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EXAMINING ENTREPRENEURIAL ORIENTATION – PERFORMANCE RELATIONSHIP AMONG CROATIAN SERVICE SMES

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Abstract

The relationship between entrepreneurial orientation and business performance has been widely researched. However, in scientific literature there is still a need for further clarification when observing the before mentioned concepts, especially within the service SME context. Likewise, when observing this relationship it is necessary to look into the impact of entrepreneurial orientation on individual segments of business performance, i.e. on financial and non-financial constructs. Therefore, the aim of this paper is to explore the association of entrepreneurial orientation and small and medium business performance, while observing performance both as unidimensional and multidimensional concept. Furthermore, the paper tests whether moderation effect of external environment exists between entrepreneurial orientation and business performance among Croatian service SMEs.

Keywords: *entrepreneurial orientation, external environment, performance, service SMEs, Croatia*

1. INTRODUCTION

Entrepreneurship has been at the core of business research for many decades. Numerous research papers as well as the articles in the popular press have highlighted the importance of entrepreneurship as “essential feature of high-performing firms” (Lumpkin & Dess, 1996, pp. 135). During the last decades entrepreneurial activity has been the key engine of economic growth and major driving force of the job creation and new business development (Lumpkin & Dess, 1996; Carree & Thurik, 2005; Toma, Grigore & Marinescu, 2014). In that regard, a lot of research has been devoted to determination of the key drivers of entrepreneurship and entrepreneurial activity, as well as the nature and interconnection of entrepreneurial activity and performance of economic agents (e.g. Simón-Moya, Revuelto-Taboada, & Guerrero, 2014; Quatraro & Vivarelli, 2015; Madriz, Leiva & Henn, 2018; Agostino, Nifo, Trivieri & Vecchione, 2020).

In the entrepreneurial world, the service sector plays an important role. Services contribute more than two-thirds of global GDP, attract more than three-quarters of foreign direct investment in developed countries, employ the majority of the workforce, and create most new jobs globally (OECD, 2017). On the other hand, during the last three decades, international trade in services has been growing faster than international trade in goods, and it is expected that a share of 50% in total international trade will be achieved in the near future (Lazibat et al, 2020). Some scholars (Lazibat et al., 2020) suspect that the share of services in the value added of global trade is already higher than the share of trade in products, however the methodology is inadequate. All things concerned, the service sector plays a vital role in today’s modern world and it is difficult to foresee and changes in that regard in the near future. That is why we deem it is of great importance to gain additional insights into how the service sector of SMEs work and what is it influenced by.

The purpose of this paper is to analyze the relationship between entrepreneurial orientation and performance among small and medium-sized service enterprises. The effects of entrepreneurial orientation on financial and non-financial performance will be analyzed separately. In addition, the research will aim to determine the role of external environment on entrepreneurial orientation of service SMEs as well as investigate whether the EO-performance relationship of service SMEs is moderated by the components of external environment.

The structure of the paper is as follows. Authors first provide theoretical background of the construct of entrepreneurial orientation and explain in detail its constructs. Then we set the hypotheses of our research. In order to corroborate the established hypotheses, authors conduct primary research. Subsequently, methodology and results are explained, after which the results and limitations of the research are elaborated.

2. EXPLAINING THE CONCEPT OF ENTREPRENEURIAL ORIENTATION

The foundations for exploring the dimensions of entrepreneurial orientation, as well as the starting point for all other authors who have studied this area, were laid by Miller (1983). According to Miller (1983), an entrepreneurially oriented company is one that is involved in product market innovations, enters risky ventures and acts proactively in its activities to outperform competing companies. Therefore, the dimensions proposed by Miller (1983) also reflected the above stated characteristics of the company. The dimensions were called innovativeness, proactiveness and risk-taking, and served as a starting point for testing the existence of entrepreneurial orientation in the company. Lumpkin and Dess (1996) in addition to the stated dimensions of innovativeness, proactiveness and risk-taking, proposed two additional dimensions, namely autonomy and competitive aggressiveness. We explain in detail all these dimensions below.

