

## **Research Report**

# **Entrepreneurial Orientation and Business Performance in Japanese SMEs Mediated by Marketing Capabilities and Environment Hostility and Dynamism**

by

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## Certification Page

I, Al Hour Alhoms MHD Emad MHE Omar (52119604) hereby declare that this a true and original research report and the content and information inside this research report were never submitted to another educational institution or university to obtain an award or diploma.

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## Chapter 1: Summary

In order to have a successful business in hostile and dynamic environment like Japan, SMEs in general need to focus more on the strategy and posture for two reasons, first, to secure a stable growth and second, to overcome the scarcity of resources and shortage in funding. One of the effective ways to have a stable growth and overcome the challenges in the external business environment is to have an entrepreneurial orientation. Moreover, the companies that do not promote its strategy continuously it might suffer from lack of performance.

Entrepreneurial activities have been one of key factors to the company in order to get competitive advantages; especially for small firms who usually lacked resources and liquidity. In this study I tried to investigate many other scholars report and article in order to gain the most effective formula used to make a balance between the three dimensions of Entrepreneurial Orientation (EO); proactive, innovativeness and risk taking. Furthermore, studying the relationship between entrepreneurial orientation and business performance will give a general overview on the topic, as many previous researchers suggested to study this relationship with a mediating role. Hence, the study is investigating small and micro-small firms in Japan which will be more accurate when adding mediator. Consequently, this report is testing the relationship between entrepreneurial orientation and business performance with respect of two important mediator, marketing capability and environment.

The findings show that -in all collected data- innovativeness impacts positively to the business performance. Interestingly, a medium level of innovativeness will lever the business level in the tested sample. In the other hand the study showed a mix outcome for proactiveness, it shows that the proactiveness has an impact on the business performance, but it is not significant compared to innovativeness. Moreover, a low level of

proactiveness will be ideal for a small firm and micro-small firms. While a high level of risk taking will be not going to lead to a greater performance neither a medium one as well. Independent mediator test showed that the high level of marketing capability is having a positive effect on the outcome, which is business performance in one hand, and in the other hand the environment can play dual role in term of leveraging the business performance.

EO stands for a strategic posture that enable the firm to produce a certain value for business by adopting a certain procedures and activities (Lumpkin & Dess, 1996). It has arisen as a salient strategical posture attracting enormous textbooks (Morris et al., 2010), journals (Covin et al., 2006; Messersmith and Wales, in the press) and press (Certo et al., 2009). There are two main reasons for conducting this research study. First, to extend the view on the width and spread of the EO and its practice within the organization. Second, in the last decades the previous literature and studies on EO had been individually focusing on the small part of this relationship, and in most of the case they did not apply the role of mediator as significant role in order to study EO-performance relationship. These subsets of mediators were the reason behind have a mix finding for the EO-performance relationship and therefore, the debate about this relationship increased. Consequently, studying the relationship itself would give us a minor overview with insufficient outcomes for the studied issue and therefore, this research study is aiming to review what have been done by other scholars to have an overall view on the EO-performance thus, to shed the light on the moderating role of marketing capability and environment as an independent variable to have in depth assessment of variables mediating the EO-performance relationship.

## Chapter 2: Overview on SMEs in Japan

### I. Introduction

Entrepreneurship has been under many scholar's scope; many literatures conducted have used an empirical method; suggested that there are different economic variables can impact the economic growth might be non-economic variables as well (Sala-i-Martin, 1997, Bleany & Nishiyama, 2002). Entrepreneurship may affect the economic growth in many ways according to (Acs & Audretsch D, 1990) (Acs & Audretsch, 2003) who argue that entrepreneurs can introduce a new innovation by penetrating a market with a new service or a product and other than that they can introduce a new production process as well.

In the last three decade there were a growing interest on the entrepreneurial orientation (EO) as strategy for organization posture. This interest started to take another turn especially at the level of small firms who suffered from lack of resources and liquidity, thus for those small firms is essential to develop an effective business strategy to overcome the lack of resources and liquidity (Thornhill & Amit, 2003). Entrepreneurial orientation (EO) as a strategy with its three dimensions concluded in proactiveness, innovativeness and risk-taking is facilitating the exploration of opportunities (Lumpkin & Dess, 1996) (Lumpkin, Cogliser, & Schneider, 2009). In general, the relationship between entrepreneurial orientation and performance had been proved, (Covin & Slevin, 1991) stated that the entrepreneurial activities can have a positive relationship on the performance of the firm adopted those activities. The relationship EO-performance presented in meta-analysis done by (Rauch et al.,2009).

This concerns and interest started to take another turn when scholars and practitioners tried to investigate the relationship between the entrepreneurial orientation and performance at so many levels and the relationship between those two mediated by many other aspects. As an example, (Lumpkin & Dess, 1996) proposed that the relationship between (EO) and performance mediate by variables both external and internal.

Generally, researchers tested a positive relationship between EO and performance, this relationship can be mediated by varied variables makes different pattern of the relationship between entrepreneurial orientation (EO) and performance (Messersmith & W, 2011; Rauch, Wiklund, Lumpkin, & F, 2009; Wales, Gupta, & F-T, 2011a).

Reviewing previous articles in the field will contribute for a better understanding of EO-performance relationship in one hand and enable us to realize the variable roles mediate the relationship in the other hand. Also, as Davies stated empirical studies “are limited in the generalizability of the knowledge they produce about concepts, populations, settings and times’ and ‘frequently illuminate only one part of a larger explanatory puzzle” (2000: 366).

Investigating the relationship between entrepreneurial orientation (EO) and performance gave a various finding some scholars regarded this relationship as positive, while others reported a negative relationship between the two; in some other cases the relationship were insignificant. In this report I was trying to investigate the relationship between the entrepreneurial orientation (EO) and performance in Japanese SMEs with a unique study of four cases operating in Japan. Raising some questions to be answer.

Drawing on other scholars work as stated earlier, the important of this research has two perspective First, is to review in detail about what had been done in this field. Moreover, to shed the light on the EO-performance relationship with mediating roles of two important variables environment and marketing capabilities. **Second**, to shed the light on the performance of tested company in Japan precisely a small firm located in Oita which are a young and small firm to understand the role of the EO components with respect of mediators as an independent variable. As a result, the following questions arise and need to be investigated according to the data collected.

