

# Entrepreneurial Learning as a Mediator between Entrepreneurial Orientation and SME Performance: A Conceptual Model and Research Propositions

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## Abstract

Although a considerable amount of academic research has consistently established significant positive relationship between entrepreneurial orientation and small and medium enterprises' performance, there remains a paucity of research examining the fundamental processes behind this relationship. To address this theoretical gap in the literature, a proposed mediation model is proposed. The proposed conceptual model and propositions developed was based on resource-based view (RBV) and relevant extant literature in the fields of marketing, strategic management, and entrepreneurship. In this paper, we provide a detail review of literature linking entrepreneurial orientation and SME performance. In addition, we review some extant literature to show why and in what ways entrepreneurial learning might play a mediating role between entrepreneurial orientation and SME performance. Managerial implications, limitations and further research are discussed.

Keywords: Entrepreneurial Learning; Entrepreneurial Orientation, SME performance.

## 1. Introduction

Over the past two decades, the construct entrepreneurial orientation (EO) has enjoyed a remarkable popularity as many researchers focused on disentangling the mediating mechanisms through which EO affects various organisational performance indicators Lumpkin and Dess (1996). For example, Alegre and Chiva (2013) found that organizational learning capability mediated the relationship between entrepreneurial orientation and innovation performance of Italian and Spanish firms. Al-Dhaafri et al. (2016) established that total quality management plays a mediating role between entrepreneurial orientation and the organizational performance. Li et al. (2009) found knowledge creation process to be a significant intervening variable between entrepreneurial orientation and firm performance. Drawing data from 213 small scale food firms in Norway, Veidal and Korneliussen (2013) showed that effect of entrepreneurial orientation on performance is mediated by organisational innovation. Furthermore, in German context, a study by Kollmann and Stöckmann (2014) established that both exploratory and exploitative innovations mediated the link between entrepreneurial orientation and performance.

Despite large research effort in identifying and examining the fundamental reasons why entrepreneurial orientation affects organisational performance, empirical examination of organizational learning as mediator between EO-SMEs performance relationship is limited. However, notable exception is Real et al. (2014) who found empirical evidence for the mediating role of organizational learning in the relationship between entrepreneurial orientation and business performance. The present study differs from Real et al. (2014) in the following ways. First, while the present study focused on the performance of small and medium enterprises in Nigeria (African context), Real et al. (2014) focused mainly on Spanish industrial

companies (western Europe context). Secondly, more than 50% of the sampled firms in Real et al. (2014) were large firms having total sales revenue between €10 million and €50 million, compared to the present study, which included small and medium enterprises whose sales revenues were far less than that of the former.

The purpose of this paper was to propose a mediation model of the relationship between entrepreneurial orientation and SME performance. Towards this objective, the remainder of this paper is organized as follows. Section 2 reviews the theory and literature on link between entrepreneurial orientation and SME performance, as well as the mediating role of entrepreneurial learning behind this relationship. Building on resource based view and extant empirical studies, a conceptual model is presented in section 3. In section 4, we discussed the managerial implications of this paper before considering the limitations and further research in the subsequent section. Finally, a conclusion was drawn in section 6.

## **2. Literature Review and Propositions**

### **2.1 Entrepreneurial Orientation and SME performance**

Entrepreneurial orientation has been defined as “a processes, practices, and decision-making activities that lead to new entry opportunities that can be successfully undertaken by purposeful enactment (Lumpkin and Dess 1996). A comprehensive review of literature conceptualized entrepreneurial orientation as either unidimensional or multifaceted construct (for review see Rauch et al. 2009, Covin and Wales 2012). For the sake of simplicity and parsimony this study adopted unidimensional approach in conceptualizing entrepreneurial orientation. Empirical studies have shown that entrepreneurial orientation was positively related with SME performance (Pearce et al. 2010, Real et al. 2014, Schepers et al. 2014, Wang 2008, Wiklund and Shepherd 2005, Zhang and Zhang 2012). Specifically, Pearce et al. (2010) demonstrated that entrepreneurial orientation had a significant and positive relationship with SME performance. In the same vein, Wang (2008) found a significant positive relationships between entrepreneurial orientation and performance of 213 medium-to-large UK firms. In a study involving 130 SMEs in the north-east of China, Zhang and Zhang (2012) found that entrepreneurial orientation has a positive effect on business performance. Besides the aforementioned empirical studies, several other works have established as significant positive relationship between entrepreneurial orientation and SME performance in different research contexts. Based on aforementioned empirical studies we therefore advanced the following proposition:

*Proposition 1:* Entrepreneurial orientation will be positively related to SME performance.

### **2.2 Entrepreneurial Learning as a Mediating Variable**

What is the fundamental mechanism behind the influence of entrepreneurial orientation on SME performance? One possible answer to this research question lies in the realm of entrepreneurial learning. Entrepreneurial learning has been defined as “the process by which people acquire, assimilate, and organize newly formed knowledge with preexisting structures-and how learning affects entrepreneurial action” (Holcomb et al. 2009). From a conceptual point of view, Politis (2005) suggested that entrepreneurial learning is an experiential process where enterprising persons continuously develop their entrepreneurial knowledge throughout their professional lives, thereby improving their business performance. This conceptual argument is also supported by experiential learning theory (Kolb 1981). According to experiential learning theory, a firm that could enhance its performance by acquiring, assimilating, and organizing newly formed knowledge with preexisting structures (Holcomb et al. 2009).