As one of the most important characteristics of entrepreneurs, almost a century ago, Schumpeter (1934) emphasized the importance of innovation. Schumpeter links the ability to innovate to the process of creative destruction. Creative destruction enables the creation of wealth in such a way that existing market structures are disrupted by the introduction of new products or services, which leads to the diversion of resources from existing enterprises to new enterprises, which allows them to grow. According to Schumpeter (1934), entrepreneurs play a key role in this process, because they are most responsible for innovative solutions or new combinations of goods that enhance the dynamic progress of the economy.

Thus, from the early periods of the study of entrepreneurship, there is an innovative dimension related to the entrepreneurial way of thinking and acting. Innovation (Lumpkin & Dess, 1996) reflects the tendency of firms to engage and support new ideas, experiments, and creative processes that could result in new products, services, or technological processes. Although there are several typologies of innovation (Downs & Mohr, 1976), among which the most important is the one that distinguishes innovation on the spectrum from incremental to radical, the type of innovation itself is not so important in exploring entrepreneurial thinking and action.

In researching entrepreneurial orientation, innovation simply refers to moving away from existing technologies or business practices and adopting new ones with the aim of trying to create new products, services or processes, and the form and type of innovation as such do not play a big role. The key role of innovativeness as a dimension of entrepreneurial orientation is precisely that it enables the business entity to take advantage of (new) business opportunities, which has always been related to the way of entrepreneurial thinking and action.

From Schumpeter (1934) onwards, there is an impressive number of authors who have emphasized the importance of the entrepreneurial process

initiative. In microeconomic theory, special attention is paid to the study of the first mover advantage, and countless studies have been conducted to assess the results that a company can achieve if it operates before the competition. Taking the initiative as such has been specially studied from the entrepreneurial aspect, where entrepreneurs have been characterized as pioneers of new business ventures. Acting with the aim of anticipating new business opportunities in order to seize them before the competition is defined as proactiveness, and represents another in a series of dimensions of entrepreneurial orientation.

Proactiveness refers to the process of seeking new opportunities (which may or may not be related to the company's current business activities), placing new products on the market ahead of competition, and strategically eliminating products that are in declining life cycle stages (Venkatraman, 1989), and anticipating competition moves and market needs (Kreiser, 2002). Wiklund and Sheperd (2005) state that proactiveness promotes the identification of new market opportunities and enables rapid action to exploit them to make high profits, while Lumpkin and Dess (2001) explain how it involves actively monitoring changes in the market environment, consumer tastes and applied technologies.

As a dimension of entrepreneurial orientation, proactiveness is very strongly correlated with innovativeness, which certainly makes sense, because one feature refers to the active search for market opportunities, and the other to the creation of new and better products and services that try to take advantage of those opportunities. Therefore, at first glance, synthesizing these two variables into a single variable might sound justified, but it would not really make much sense because companies do not necessarily have to respond to perceived business opportunities with new products or services or their own innovations, but may be existing products entering a new market or, for example, imitations of competing products. It is clear, therefore, that a company with a strong character of proactivity, does not necessarily have to be innovative in its business.

Miller and Friesen (1978) defined risk-taking as the degree to which managers are willing to commit large amounts of resources to risky ventures, that is, to those ventures where there is a significant possibility of failure. Risk-taking characteristic reflects willingness to use resources in projects where the probability of failure is high and the results unknown (Wiklund & Shepherd, 2005), or willingness to move into the unknown without having knowledge of possible outcomes (Covin & Slevin, 1991). Investing in unfamiliar technologies, entering unconventional markets, and significant borrowing are examples of risk-taking behaviors (Baird & Thomas, 1985).