- i. Does entrepreneurial orientation (EO) have a significant impact on the business performance in small and micro-small companies in Japan?
- ii. what kind of impact does entrepreneurial orientation (EO) have on business performance in small and micro-small companies in Japan?

- iii. How can a mediator, like marketing capabilities and environment shape the relationship between entrepreneurial orientation (EO) and performance in small and micro-small companies in Japan?
- iv. Are the mediators on the previous question have the same impact on the relationship EO-performance in small and micro-small companies in Japan?

## II. SMEs in Japan

In this chapter I will explain the current situation of the Japanese the small and medium enterprises (SME), and the problems and challenges that these enterprises are encountered to give a holistic overview on these enterprises as the are they will be core subject to be studied in this research.

In report conducted by Ministry of Economy, Trade, and Industry (METI) represents the important of SMEs for the national economy, they stated that Japan has more than 96% SMEs of total Japanese enterprises nationwide, and that including industries like: service, manufacturing, and commerce firms. SMEs in Japan encounter many severe issues, some of these issues can conclude in, the rise of emerging countries in Asia, appreciating of the national currency, and also the natural crisis. Therefore, these problems and challenges were the imputes behind many governmental laws and regulations to support SMEs in Japan and enhance its role to play a major part and contribute to the national economy of Japan.

Nowadays, the Japanese population is suffering from ageing and that led to natural result, which is lacking the workforce, and as a result of this problems, the domestic demand is decreased in the last decade and therefore the governance adopted more polices to overcome this problem by supporting SMEs nationwide to prevent closure and assure the sustainability for those businesses.

In the last two-decade, Japanese SMEs are decreasing, as a "Statistical Survey of Business Establishments and Corporations" conducted by the Ministry of Internal Affairs and Communications showed that there are dropping in SMEs number from 4.19 million enterprise in 2006 to 3.66 million in 2009. Currently



the SMEs in Japan bouncing up and reach 3.81 million enterprise. Moreover, due to the effect of Covid-19 the SMEs that went bankrupt during the pandemic formed 80% of total bankruptcy in Japan.

Industry	SMEs (it should meet one or more of the following)		Small enterprises
	Capital	Number of full-time employees	Number of full- time employees
1- Manufacturing, construction, transport, other industries	Less than ¥300 million	Less than 300	Less than 20
2-Service	Less than ¥50 million	Less than 100	Less than 5
3-Wholesale	Less than ¥100 million	Less than 100	Less than 5
4-Retail	Less than ¥50 million	Less than 50	Less than 5

Table 1 The resource is white paper published by National Association of Small and Medium Enterprise

Promotion Organizations METI in 2019

The pandemic has increased the uncertainty among the firms, leaving a bad effect on them and that makes it more difficult for managers to anticipate the future and as result effected the decision-making process.

Generally, in Japan we can categorized the company on the reported capital and according to the number of full-time employees. In Japan also the small firms are consisting of two types: small firms and micro small firms. The following table show the requirement to be considered as SMEs.

The significant of SMEs in japan came from two paramount reasons. Firstly, the good founded small business is likely to become a big, prominent, famous company like for example Sony and Honda (Sato, 2013). Hence the small business has a great chance to be major company in the future. Secondly, reactivation of the SME will help to bring the competition to the market.

## **Chapter 3: Literature review**

### **1-Entrepreneurial orientation and its components**

Entrepreneurial orientation has an origin based in the process of strategy-making phase (e.g., Mintzberg, 1973). The process of the strategy making in organization consists of many important aspects in order to reach its final goal, and those for example planning, decision making, analyzing and many other aspects like organization value, vision, and mission (Hart, 1992). The latter is consistently with Mintzberg, Raisinghani, and Theoret who stated that strategy making is “important, in terms of the actions taken, the resources committed, or the precedents set” (1976, p. 246), in this process EO Is representing the practices and the policies of the entrepreneurial strategy-making in which the decision makers are used to create a new policies and roles in their organization, tolerate and evolve its vision, and produce a new competitive advantage(s). Danny Miller in his groundbreaking article debated that “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” (1983: 771). Furthermore, the distinctive three dimensions of the EO innovativeness, proactiveness and risk taking were introduced by Miller (1983) as the core of EO, and those three components combined with each other to raise an advance indicator of the entrepreneurship at the firm-level (Covin & Wales, 2012; Rauch et al., 2009). There are two more dimensions of EO had been introduced by Lumpkin and Dess (1996) which are competitive aggressiveness and autonomy. Taking in consideration the two added aspects of EO, will enable us to understand the scope of EO in organization strategy-making. They defined the competitive aggressiveness as an effort applied by the organization to overcome the competitors in the market and that will happen by maintaining encounter strategy, while autonomy defined as the members of the organization in a solitary state are be able to chase and fulfil the entrepreneurial thoughts and goals. As Zahra, Jennings, & Kuratko stated that EO and corporate entrepreneurship have a similar concept and as a result can be compared to each other (1999), the same goes for the term “small business orientation” as Runyan, Droge and Swinney stated (2008).

## **2-The relationship between performance and EO**

Theoretical debates of previous literature stated that the foundation of EO in the firms will over time lead to sustained and prominent performance (Lumpkin and Dess, 1996; Rauch, Wiklund, Lumpkin and Frese, 2009). Moreover, EO research centers around the EO-performance relationship or the impact of dependent variables. In any case, there are few investigations that break down the predecessor’s studies of EO and investigate the impacts of certain factors like influence of the environment (Becherer & and Maurer, 1997), the important stratgical predecures (Green, Covin, & and Slevin, 2008), or the distinctive possessed by the upper management (Simsek, Heavey, & and Veiga, 2010). Rauch et al. (2009) argued that enhancing the firm performance can came form adopting EO as a strategy posture, furthermore EO can encourage the progression of products, new oppurtuinities, services, and creating idea for a new business (e.g., Bhuian et al. 2005; Rauch et al. 2009; Hakala 2013).

