attribute is important to enhancing the organisational performance.

#### **1.4 Firm Performance**

According to Venkatraman & Ramanujan (1986), conceptualization of performance is widely used by strategic management researchers (Richard et al., 2009; Carton & Hofer; 2006), different approaches have been adopted to operationalise the construct of firm performance in empirical studies in an unbalanced way. Combs et al. (2005) found that most studies use financial performance to measure the construct firm performance with accounting measures of profitability being the most common choice. Carton and Hofer (2006) and Richard et al.

(2009) reported a similar picture, analysing different journals in different time periods. The argument has merit, and is quite clear in some cases, like production efficiency (Santos & Brito, 2012). Other researchers (Zammuto, 1984; Connolly et al., 1980; Hitt, 1988) try to clarify performance outcomes and antecedents. In this case, customer satisfaction is clearly also an outcome (using the customer stakeholder perspective), thus an indicator of firm performance. Comparisons in relation to targets and past performance indicate the efficiency and evolution of the company. The use of stakeholders' satisfaction as firm performance measure was also adopted by a large number of different authors (Santos & Brito, 2012; Kaplan & Norton, 1992; Clarkson, 1995; Richard et al., 2009; Venkatraman & Ramanujam, 1986). Santos & Britos (2012) conceptualise firm performance based on the stakeholder theory, which allows one to distinguish between performance antecedents and outcomes. Besides offering a way to decide what performance is in a comprehensive way, the use of this theory allows resolving the issue of antecedents and outcomes related to performance. Santos & Brito (2012) suggest using growth, profitability, and market value in operationalising the construct of firm performance to represent financial performance and customers, 'employees' satisfaction, social and environmental performance to represent strategic performance. The critique of subjective performance indicators is that they depend on human cognition and knowledge. Resulting data may suffer from bias and human error (Ketokivi & Schroeder, 2004; Richard et al., 2009). Nevertheless, subjective and objective performance indicators proved to be positively related (Dess & Robinson, 1984; Dawes, 1999; Forker et al., 1996; Venkatraman & Ramanujam, 1987; Wall et al., 2004).

## **2. METHODS**

In this paper, a conceptual model is proposed, where entrepreneurial leadership mediates the connection between entrepreneurial orientation, entrepreneurial competencies, and firm performance. Authors searched various

databases including ProQuest, EBSCOhost, and Scopus databases for peer-reviewed journals, books, and other relevant publications on the subject. The search includes studies conducted from 1980 to 2016 using the keywords entrepreneurship, entrepreneurial competencies, entrepreneurial orientation, entrepreneurial leadership, and performance. Tranfield et al. (2003) adopted systematic literature review process for management research because it aims to reduce bias through comprehensive literature searches. Articles were screened with an overall goal of finding a group of articles that focused on the subject. In conducting our review of academic journals, books, and publications on the subject, editorial, opinion, theoretical and qualitative and quantitative studies were included. The inclusion criteria are a) the study had to be conducted during 1980 to 2016, b) the study had to be an empirical and conceptual one, (c) the study had to include entrepreneurial competencies, entrepreneurial orientation, entrepreneurial leadership, and performance-related concepts.

## **3. RESULTS**

The study develops and presents a conceptual model and propositions to explore the link and the mediating effect of entrepreneurial leadership in the relationship between entrepreneurial orientation, entrepreneurial competencies, and firm performance for future research. In developing this model, authors draw on Lee et al. (2011) entrepreneurial orientation scale, The EntreComp framework (2016), Renko et al., 2015 entrepreneurial leadership (ENTRELEAD) scale, and Santos & Brito (2012) subjective measurement model for firm performance. Four dimensions of Entrepreneurial Orientation (autonomy, innovativeness, risk-taking and competitive aggressiveness) are adopted. These are the most widely used dimensions in previous EO studies (Covin & Slevin, 1991; Miller, 1983). Belousova (2011) asserts that these four dimensions are the ones that best define EO. Entrecomp framework (2016) used a robust mixed-method research process and each of its outputs has been validated through multi-