The history of entrepreneurship is replete with the stories of determined people with unique, new, and better ideas who subsequently developed lucrative businesses from those ideas (Lumpkin & Dess, 1996). The flourishing of entrepreneurship can be attributed precisely to the independent action of people who have left secure jobs to try new ideas or business concepts, rather than being

prevented from doing so by established organizational processes or their superiors (Lumpkin & Dess, 1996).

In order for entrepreneurship to manifest itself within the existing organization, it is necessary to guarantee individuals and teams the freedom to act creatively and launch promising ideas, i.e. independence in action. Therefore, the concept of autonomy is very important in the study of entrepreneurial orientation. Numerous authors (e.g., Burgelman, 1983; Kanter, 1983; Bird, 1988; Katz & Gartner, 1988) have noted that existing bureaucracy and organizational tradition are a weight that prevents existing firms from entering new markets more quickly and easily. On the other hand, the decision-making autonomy of leading company managers and organizational teams that are not limited by the set norms of the company, will enter the foreign market much faster and easier.

Autonomy refers to the independent actions of an individual or team in presenting an idea or business vision including its implementation to completion. In general, this concept refers to the ability and willingness to self-manage when trying to take advantage of business opportunities (Lumpkin & Dess, 1996). Autonomy presupposes the freedom of decision-making and independent action of individuals at all levels of the enterprise without organizational barriers that would prevent them (Quinn & Spreitzer, 1997). In other words, autonomy refers to the independence needed to find opportunities and exploit them through the implementation of business concepts (Lumpkin, Cogliser, & Schneider, 2009).

In the business world, it is extremely difficult for start-ups to survive, and their probability of failure is much higher than is the case with already established companies (Lumpkin & Dess, 1996). In order to increase their chances of market survival, new firms need an aggressive attitude and intense competition (MacMillan, 1982; Porter, 1985). Therefore, competitive aggressiveness very often stands out as the fifth dimension of entrepreneurial orientation. Competitive aggressiveness is basically a characteristic of a company to completely outperform its competitors. It reflects the company's efforts to outperform its competitors, and is strongly oriented to defend its market position and aggressive counter-reactions to competitive action (D'Aveni, 1994). According to MacMillan and Jones (1984), Cooper (1986), and Lumpkin and Dess (1996), the dimension of competitive aggressiveness also reflects willingness to apply unconventional methods, rather than relying on traditional methods of competition.

3. RESEARCH HYPOTHESES

Entrepreneurial orientation has been widely researched phenomenon (Wales, Gupta & Mousa, 2013; Wales, 2016; Martens, Lacerda, Belfort & de Freitas, 2016; Cho & Lee, 2018;). However, research investigating the relationship between the individual constructs of entrepreneurial orientation and performance of service SMEs is quite scarce. Thus, authors wanted to investigate

what is the effect of entrepreneurial orientation on both financial and non-financial performance of SMEs. As the basis for the development of the proposed model, the authors built upon the model used by Moric Milovanovic and Wittine (2014). The model was then adapted to reflect the different focus of the research, i.e. small and medium sized service companies.

In that regard, authors hypothesize the following:

H1: EO has a positive effect on performance of service SMEs.

H1a: Innovativeness has a positive effect on performance of service SMEs.

H1b: Proactiveness has a positive effect on performance of service SMEs.

H1c: Risk-taking has a positive effect on performance of service SMEs.

H1d: Autonomy has a positive effect on performance of service SMEs.

H1e: Competitive aggressiveness has a positive effect on performance of service SMEs.

H1.1: EO has a positive effect on financial performance of service SMEs.

H1.1a: Innovativeness has a positive effect on financial performance of service SMEs.

H1.1b: Proactiveness has a positive effect on financial performance of service SMEs.

H1.1c: Risk-taking has a positive effect on financial performance of service SMEs.

H1.1d: Autonomy has a positive effect on financial performance of service SMEs.

H1.1e: Competitive aggressiveness has a positive effect on financial performance of service SMEs.

H1.2: EO has a positive effect on non-financial performance of service SMEs.