The theoretical debates of past research concentrate on the possibility that organizations advantage from featuring originality, responsiveness, and a level of boldness. Broad conversation of the contentions can be found in (Lumpkin & Dess, 1996). EO is viewed as the company's configuration toward consenting pioneering practices includes entrepreneurial practices, decision making and procedures (Matsuno, Zhu, & Rice, 2014). Those practices portrayed by the five majors' components of the EO as, innovativeness, proactiveness, risk taking, competitive aggressiveness and autonomy, and those combined will be possibly easing pursuing of new opportunities in the market (Lumpkin & Dess, 1996, Altinay, Madanoglu, De Vita, Arasli, & and Ekinici, 2016). Furthermore, Covin and Wales stated that EO is viewed as "driving force behind the organizational pursuit of entrepreneurial activities" (2012, p. 1). In order to have the capacity required for persistent distinguish and create of new business opening in the market the firm should adopt an EO strategy, furthermore; the ability to identify the opportunities can improve the intent of reaching a sustain competitive advantage (José Ruiz-Ortega et al. 2013; Wiklund & and Shepherd, 2003). In this regard an important question needs to be answer about EO-performance relationship. Firstly, is the relationship between EO-performance tested as positive? Secondly, is the increasing of EO adopted by firm, lead to increase in company performance?

### **3-Main components of EO**

Innovativeness point outs to the company's penchant to backup groundbreaking thoughts, newness, and inventiveness, and the cycle that outcomes in not only new items or service but also in technological process creation (Lumpkin & Dess, 1996). Proactiveness addresses a future viewpoint, this component is attempting to expect changes and openings in the climate, in order to grow new items or add enhancements in the current items, distinguish future market directions, and advance changes in strategies (Hughes & and Morgan, 2007). The embodiment of proactiveness is in an association's capacity to introduce new items and services with benefiting from opportunities opening in the market (Wang & and Altinay, 2012). Risk-taking addresses the ability to make the most of chances that have emerged in the environment, although the firm knows neither the probability of its prosperity nor the outcomes of its activities (Lumpkin & Dess, 1996). Competitive

aggressiveness, addresses the association's conduct to advance their situation in the business, testing its rivals straightforwardly and intensively (Lumpkin & Dess, 1996). Lastly, autonomy which alludes to the ability of the firm to permit the autonomous individual or group activity and supporting a thought or vision and getting it to accomplishment in a self-directed measure (Hughes & and Morgan, 2007). In these five components of EO this study is discussing three as a major component, which are innovativeness, proactiveness and risk taking.

De Clercq, Dimov, & and Thongpapanl Stated, in the previous study, that there are two different approach for conceptualizations the EO in firm, the first approach is multidimensional, while the second approach is composite dimension approach. They also highlighted that “recent reflections suggest that neither approach is intrinsically superior.” (2013). As indicated by Covin and Slevin (1991), the EO subdimensions are basically social appearances of an essential direction. This concludes that an modification of one measurement alone would not be reflected on an adjustment of EO, however an modification of an association's EO would produce an modification of each of the five measurements (Zhang, Zhang, Cai, Li and Wei, 2016). Consequently, all five dimension of EO could be presented highly in firms for each dimension. Hence, when each measurement changes in separate and independent way, then this conduct cannot be described or considered as entrepreneurial, and EO recognized to be seen as a second-order reflective model (George, 2011).

#### **4-The role of mediator**

Previous literature argued that many of variables that possibly intermediate the relationship between EO and business performance, (Lumpkin & Dess, 1996; Zahra & Covin, 1995; Zahra & Garvis, 2000). The mediator was divided into many category, internal mediator like competency and knowledge (Wiklund & Shepherd, 2003), and external variables concluded in environmental mediator (e.g., Tan & Tan, 2005).

Environment, organizations evaluate the environment as a crucial contingency in many journals that interested in strategy and organization theory (cf., Child 1972). Many research and concepts that studied the environment are aligned with three dimensions stated by (Dees and Beards 1984), these three dimensions are:

dynamism, complexity, and munificence. There are two wide use approaches to understand the concept of environment, the first one as bank of data and the second as an information resource (Aldrich and Mindlin 1978). The core of environment three components is that both complexity and dynamism are representing the level of uncertainty that the firm is facing, while the munificence is how much the firm's reliance on the resources founded in these environments. In this research I draw on two themes to investigate the environment as a variable, the first one is dynamism which is the degree of uncertainty that the firm is facing in particular environment, it reflects the changes in the firm's surrounded environment that are hard to be anticipated (Child, 1972). In addition, Dynamism additionally demonstrates vulnerability that lessening the capacity of administrators to foresee future occasions just as their effect on the firm (Khandwalla 1977). The second theme is hostility, that regularly used to monitor munificence, is expressive of the shortage of resource along with the level of competition in order to get those resources available in the environment (Zahra & and Covin, 1995). (Chen and Hambrick 1995), described the proactiveness as taking the lead to reproduce an opportunity appeared in the environment.

In this study I concentrate on three main components that distinctive EO in the firm, innovativeness, proactiveness, and risk taking.

## **5-Marketing capabilities as internal mediated variable**

Literature that focusing on marketing and entrepreneurship have widely utilize a resource-based theory RBV, this theory in particular enable us to understand the different performance of the firms from resource-based point of view (Villanueva, Van de Ven, & and Sapienza, 2012; O'Cass & and Sok, 2014).

In the small and micro small business, the strategy is to concentrate on the newcomer's notion (Lumpkin and Dess, 1996; Tajeddini, 2010; Kollmann and Stöckmann, 2014). Small and micro small firms who offer a new products and services or even an existing one; are focusing usually on guarantee a smooth delivery of their

products and services and this concept should align with the customer's needs and offered in a way that an advantage from other competitors is assured in the market (Kang, Hur, & Kim, 2014).

Technological achievements done by intensive research and developments done in company with heavy amount in assets and human capital. These achievements in most of the cases are the outcomes of intense, long time of evolvement and investment of innovation. Moreover, technological achievements might be concluded in creating a new service, new product, or developing a process in the business cycle. Consequently, these achievements have no meaning if the idea trapped in the labs of R&D without any outcome emerged from it, or without any commercial plans interpreting these technological achievements into business model in order to generate profits (Byrd, 2002). In the same regard developing or achieving a new technology that give the firm a relatively an advantage among other competitors needs a proper marketing plan. Many literatures emphasis the relationship between innovation and marketing as a crucial and most important relationship in the business. The marketing capabilities have an enormous impact on the innovation (Weerawardena 2003). In this study marketing capabilities indicates to the capacity inside the firm to develop, promote, and utilize the feature that related to the marketing of services or products. Moreover, these features might be the network that doing the promotion or distribution in order to build a powerful, strong, and reliable brand that delivered to customer efficiently. Consequently, we can detect the marketing capability in many perspectives, but here I select three different perspectives to investigate the marketing capabilities and to sense the company behavior, First, market sensing, which is very important perspective in the firm, this dimension indicates the capacity of anticipating abilities to obtain and discover emerging opportunities in the market. Consequently, these emerged opportunities will be gained from the business environment (Day, 2011; Teece, Pisano, and Shuen, 1997). Second perspective, customer engaging, that alludes to the close relationship with the customers on the long-term bases (e.g., Park, MacInnis, Priester, Eisingerich, & Iacobucci, 2010). Last perspective, partner linking which indicates the capability of the firm to deal with partners and create value form aligning resources and ability of the partner.