stakeholder consultations, leading to progressive refinement and eventually to the consolidated framework. The model adopts a comprehensive approach to entrepreneurial competencies by suggesting 3 competency areas, 15 competencies, and 442 learning outcomes. More so, to the best of authors' knowledge, the Entrecomp is the most current framework on the subject. The entrepreneurial leadership style scale integrates elements from all three categories of previous research in entrepreneurial leadership (Renko et al., 2015). Although this conceptualization of entrepreneurial leadership is different from other leadership styles in its focus, the construct is closely aligned with two other leadership styles: transformational leadership (Renko et al., 2015; Bass & Avolio 1995) and creativity enhancing leadership (Renko et al., 2015; Makri & Scandura 2010). Santos and Britos (2012) conceptualisation of firm performance is based on the stakeholder theory, which allows distinguishing between performance antecedents and outcomes. It also provides a conceptual structure to define performance indicators and dimensions. Santos & Britos (2012) scale measures past, medium-term performance, and compares the firm to the average competitors in the industry. The approach involves identifying the stakeholders and defining the performance variables that measure their satisfaction (Connolly et al., 1980; Hitt, 1988; Zammuto, 1984). This conceptualization of firm performance can be applied by different organisations (Carneiro et al., 2007) allowing one to differentiate between high and low performers in the eyes of each stakeholder. The following propositions (P1 to P7) should be investigated in future research:

**P1:** Competitiveness aggressiveness is the strongest predictor of financial performance among the EO constructs.

**P2:** Entrepreneurial competencies have a direct positive association with strategic performance.

**P3:** Entrepreneurial competencies are positively related to financial performance.

**P4:** Creative leadership mediates the relationship between EO, EC, and strategic performance.

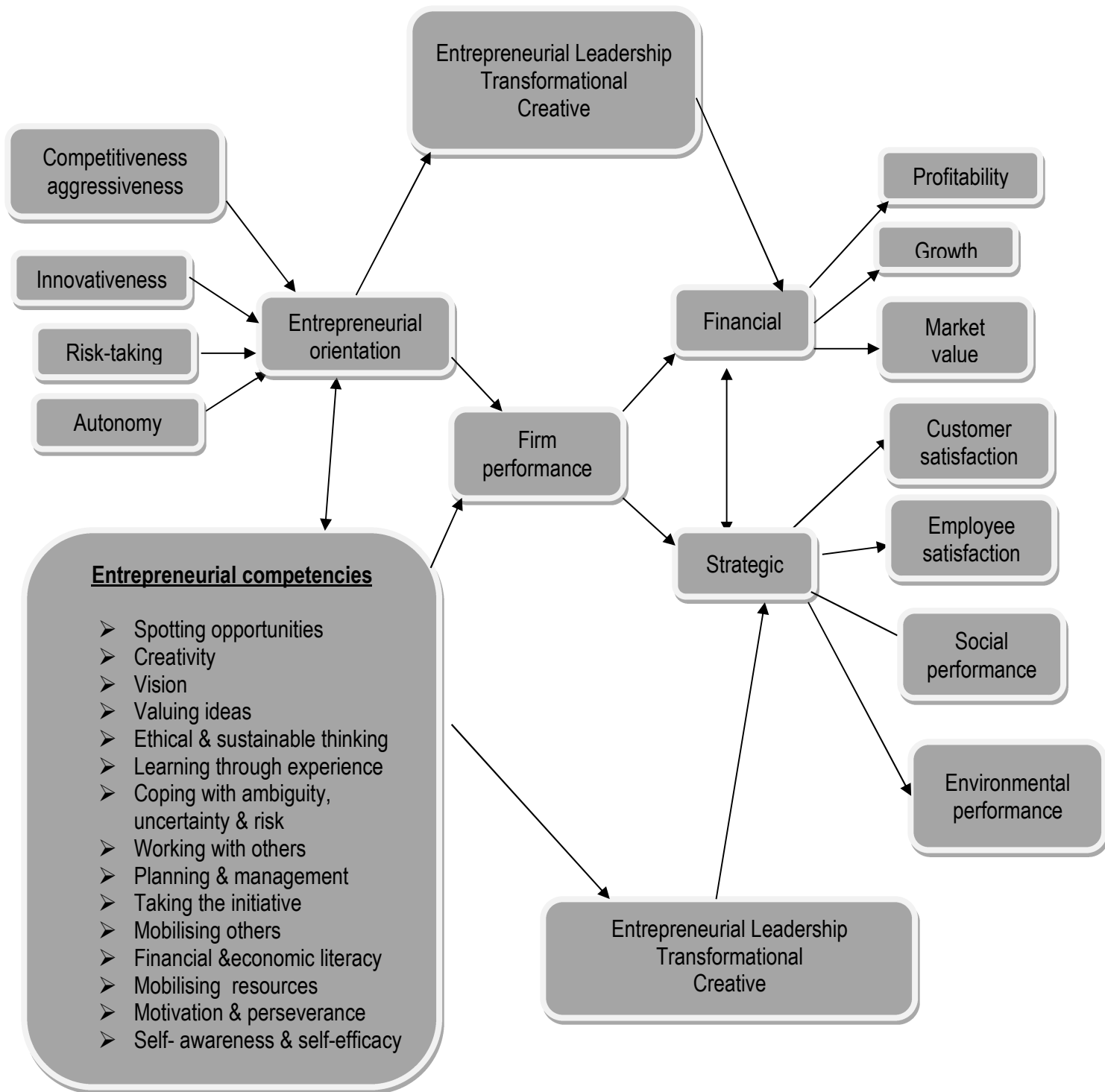
**P5:** Transformational leadership mediates the relationship between EO, EC, and strategic performance.