H1.2a: Innovativeness has a positive effect on non-financial performance of service SMEs.

H1.2b: Proactiveness has a positive effect on non-financial performance of service SMEs.

H1.2c: Risk-taking has a positive effect on non-financial performance of service SMEs.

H1.2d: Autonomy has a positive effect on non-financial performance of service SMEs.

H1.2e: Competitive aggressiveness has a positive effect on non-financial performance of service SMEs.

In addition, we wanted to investigate what is the influence of external environment (characterized by turbulence, rivalry and dynamism) on entrepreneurial orientation of SMEs. We hypothesized there should be some kind of positive influence of external environment on entrepreneurial orientation, which will in turn influence the entrepreneurial orientation-performance relationship of service SMEs itself. According to Kohli and Jaworski (1993) market turbulence encompasses “the rate of change in the composition of customers and their preferences”, competitive rivalry denotes “the degree of competitive intensity in the market” while dynamism is described as “the rate of change in the environment” (Mohd, Idris & Momani, 2013). We established the following hypotheses:

H2: External environment has a positive effect on EO of service SMEs.

H2a: Turbulence has a positive effect on EO of service SMEs.

H2b: Hostility has a positive effect on EO of service SMEs.

H2c: Dynamism has a positive effect on EO of service SMEs.

H3: EO-performance relationship of service SMEs is moderated by the external environment.

H3a: EO-financial performance relationship of service SMEs is moderated by the external environment.

H3b: EO-non-financial performance relationship of service SMEs is moderated by the external environment.

We explain more thoroughly the research method below.

4. RESEARCH METHOD

4.1. Sample

The sampling frame was taken from the database of the Financial Agency (Fina) which is the leading provider of financial and electronic services in Croatia. Random sample of independent firms operating in service sectors was taken from Fina's database, where half of the sample comprised of small firms with 1 to 49 employees and the other half of the sample comprised of medium sized firms with 50 to 249 employees. Such definition of firm size corresponds to the European Union definition of small and medium-sized enterprises. During December of 2019 and January of 2020, from the sampling frame a total of 1,000 business owners and managers were contacted out of which 136 responded and correctly filled out an email questionnaire (i.e. response rate of 13,6%). Small firms with less than 49 employees represent 57% of the respondents, while 43% were medium sized firms with 50-249 employees. From sample demographics point of view, 49% of the respondents were firm owners, 25% directors, and 25% managers, while 78% of respondents had more than 7 years of working experience with the firm.

4.2. Variables and Measures

Entrepreneurial orientation (EO) was measured using Covin and Slevin's (1989) scale for assessing innovativeness (Cronbach's $\alpha = .81$), proactiveness (Cronbach's $\alpha = .79$), and risk taking (Cronbach's $\alpha = .85$), Lumpkin, Cogliser and Schneider's (2009) scale for assessing autonomy (Cronbach's $\alpha = .81$), and Aktan and Bulut (2008) scale for assessing competitive aggressiveness (Cronbach's $\alpha = .85$). All three scales were based on a seven-point Likert-type questions. Entrepreneurial orientation score has a mean of 4.35, a standard deviation of 1.09, and a Cronbach's α value of .79.

External environment (EE) was measured using modified Naman and Slevin's (1993) scale for assessing turbulence (Cronbach's $\alpha = .74$), hostility (Cronbach's $\alpha = .50$), and dynamism (Cronbach's $\alpha = .64$), based on a seven-point Likert-type questions, where external environment score has a mean of 4.38, a standard deviation of 1.04, and a Cronbach's α value of .75.

Business performance was measured with a modified instrument developed by Gupta and Govindarajan (1984), where the respondents were asked to indicate on a seven-point Likert-type scale the extent to which stated financial and nonfinancial indicators are important for their business. Afterwards, respondents were asked to indicate on another seven-point Likert type scale the extent of satisfaction with the achieved performance of these indicators. Business performance score has a mean of 4.81, standard deviation of 1.18, and a Cronbach's α value of .88. Moreover, business performance was further analyzed in terms of financial and non-financial performance, with a mean of 4.87 and standard deviation of 1.32 for financial performance, and a mean of 4.74 and standard deviation of 1.16 for non-financial performance.