Marketing has many aspects, as Atuahene – Gima (1993) stated that there are seven factors should be tested in order to identify marketing problems. These factors can be used to engage in business by targeting markets. The capabilities in this research are refer to sales, product diversification, and lastly the analysis done

by firms to investigate a new segment. One of the intangible assets which enable the firm to have an advantage in the market is the competence in the marketing, this asset is also included within the marketing capabilities. Furthermore, this competence could be something related using an advance program in order to analysis big data or powerful sales team that can meet the goals and targets of the company.

## **Chapter 4: Method and theoretical framework**

In this study two of the most common theories utilized, first theory is RBV or resource-based theory along with contingency theory, to ensure a better understanding of EO-performance relationship with moderating role of marketing capabilities and environment in from tow perspectives dynamism and hostility. The traditional resource-based theory implies that if firm wants to achieve its own goals it should secure a high resource to ensure goals achievement (Penrose, 1959). Resources in this regard is commonly two types, the tangible resources like tangible assets, and intangible assets like capabilities, competence, and knowledge. In the same regard, EO considered as a capability as well (Bakar and Ahmad,2010). There are a variety of resources in which the company can acquire its competitive advantage. Moreover, the resources feature`s should be significant, uncommon, incomparable, and non-substitutable (Porter, 1990). RBV theory assumes that the strength applied in order to control the firm recourses is heterogeneous and varied, furthermore, these resources, held inside the firm, are unique because it`s too hard to reproduce over again, (Day, 2011). The main idea of having EO in firm is to apply the EO essential components in order to take advantage of opportunities in the market (Covin and Wales, 2012). For this reason, RBV is considering EO to be intangible capability inside the firm. There is a huge different between EO in large firms, which rely on its own strong assets, to promote to R&D projects and to catalyze their employees (Andersen, 2010). In small medium size firms (SMEs), which they already lack resources, the situation is different; they depend on making a special connection with their customers, and later



this connection will give these small-medium size firm the ability to understand the current and future needs of its own costumers; which eventually lead to the most favorable performance (Luz, 2010). It is important to have a commercial strategy in particular when the firm investing money, time and human capital in R&D projects, all that will be meaningless without a clear commercial strategy to translate this achievement and discoveries into successful technological business to generate profit out of it. Invaluable resource that firms hold might come up with an exceptional innovation, whether if its incremental or radical both will enable the firm providing products, services, or process. Furthermore, this exceptional innovation is hard to imitation, relatively lasting for a long time, and has the upper hand compare to other resources (Collis and Montgomery, 2008).

Scholars in this field suggested that, all the skills set and the know-how that the employees do are the direct driver of the firm`s performance, and that because all the decisions related to work is done by the employees.

In this study intangible resources IR could be summarized in two main subjects, first is EO with its three main components- innovativeness, proactiveness, and risk taking- and the other one is the mediating factor represented in marketing capabilities. In the other hand, EO in this study refers to a strategy that the firm adopted in order to seek an advantage or enhance its performance, therefore, EO is considered as a knowledge and can be treated as an intangible resource IR. The following figure explains the utilizing of resources-based theory in this study.