Accordingly, in line with theory and few extant researches (e.g., Zhang 2012, Leiva et al. 2014, Palacios-Marqués et al. 2011, Deakins and Freel 1998), we proposed that based on entrepreneurial learning might play a significant role in mediating the relationship between entrepreneurial orientation and SME performance. Accordingly, we proposed entrepreneurial learning to be a potential mediator between entrepreneurial orientation and SME performance for two main reasons. First, our argument is based on the work of Leiva et al. (2014) who established a significant and positive relationship between entrepreneurial learning in new firms' performance. This reasoning is also consistent with Deakins and Freel (1998) who argued that entrepreneurial learning is an important consideration in growth process of SMEs. Second, we argued that entrepreneurial learning represents a fundamental reason why entrepreneurial orientation influences SME performance. Specifically, entrepreneurial orientation will be related to business performance through organizational learning. Thus, we argued that entrepreneurial orientation will initiate organizational learning ability which will subsequently lead to superior SME performance. Based on this logical explanation and prior research, we advanced the following propositions:

*Proposition 2:* Entrepreneurial learning will mediate the positive relationship between entrepreneurial orientation and SME performance.

### 3. A Proposed Conceptual Model

A conceptual model, which builds on resource based view (1991), as well as extant empirical studies, such as Pearce et al. (2010), Wang (2008), Zhang and Zhang (2012), and Deakins and Freel (1998), among others, is depicted in Figure 1. In this proposed model both entrepreneurial orientation and entrepreneurial learning are viewed as firm's unique, valuable, rare, imperfectly imitable, and, strategically non-substitutable, which serve as a source of a sustained competitive advantage. The conceptual model further suggests entrepreneurial orientation as an independent variable explaining SME performance, which has been casted as the dependent variable. Finally, the model suggests that the fundamental mechanism (potential mediating variable) behind the link between entrepreneurial orientation and SME performance is the entrepreneurial learning

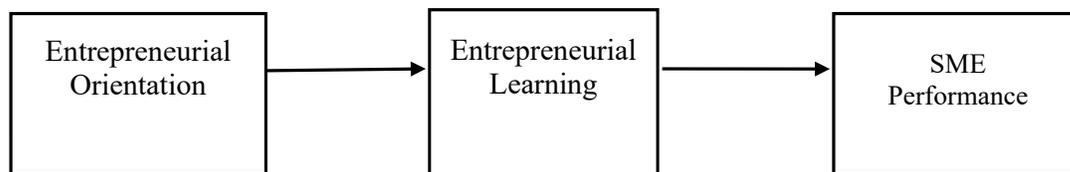


Figure 1: Conceptual Model

### 4. Managerial Implications

This paper proposed entrepreneurial learning as a potential mediating variable in the positive relationship between entrepreneurial orientation and SME performance. Based on the synthesis of extant literature, some few managerial implications need to be discussed. First, the paper provides an important insight into why and how entrepreneurial orientation could enhance the overall performance of SMEs. Second, the paper would serve as a blueprint for the policy-makers and practitioners in formulating vital policies that could assist and help in improving the overall performance of SMEs. Specifically, this paper suggests that managers of SMEs require working alongside strategic business units, including marketing and quality assurance departments to map out and implement entrepreneurial strategy that help in

promoting customer satisfaction and firm performance (Lai 2003, Lai and Cheng 2005). Finally, the paper implies the need to encourage employees' involvement and participation in carrying out this strategy. This could be achieved by developing formal reward and recognition systems in order to encourage employee involvement and participation, provide feedback to the employees, as well as support teamwork (Demirbag et al. 2006).

## 5. Limitations and Further Research

A noticeable limitation of our proposed model is that it has not been tested empirically. Accordingly, empirical data ought to be collected from the field to test the propositions advanced. Currently, lack of empirical data through survey approach is a major limitation of the present work. Given this limitation, in later empirical stage, survey data rather than theoretical perspective confirm whether propositions advanced hold true or not. From methodological perspective, there is paucity of psychometric scales for measuring entrepreneurial learning. This suggests that development and validation of psychometric scales for this construct represents promising future research directions. Another limitation is that this paper is limited to only entrepreneurial learning as the potential mediating variable. Besides entrepreneurial learning, resource based view and extant empirical research suggest other potential mediators behind this relationship. Specifically, several research questions need to be address in future researches. For example: Does market-relating capabilities mediate the relationship between entrepreneurial orientation SME performance (cf. Chen et al. 2017)? Is marketing capability a fundamental mechanism linking entrepreneurial orientation - SME performance relationship (cf. Bucic et al. 2017)? Why does core business process capabilities matter in gaining superior business performance (cf. Jaakkola et al. 2015)?

## 6. Conclusion

This paper posits that entrepreneurial learning is an important mechanism through which the entrepreneurial orientation is positively related to SME performance. In conclusion, the present study has extended our knowledge of the underlying mechanism through which entrepreneurial orientation affects SME performance. The proposed model is notable because it is well grounded in aspects of the literatures on entrepreneurial orientation. Thus, relationship between entrepreneurial orientation and SME performance might be mediated by entrepreneurial learning if a survey data is collected toward testing propositions that have been advanced.

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