4.3. Analysis

Multiple linear regression analysis was used to test the proposed relationships as stated in the hypothesis. Tests for absence of multicollinearity, heteroscedasticity and autocorrelation have been conducted in order to ensure that assumptions of linear regression were not violated. Durbin-Watson statistic, maximum Cook's distance, and variance inflation factors (VIF) were well below critical values. A nonresponse analysis was performed by comparing pertinent variables for all firms, and the analysis showed no significant difference between respondents and nonrespondents. Harman's one-factor test analysis was performed to test for potential common method variance bias, where the analysis showed that none of the factors accounted for a majority of the covariance. Therefore, we can conclude no presence of either nonresponse, or common method bias in this research. Moreover, when we added firm size, respondents' education and work experience within the firm as controls in the analysis, results have not significantly changed further adding to the robustness of the observed models.

5. RESULTS

Table 1 displays the means, standard deviations and correlations of the main level variables (correlations are relatively modest, ranging from -0.085 to 0.467), table 2 displays the means, standard deviations and correlations of the external environment antecedents variables (correlations are relatively modest, ranging from 0.102 to 0.514), while table 3 displays the means, standard deviations and correlations of the entrepreneurial orientation antecedents variables (correlations are relatively modest, ranging from 0.113 to 0.701).

Table 1

Means, S.D.s, and correlations (main elements, n = 136)

	Mean	S.D.	1	2	3	4	5	6
1. Performance	4.81	1.18	1.00					
2. Financial performance	4.87	1.32	.957**	1.00				
3. Non-financial performance	4.74	1.16	.938**	.798**	1.00			
4. Entrepreneurial orientation (EO)	4.35	1.09	.390**	.292**	.467**	1.00		
5. External environment (EE)	4.38	1.04	-.082	-.085	-.061	.279**	1.00	
6. Interaction (EOxEE)			.100	.103	.081	.146+	.214*	1.00

Notes: +. Correlation is significant at the 0.1 level (2-tailed); *. Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

The correlations between main level variables are all statistically significant and positive. To provide more details, correlations between EO and performance is 0.390, EO and financial performance is 0.292, and between EO and non-financial performance is 0.467. Correlation between EO and external environment is 0.279. On the other hand, when observing the correlations between antecedents of external environment and EO, only hostility does not have statistically significant correlation, while turbulence (0.180) and dynamism (0.404) have significantly positive correlation coefficients.

Table 2

Means, S.D.s, and correlations (EE antecedents, n = 136)

	Mean	S.D.	1	2	3	4
1. Turbulence	4.64	1.39	1.00			
2. Hostility	4.68	1.21	.514**	1.00		
3. Dynamism	3.82	1.25	.484**	.506**	1.00	
4. Entrepreneurial orientation (EO)	4.35	1.09	.180*	.102	.404**	1.00

Notes: *. Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

Table 3 provides more detailed understanding of the correlation coefficients between antecedents of EO and performance. Results from table 3 support that all EO antecedents have significantly positive correlation coefficient with performance. Moreover, all antecedents have significantly positive correlation coefficient with non-financial performance, as well. However, when looking in the relationship with financial performance, only innovativeness (0.336), proactiveness (0.361), and autonomy (0.153) have significant and

positive correlation coefficients, while risk-taking and competitive aggressiveness do not exhibit statistically significant relationship.