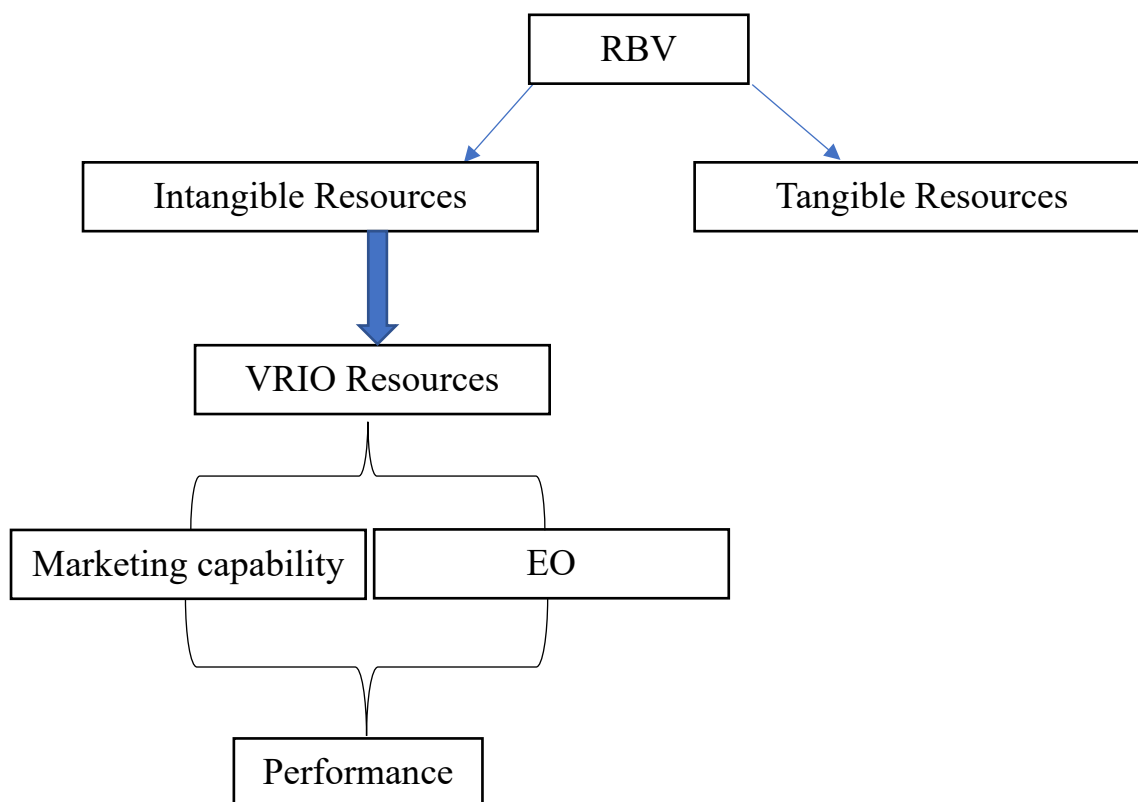


Figure 1 utilizing RBV

The environmental dynamism has a major effect on SMEs, the types of environment dynamism whether if it is a hustle environment or static one can one way or another effect the business performance. As a result, the last side of the equation will be change by the mediator's role of environment dynamism. In this regard it is very important to rely on contingency theory along with resource-based theory RBV. Furthermore, the reason behind utilizing another theory in the research, is because there is no single universal theory is able to give impeccable and valid standard outcomes applied for all firms, and that's why this study is considering two main theories to expand the research on EO-performance and to asse the measures of variables included in this equation.

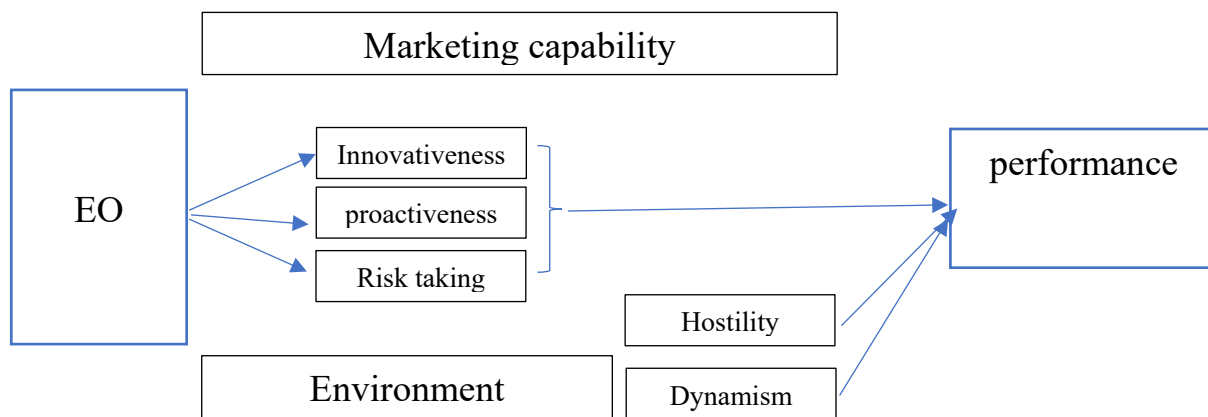


Figure 2 shows the framework of the study in term of independent and dependent variables

## Sample and measurement

### *1-Method*

The research is descriptive research and therefore, it was conducted to obtain a holistic view of the small and micro-small business of the studied companies in Japan. Hence, a qualitative approach was used to obtain a maximum benefit from the sample. As a qualitative research an intensive interview conducted with co-founder in three out of total sample. In some cases, two interviews were conducted with three co-founders of small and micro-small firms in Japan. Furthermore, all tested firms are operating or started their business in Oita prefecture, however one of these companies moved out to another Osaka prefecture one year after starting business.

### *2-data collection*

The main goal of data collection was to contact a co-founder of small and micro-small enterprise in Japan. The sample was a heterogeneous collection of set of companies, the reason behind taking a heterogeneous set of companies is to make a holistic point of view and to generalize the research on SMEs in Japan. Therefore,

in this research I tried to have a different type of industries and different type of business domain to obtain a diversity in the sample in order to achieve generalization to my research. The four companies investigated in this research are operating in the same environment and they are relatively new. In three out of four companies studied in this research, the information obtained from the company's co-founder, while the last one was with an executive. Those interviewees are responsible and engage directly in strategy making of their companies. Consequently, the person with great knowledge has been answering the questions during the process to avoid mistakes.

In general, the SMEs tend to have more concentrated power in term of managerial than those found in the large firms, at the light of this tendency, entrepreneurs are regarded to be at the center of the process of decision - making, consequently, for this reason both entrepreneurial orientation of decision-makers equal to the orientation of the firm (Lumpkin and Dess, 1996).

I tried to select small and micro small business in Oita specifically and all over Japan in general, the companies obtained in this research are representing (food and beverage, information technology, and service) industry. Moreover, it contains three APU former students as co-founder, two companies out of four were engaging in product-base business, one of them mainly focusing on e-commerce. The other two were mainly focusing on service, one of them was an IT company. The interviews held online, and a word file distributed before every session to give a general insight of the research in one hand and to have a smooth and comfortable interview with the representatives. Interviews were conducted two to three times and each of them were 1 hour long.

The set of questions used in the interviews regarding size of firm, year of establishment, number of employees and scope of business was sent to interviewees a before conducting the interviews to have a general understanding of the studied sample. During the interviews, I used a set of questions divided into different subjects. These questions were mainly for marketing capability, EO, and environment. Moreover, I give the interviewee a space in which he explained more about his business and improvement during and post covid-19. As well as to explain about their aiming for the future, as a mid-term strategy.

*Table 2 Sample of investigated companies*

Company	Age	Number of Employee	Location	Main product or service
1	4 years	9	Japan, Oita	IT service
2	3 years	3	Japan, Osaka	Importing and manufacturing coffee
3	4 years	4	Japan, Oita	Food delivery service
4	2 years	2	Japan, Oita	Importing food/ ecommerce

### *3- The effect of direct variables*

The variables usually divided into two main categories, the first one is independent variables, which have a direct effect on the outcome of the study. And the second one is dependent variable here in this research refers to performance. The type of the variables tested here were ordinal variables as the research constructs on qualitative method. Both independent and dependent variable of the study have three category, low, medium, and high.

Main concentrate was on the domestic environment, both marketing capability and environment regarded as a direct variable for the outcome of this study, the performance of tested firms.

### *4- Effects and Measurement of EO components*

The measurements of the EO components and all other variables were varied in the investigated sample and the main reason for that is the sample was selected from different industry as heterogenous sample, in order to have an overview of the EO-performance relationship with mediating role of two main variables, marketing capability and environment.