**P6:** Creative leadership mediates the relationship between EO, EC, and financial performance.

**P7:** Transformational leadership mediates the relationship between EO, EC, and financial performance.

Authors suggest that the measure proposed by Lee et al., (2011) entrepreneurial orientation scale (EOS), The entrecomp framework (2016), Renko et al., (2015) entrepreneurial leadership styles scale should be adapted to measure EO, EC, and EL. Santos & Brito (2012) subjective measurement model for firm performance should be adapted to measure firm performance. A five-point Likert scale ranging from 1 "strongly disagree" to 5 "strongly agree" is to be used for data collection about the variables from respondents. Although qualitative scale will be used to collect responses, quantitative analysis will be used to test the propositions. Multiple regression and Pearson correlation matrix could reveal the strength of association and relationship among the variables. Thus, multiple regression and Pearson correlation techniques are considered appropriate to assess the 7 propositions. Furthermore, to test the mediation effects of proposition 4, 5, 6, and 7, authors suggest Baron & Kenny (1986) three conditions that must be met to establish mediation. Condition 1, the independent variable is directly related to the dependent variable. Condition 2, the independent variable is directly related to mediating variable. Condition 3, the mediating variable is directly related to the dependent variable. Additionally, future research should be done in selected industries, SMEs in different sectors, and in different countries. Also, this model can be used to carry out comparative analysis on the subject across industries and countries. The model is illustrated in Figure 2 below.

Fig. 2: Conceptualisation of EO-EC-EL Performance Link Model (elaborated by authors)



Source: Own, 2017



#### **4. CONTRIBUTIONS**

This study adds to existing knowledge in the field of entrepreneurship and strategic management by a comprehensive model connecting entrepreneurial orientation, entrepreneurial competencies, entrepreneurial leadership and firm performance. More importantly, the model proposes an empirical study for researchers to investigate the mediating effect of entrepreneurial leadership in the relationship between EO, EC and firm performance. To the knowledge of the authors, a conceptual model on the subject is the first such attempt. Also, the findings of this study may be beneficial for entrepreneurs, both potential, and existing executives as it will give a better insight on how entrepreneurial orientation and entrepreneurial competencies impact on both financial and strategic performance. Also, business managers and owners will better understand the competencies and leadership style that impact and enhance performance. In addition, it will also provide a clue on the indirect relationship between EO, EC, through entrepreneurial leadership. For researchers and academics, this model provides a basis for further research by testing the validity of the model. Testing of this model could provide a better understanding of the EO, EC constructs that predict strategic and financial performance.

#### **CONCLUSIONS**

The study provides a comprehensive conceptual review, model and proposes an empirical study exploring the direct relationship between entrepreneurial orientation, entrepreneurial competencies, and firm performance. Also, the mediating effect of entrepreneurial leadership in the relationship between entrepreneurial orientation, entrepreneurial competencies, and firm performance was identified. Authors argue that entrepreneurial behaviour is very important to achieve and sustain competitive advantage. There were many opinions on the nature of entrepreneurial orientation. Risk-taking, proactiveness, innovativeness, autonomy and

competitive aggressiveness dimensions of entrepreneurial orientation (EO) are well documented in the literature. Empirical findings show that the relationship between entrepreneurial orientation and organisational performance is unclear and inconclusive. Specific competencies are needed to be able to identify opportunities within and outside the organisation. Entrepreneurial competencies are extremely important for the success of firms. Prior studies on the relationship between entrepreneurial competencies (EO) and performance suggest a positive relationship. Opportunity seeking is central in the literature of entrepreneurial leadership. Some studies which combined entrepreneurial orientation with leadership attributes and used its construct to measure entrepreneurial leadership style have found a positive relationship between entrepreneurial leadership and business performance of SMEs. We suggest that the seven propositions identified in this study should be empirically tested in SMEs in different sectors and countries. A comparative study can also be done on the subject to test the validity of the model. Based on the findings of recent literature, authors argue that a positive direct and indirect relationship is supposed to exist among the variables. Lastly, the limitation of this study is identified so that the findings can be interpreted correctly within the context of the study. This study did not empirically test the relationship between the variables. Despite the limitation described above, the applicability of this study adds to the literature as it relates to management and entrepreneurship research from the theoretical point of view.

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