Table 3

Means, S.D.s, and correlations (EO antecedents, n = 136)

	Mean	S.D.	1	2	3	4	5	6	7	8
1. Performance	4.81	1.18	1.00							
2. Financial perf.	4.87	1.32	.957**	1.00						
3. Non-financial perf.	4.74	1.16	.938**	.798**	1.00					
4. Innovativeness	4.64	1.48	.417**	.336**	.468**	1.00				
5. Proactiveness	4.66	1.44	.442**	.361**	.492**	.701**	1.00			
6. Risk-taking	3.86	1.50	.220*	.129	.306**	.517**	.547**	1.00		
7. Autonomy	4.70	1.38	.215*	.153+	.265**	.308**	.316**	.359**	1.00	
8. Comp. aggress.	3.91	1.52	.162+	.113	.211*	.370**	.583**	.507**	.199*	1.00

Notes: +. Correlation is significant at the 0.1 level (2-tailed); *. Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

Table 4 provides results of hypotheses testing where column 1 provides answers to the hypothesis H1 and hypothesis H3, column 2 provides answers to hypothesis H1.1 and sub-hypothesis H3a and H3b, while column 3 provides answers to the hypothesis H.1.2. Column 4 gives answer to the hypothesis H2. As it can be seen from the table 4, entrepreneurial orientation has a direct positive effect on all three types of observed performance indices of service SMEs; business performance ($\beta = 0.475$, $P < 0.01$), financial performance ($\beta = 0.403$, $P < 0.01$), and non-financial business performance ($\beta = 0.552$, $P < 0.01$). Therefore, it can be concluded there is enough statistically significant evidence to support hypothesis H1, hypothesis H1.1 and hypothesis H1.2. Hypothesis H2 is also supported since external environment positively affects entrepreneurial orientation ($\beta = 0.291$, $P < 0.01$) of service SMEs. However, there is no evidence supporting interaction effect of external environment between entrepreneurial orientation and business performance. Therefore, it can be concluded there is not enough evidence to support neither hypothesis H3, nor the sub-hypothesis H3a and sub-hypothesis H3b.

Table 4
Results of multiple linear regression analysis (main elements, n = 136)

	Performance		Financial performance		Non-financial performance		Entrepreneurial orientation	
	β	S.E.	β	S.E.	β	S.E.	β	S.E.
Entrepreneurial orientation (EO)	.475***	.088	.403***	.103	.552***	.083		
External environment (EE)	-.250***	.093	-.250**	.109	.240***	.088	.291***	.086
Interaction (EOxEE)	.090	.087	.117	.102	.055	.082		
R ²	.198***		.124***		.260***		.078***	
Adjusted R ²	.180***		.104***		.243***		.071***	
D-W test	1.943		1.919		2.007		2.314	
VIF	<2		<2		<2		1.00	
Max Cook's distance	.159		.113		.186		.081	

Notes: *P < 0.10; **P < 0.05; ***P < 0.01.

Table 5 provides results of the sub-hypotheses testing. When looking at the antecedents of entrepreneurial orientation, only proactiveness positively affects all three indices of performance. More precisely, business performance ($\beta = 0.308, P < 0.01$), financial performance ($\beta = 0.318, P < 0.01$), and non-financial performance ($\beta = 0.294, P < 0.01$) which in turn provides support for sub-hypothesis H1b, sub-hypothesis H1.1b and sub-hypothesis H1.2b. On the other hand, innovativeness has significantly positive effect on business performance ($\beta = 0.161, P < 0.10$) and non-financial performance ($\beta = 0.167, P < 0.05$), while does not influence financial performance thus providing support for sub-hypothesis H1a, and sub-hypothesis H1.2a. When analyzing antecedents of external environment, only dynamism positively affects entrepreneurial orientation ($\beta = 0.405, P < 0.01$), while the other antecedents (turbulence and hostility) do not have a positive effect, thus supporting sub-hypothesis H2c.