#### *4-1-EO components*

Innovativeness measured by three items which were first introduced by (Covin & Slevin, 1989). There are mainly two categories among the sample. The first one, that the companies who adopted a low scale of innovativeness that characterized by; limited introduction of new line of services and products, R&D activities was not a priority or not been stressed out, and finally has a weak emphasis on products or service development in general. This type with low level of innovativeness has spotted to associated with low performance. One case has showed that establishing a new IT department to develop the website and be more flexible in one hand and accurately interpret the vision of the company in the other hand might be costly and the firm is relying more on outsourcing it would be less expensive, however it can directly affect the performance of the firm as enhancements done by other firm.

The second category is the companies with medium scale of innovativeness, who are engaged effectively in introducing a new line of service and products beside developing their current service and product with low invest in R&D. This type was associated with significance improving performance compared with the first category. For instant, information technology who is operating in Oita had develop and new service concluded in developing a security key can work with a new locking mechanism, the company now in the process of enhancing this technology to utilize it for other future applications in different sector, like warehouse, personal use and other. New enhanced technology can foster firm performance in several ways, by increasing in sales in one hand and by strengthen the position in rapid hostile environment in the other hand. Also, another case has shown that starting a new product had led directly to bounce the performance of the company.

The large scale of innovativeness was projected to be associated with low performance due to an intensive invest in R&D that most of small and micro small firms cannot afford it or they believe it will not lead to company growth nor to have an increase in profit in short-medium term. For instance, when conducting an interview with information technology firm, co-founder stated that they will not be able to have large-scale engagement with radical or even incremental innovation as it cost time, effort, and the most important needs a rare talent to start such an activity.

Proactiveness, has been tested under two main perspectives initiative and first to introduce a product or service. The companies who showed a high level of initiative were have a greater business performance compared with those with low level. Furthermore, the companies who consistently introduce a new service or product, were spotted to have a better performance. Seeking opportunities in the market is essential for any industry, taking the chance to introduce a new product or service could be beneficial to the company, however one case has shown that being late or not being proactive will let other competitors take advantage in the market. In e-commerce industry and service industry, it is essential to introduce a new improvement whether if it is in online display, or in introducing a new service like for instance adding a new payment method, point system, discount voucher, and other. These new additives are sometimes considered to be vital in term of proactiveness, as sometimes other competitors might have an advantage by introducing the same improvement to their websites or applications. In spite of that, a slight improvement in performance had been shown in case of ecommerce firm represented by introducing a new payment method and adding changing in website display layout in which they enabled visitors to have better experience. Co-founder of food delivery service in Beppu has claimed that because of the weak financial of his company, he is struggling in introducing a new feature to his application and on many occasion other competitors took advantage and introduce the same feature before he did. Moreover, according to his statement he added that if he was the first to introduce a new feature, he might gain a good performance.

Risk taking, entrepreneurial choices can be influenced by the decision of the managers who are the in many cases the owner of a small firms, this variance from one to another emerged from the behavior of each one and the consequences of the decision made by these managers and the potential loss associated with such of decision (Dew, Sarasvathy, Read, & Wiltbank, 2009).

The measurement of this variable can be concluded in one main point, strong tendency to adopt a high-risk project with chance of high return as outcomes will have a negative effect on the performance in certain industries and might foster the performance in other. In case of IT industry, top management tend to take a high-risk project coupled with high return. Co-founder in of IT firm has claimed that the company strategy is based on taking project with high risk, in addition this strategy is the role key of their successful in this hostile environment he added. In other cases, there were no tendency to take risk in any particular situation. As importer

and manufacturer co-founder of the business when he been asked about risk taking and the potential to import more raw materials than the market need, he answered that he is not going to take this decision, because it's related to many other aspects, like for example, the extra imported material needs a bigger warehouse and cost of shipping will increase and there is no guarantee that the market absorb this extra amount. In the same regard, if the company wants to take a high risk and start a whole new product that is not yet produced by other in the market, a higher cost will be appeared, and the uncertainty in how much this product could be successful in the market also will emerge and as a result the company will suffer from a huge loss if the launching failure or any trouble happened, therefore adopting such a strategy is associated with high-risk. Intransigently, the companies at small and micro-small size have a low boldness to take such an action instead they prefer to have wait-and-see posture in this case and to have a late entrance rather than early one.

#### *5-The direct effect of mediating independent variables*

Marketing capability, regarded as an eternal variable, it was measured by many aspects like using digital marketing to retain customers, conducting market research continuously by using sophisticated technique to do it, and finally the adequate of the promotion and ads of the company.

The company who uses marketing capabilities more often has recorded a better business performance. In contrast the companies who have less marketing capabilities was suffer from a low business performance like low revenue and sales growth and as a result a low profit. One case from studied sample has showed that utilizing a professional marketing agency as strategic partner is the role key to foster the business as the partnership will be beneficial for both sides. Moreover, this partnership is good for company to focus on their business at the same time professional marketing agency which has all the important equipment and capabilities to explore opportunities and introduce them to the IT company. Co-founder of the IT company when been asked about the efficient of this strategy, he said that the business is growing, and the company is establishing another office now in India due to increasing on projects. In the other cases there were a positive relationship between using marketing capabilities and busines performance. In case of food delivery application, co-founder has done many market research and tests cooperating with marketing agency to do the job. These activities not only enabled the firm in very early stage to have an insight of the market and what obstacles might face in the future,



but also improve future operation of the firm and that reflected in the business performance as a result.

According to manager at ecommerce firm, he assured that the company he is working in is marketing firm who has a know-how and capabilities that enabled the company to expand their business and start an ecommerce firm, “the company had all the necessary data to start in their business on a solid foundation” according to the same manager, the prominent observation according to the same manager that the launching of their service was successful and they already started “phase2” of their business.

Environment, in this study focus on hostility and dynamism of the domestic environment and used as two important dimensions of the environment. Moreover, the previous dimensions are utilized to get a comprehensive understanding of the variables in the targeted environment (Keats & Hitt, 1988; Lawless & Finch, 1989) which here is Japan.

Environment is considered as an external variable and was measured from two perspectives, environment hostility which refers to the degree of competition in the market and that includes: the market share, a gained company within the same industry, and the way of obtaining customers from other competitors in one hand and to the scarcity of resources in the investigated environment in the other hand. The environmental dynamism refers to the degree of the domestic environment tends and to the degree of predictability and stability in the business external environment (Jansen, Van Den Bosch, & Volberda, 2006; Story, Boso, & Cadogan, 2015).

The investigated companies who interacting in the same environment has a mixed type of effects when it came to business performance. As for service company that is specialized in IT there is a positive relationship between environment dynamism and business performance, and that’s positivity in performance came from the fact that many companies are heading to digitalization and IoT and that led to have a huge amount of opening and opportunities for IT services firms in the market, like for example cloud computing, web sites development and mobile application development. However, hostility of the environment has no significant on business

performance. According to co-founder of IT he stated that dynamism of the environment has a positive impact on the IT business. Moreover, he stated that the positivity of dynamism came from that in this kind of the environment the company should improve its own competitiveness factors to cope with this kind of environment and this remarkably reflected on firm business performance. Other co-founder in manufacturing industry claimed that the dynamism of the environment has a negative effect on his business. As for e-commerce firm and food delivery this environment which is characterized by hostility and dynamism has a negative effect on business performance.

Although, the enormous degree of competition and have many competitors in the market but still the demand on the IT services is relatively high. In the other industry like manufacturing and service, both environment hostility and dynamism have left a negative effect on the business performance for many reasons like for example, having a giant competitor in the market with a big market share, a high cost in gaining customers from other competitors, and finally the high degree of hostility from the main competitors who continuously introducing a new service or product.

The following table -2 and 3- are concluding the result of tested sample divided into two different categories. In table 2 the relationship between EO and business performance with mediating role of marketing capability and both environmental hostility and environmental dynamism. In this table: +++, ++ has a huge positive impact on business performance, + there is a positive impact on business performance, - has a negative impact on business performance, / there is no significant on business performance.

	Variable	Performance
EO dimensions	Innovativeness	++
	Proactiveness	+
	Risk taking	-
Marketing Environment	Marketing capability	+
	Hostility	-
	Dynamism	-

Table 3 result of tested sample for manufacturer and service industry

Table 3 shows performance of IT industry in the relationship between EO and performance with mediating role of marketing capability and environment.

	Variable	Performance
EO dimensions	Innovativeness	+++
	Proactiveness	+
	Risk taking	+
Marketing Environment	Marketing capability	+
	Hostility	/
	Dynamism	+

Table 4 result of tested sample for manufacturer and service industry

#### *6-Dependent variables*

The outcome which is the performance is representing the dependent variable of this study, performance is changing depends on the other independent variables which tested separately to obtain the performance changing.

#### *6-Estimating firm performance*

Performance is regarded as outcome of the equation in this study. Therefore, in order to study and measure business and EO we might use indicators to estimate those two variables efficiently (Lumpkin & Dess, 1996). The indicators used for measuring and estimating performance are wide and divided between two type. The first one, is financial indicators of business performance concluded in cash flow, increase in annual revenues, the cost of operation and other financial indicators. On the other hand, the second type of performance indicators are nonfinancial indicators, and this type is representing the achievements that manger/owner are seeking for and might be the final or sub goals that the firm is aiming for, one of nonfinancial indicator is to ability of penetrating international markets. The financial indicators used have a minimum amount of converging (Murphy, Trailer, & Hill, 1996). Conceptually, we can recognize the different between firms that want to grow its business domestically or/and internationally in the other hand, other firms focusing on gaining profit rather than growing. In this report, financial indicators were used rather intensively than the nonfinancial indicators. (Zahra & Covin, 1995) claimed that the firms with high level of EO are more likely to gain many advantages in the market, for example they can aim for a superb market segment, take the best opportunity in the market before the competitors, and get better bids for their products or services provided comparing to other competitors. In the same regards, mainly the firms gain a competitive advantage from adopting one of those two technique, the first one is price advantage, which means to have an advantage ahead of other competitors in the market by decreasing the price of services or the products provided in the market. The second technique is innovation, which is part of EO and one of the main components in EO concept. This latter technique is referring to produce a new products or services in the market among other competitors and as a result the new emerging products or services enable the firms to find a premium segment in the market.

The financial indicators for the tested firms were collected from the personal interviews conducted with the co-founder of those four firms.

Performance measurement in this study has two perspectives, the first one non-financial perspective, in which the performance was measured and estimated by customer and growth of the firm. The financial perspective alludes to sales growth, profitability, and cost efficiency. Combining those two perspectives will give a better understanding to the company's performance weather the strategy is being focused on growth, or on the profit.

## Chapter 5: Discussion and Conclusion

### *5-1-Conclusion*

This research showed that adopting entrepreneurial posture as a strategy in the small and micro-small firms is not always productive. Furthermore, a combination of the EO five components should be deployed and construct in order to get many advantages that lever business performance. In addition, the internal and external variables had their impact on the business performance, so utilizing the right capability is crucial to make the balance in the both part of equation EO-performance. Consequently, EO-performance relationship can be positive in term of the capability the firm gained beside the innovativeness as main crucial component who drove the business performance and give the company the competitive advantage in the market.

EO has a major impact on the business performance that is varied depend on investigated component, innovativeness, proactiveness, and finally risk taking. It is obvious that different industry has different degree of impact on their business performance. From different cases that investigated in this study, IT firm tend to have a huge positive influence by innovativeness on business performance, while the degree of positivity is not huge in other cases compared to the IT firm. Moreover, risk taking and proactiveness are both had fostered the business of the IT firm, despite not being significant for other tested cases.

The importance of marketing capabilities has been emphasized by all the interviewees and all positive business performance was spotted after doing marketing activities and practices. Environment as a variable is playing two major roles depend on the industry, in IT firm the environment was catalyst in order to enhance business performance however, the environment in other cases has a negative impact on the business performance in other tested industries, not to forget the adoption of EO as strategy is the key role of fostering business performance.