Table 5
Results of multiple linear regression analysis (antecedents, n = 136)

	Performance		Financial performance		Non-financial performance		Entrepreneurial orientation	
	β	S.E.	β	S.E.	β	S.E.	β	S.E.
Innovativeness	.161*	.088	.156	.103	.167**	.084		
Proactiveness	.308***	.102	.318***	.119	.294***	.097		
Risk-taking	-.046	.079	-.103	.093	.011	.075		
Autonomy	.067	.071	.050	.083	.083	.068		
Comp. aggress.	-.092	.077	-.092	.090	-.083	.073		
Turbulence							.025	.076
Hostility							-.134	.088
Dynamism							.405***	.084
R ²	.236***		.165***		.288***		.178***	
Adjusted R ²	.206***		.133***		.260***		.159***	
D-W test	1.939		1.939		2.000		2.279	
VIF	<3		<3		<3		<2	
Max Cook's distance	.106		.084		.111		.074	

Notes: *P < 0.10; **P < 0.05; ***P < 0.01.

To better understand observed moderation effects of external environment on the relationship between entrepreneurial orientation and performance, including financial and non-financial performance, we have plotted these moderation effects in a way that we have fixed external environment as the contingent variable, at high and low levels, i.e. as one standard deviation above or below the mean. Figures 1, 2 and 3 graphically represent these plotted moderation effects, and further confirm that no moderation effect exists, i.e. further confirm the rejection of the hypothesis 3, sub-hypothesis 3a, and sub-hypothesis 3b. Furthermore, figures 1, 2 and 3 provide additionally confirmation of the positive relationship between entrepreneurial orientation and performance, providing further support for hypothesis 1, hypothesis 1.1, hypothesis 1.2. However, what is interesting to note from the interpretation of these figures, is that EO-performance is stronger in a more stable environment, in comparison to higher levels of external environment, and that there is a negative EO-Financial performance relationship in the presence of low level of external environment.

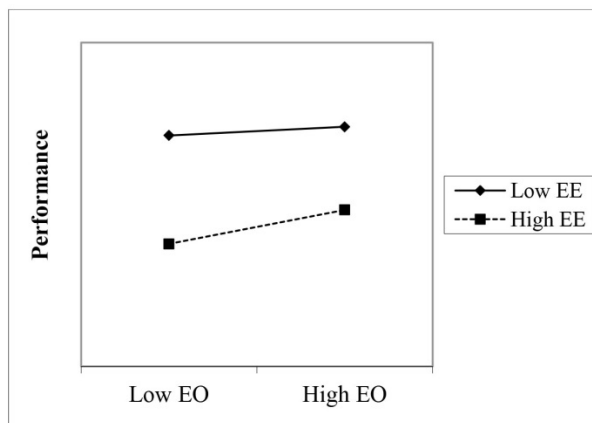


Figure 1 Moderation effect of External environment (EE) on the relationship between Entrepreneurial orientation (EO) and Performance

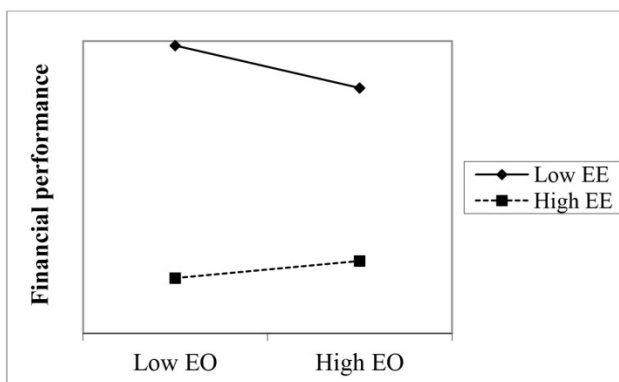


Figure 2 Moderation effect of External environment (EE) on the relationship between Entrepreneurial orientation (EO) and Financial performance