### *5-2- Discussion*

Many researchers have emphasized the significant of the innovation as the key factor of the firm's survival (Abernathy & Clark, 1985), in particular, when the firm is operating in dynamic and hostile environment. Nowadays, in modern firms and due an issue related to limitation in both products and business model with also an issue related to high level of competition and the high degree of complexity in the market; some research assumed that innovation should be in the top of firm's priority (e.g., Wiklund & Shepherd, 2003). In addition, there are many ways to have a competitive advantage in the market among other competitors, cost advantage and innovation advantage are the most common method to achieve it. While it is less expensive to adopt cost advantage as differential from other competitive here, I focus on the innovation advantage investigated as dimension in strategy process within EO strategy. Literature on this topic showed a mixed findings and results and variance suggestion on the relationship EO-performance. In general, a positive impact of adopting an EO strategy on a business performance. As a result of the variance findings, the studies suggested to study the relationship in term of having a single or multiple mediator which represent a set of unobserved independent variables (Rauch et al., 2009; Wales et al., 2011a).

Moreover, this research investigated small and micro-small business in Japan and give a general insight on the situation of these firms, in environment that characteristics by hostile and dynamic, in term of having EO as strategy and how can adopt EO strategy could affect the outcome of the relationship which is performance. Japanese SMEs in general, is having more attention in these days. Furthermore, this research is also investigating the mediating role of the relationship EO-performance; from a contingency theory point of view as an external factor in one hand, and the significant of having a mature marketing capability from resource-based view RBV from the other hand.

EO, with five dimensions which first introduced by Lumpkin and Dess (1996) who investigated the influence of each dimension independently. The findings of this research are repeating other scholars' findings who examined business performance (Messersmith and Wales, 2011). The three general dimensions of EO investigated in this study have not surprisingly showed that innovativeness as independent variable had the most powerful influence on business performance, while proactiveness had a slight influence on the performance and

risk taking had a negative impact on the business performance in the manufacturer and service industry, but a positive impact on the performance in IT service firm, the reason behind this contrast is because of high risk is not applicable in the manufacture and service industry as it is associated with high level of uncertainty so a high possible loss for tested sample in which the sample contains small and micro-small firms.

The previous findings are when the three dimensions of EO applied as independent variables to test the business performance, but in the other hand the significant of the mediators are obvious. Like for example, having marketing capability as internal factor has leverage the performance up for the in all tested companies, but in addition the environment as mediator in this study had a massive impact on the business performance in tested sample. As a result, EO in general tend to have a positive impact on the business performance. As consequence, the firms are suffering from the hostile in the environment and that's because of other giant competitors with huge amount of financial liquidity and the scarcity of resources, but in the other side the stable and dynamic environment that the tested firms are operating in has lever the business performance. EO in total with taking mediating role implemented in this study has a significant slight impact on the business performance.

### *5-3 Implication and contribution*

This study can contribute to enhancing the business situation of small and micro-small firms in Oita Japan, in the data collected 75% of the sample were an APU student, one of the most significant and important implication of this research is to understand the EO-performance relationship with respect of two studied mediators and how these variables can impact the new business in Oita, furthermore, it gives an insightful for institutions and policy maker to put more effort in order to increase the incubation capacity for the entrepreneurs after graduating. The degree of incubation could be interpreted into many ways, like for example making a research study for the unicorn projects, easing the process of getting loan with low interest rate, conduct events permanently and invite entrepreneurs and many other processes.

#### *5-4 Limitation and future research*

This research is important to everyone who wants to start his/her own business in particular for APU students who seek to start their own projects, the research implications are fundamental, but it also contains many limitations; first, the context of this research is highlighting the challenges and the difficulties of starting a business in Japanese environment and particularly to Oita prefecture. Second, the data collected was limited and need more participants to contribute to the topic. Third, the same context should be applied all over the country in order to understand the nature of the relationship between EO-performance and mediators should be applied in order to have an accurate finding using hoc-analysis or any other analysis that can give a number to back up the findings. Fourth, here in this research the qualitative report has applied to help to understand the topic and generalizing the findings, therefore, if longitudinal research employed on this topic it can give in depth insights about the topic and also offer a links between both external, internal, and EO variables and the performance. Five, in this research I examined the relationship between EO and performance with interfering impact of marketing capability and environment as an intermedator, while further research in the same topic and with different mediators (international expansion, industry growth, or industry life cycle) could be a great add to the topic. In addition, in this research I took into consider the three main components of the which are, innovativeness, proactiveness and risk taking; while there are more tow components to investigate which stated earlier, autonomous, and competitive aggressiveness. Finally, the research is taking in consider three different industries, service, and manufacture, which broad the result and the final findings, so for the future it will be easier and more effective if different studies will be done utilizing each sector a separately to have more clear findings.



## **Chapter 6: References and appendix**

### **Appendix 1: Set of questions used in interviews**

This survey aimed to investigate the relationship between entrepreneurial orientation and performance and the role of marketing capabilities and environment as well

Marketing capabilities and EO

Refers to the complex combination of knowledge, processes, ways of working, tools and best practices that make a difference in Brand building.

1. Does my company have a unique customer service like maintenance?
2. Do you have conduct continuous market research to cope with the changes in the markets
3. Do you have a Market-sensing digital capability to predict changes in customer preferences?
4. Do you have the ability to use digital marketing to retain customers?
5. Do you have routine or regular measures of the changes in competitive behavior?
6. do advertising and promotion resources are more than adequate, and effective?
7. Do you use sophisticated techniques to do market research? Using a certain analytical technique that can analysis a big data, like SAS or Xplenty?
8. We have a very strong marketing team in this industry, how this sentence is accurate?  
Strong: With a practical experience and knowledge or know how
9. Do you poll end-users frequently to assess the quality of our products and service?
10. Do you the company has overall efficiency of operations; Operational efficiency is primarily a metric that measures the efficiency of profit earned as a function of operating costs?
11. In the last five year, is my company annual sales growing every year?
12. In the last five years, does the company's gross profit margin increased every year?
13. Do the top managers of the company favor experimentation and original approaches to problem solving?
14. Do the company prefers to develop its own unique new processes and methods of production or service?
15. Do the company quickly seizing opportunities that might give the company a good payoff?
16. Is the company has a strong tendency for high-risk projects with chances of very high returns?

17. When confronting with decision-making situations involving uncertainty, my firm typically adopts a cautious, wait-and-see posture in order to minimize the probability?

The following questions are regarding the external variables which is environment dynamism and environment hostility

1. Are there are many competitors in the market who have the same domain as our company?
2. Is the market share distributed in the way that there are no big competitors who own a big market share?
3. Are gaining customers from other competitors will be relatively cheap for your company?
4. Are the main competitors in the market are always introducing a new product in the market?

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