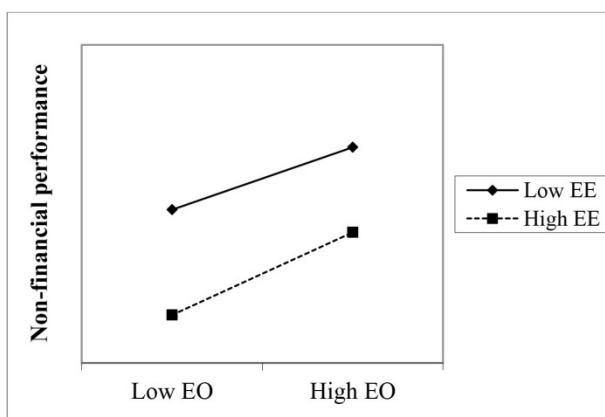


Figure 3 Moderation effect of External environment (EE) on the relationship between Entrepreneurial orientation (EO) and Non-financial performance

6. DISCUSSION

The results of our research provided interesting findings. Firstly, it has shown that the entrepreneurial orientation has a positive effect on both financial and non-financial performance of service SMEs. Out of the variables that constitute the EO construct, innovativeness and proactiveness play the most important role i.e. have the greatest influence on performance of service SMEs. Secondly, our research suggests that the external environment has a positive effect on entrepreneurial orientation of service SMEs, however dynamism has

showed to be the only significant variable having impact on the EO of service SMEs. Finally, there was no significant evidence supporting the moderation effect of external environment on the relationship between entrepreneurial orientation and business performance, which in turn suggested that the underlying hypothesis had to be rejected.

The owners and managers of service SMEs could benefit from this research. Evidence suggests that innovativeness and proactiveness especially greatly impact the performance of companies. In order for the service SMEs to achieve greater results management should establish an organizational culture and an underlying organization which would enable these characteristics to develop and be employed.

The research itself had a few limitations. Like a large number of similar studies, our research is not without its drawbacks. The main limitation of the research stems from the specificity of the selected research sample. Croatia is a small and open economy, characterized by specific legal, social, economic and cultural environment. It is reasonable to assume these environmental factors could have a moderating impact on the relationship between entrepreneurial orientation and performance of SMEs. Having that in mind, it is probable that the effects of entrepreneurial orientation on business performance of companies operating in different legal, social, economic and/or cultural environment could also differ. Therefore, in order to raise the significance of research results and validation of the obtained results, the future research sample should include a larger number of service SMEs from different countries i.e. different legal, social, economic and cultural environments.

Furthermore, one should be aware of the fact that the research was conducted in times of health crisis and specific environmental factors. This surely represents a specific market situation that affected the respondents' choice of individual answers. In order to corroborate the findings of our research additional research on different markets is required, perhaps even distinguishing between different types of service SMEs according to industry they take part in, ownership structure, degree of internationalization etc.

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ISPITIVANJE ODNOSA IZMEĐU PODUZETNIČKE ORIJENTACIJE I POSLOVNE USPJEŠNOSTI MEĐU HRVATSKIM USLUŽNIM MALIM I SREDNJIM PODUZEĆIMA

Sažetak

Odnos između poduzetničke orijentacije i poslovne uspješnosti znanstveno je već poprilično istražen. Međutim, u literaturi postoji potreba za dodatnim pojašnjenjima prethodno spomenutih koncepata i njihovih odnosa, posebice u kontekstu malih i srednjih uslužnih poduzeća. Također, prilikom promatranja navedenog odnosa potrebno je detaljnije istražiti utjecaj poduzetničke orijentacije na pojedinačne elemente poslovne uspješnosti, točnije, na financijske i nefinancijske elemente poslovne uspješnosti. Stoga, cilj je ovog rada proučiti povezanost poduzetničke orijentacije i poslovne uspješnosti malih i srednjih poduzeća, promatrajući uspješnost kao jednodimenzionalni te kao višedimenzionalni koncept. Nadalje, u radu se nastoji provjeriti postojanje moderatnog utjecaja okoline na odnos između poduzetničke orijentacije i poslovne uspješnosti hrvatskih uslužnih malih i srednjih poduzeća.

Ključne riječi: poduzetnička orijentacija, okolina, uspješnost, uslužna MSP, Hrvatska.

JEL klasifikacija: L25, L26, L80.