


## Chapter 2

# The Entrepreneurial Orientation: Driving the Organizational and Financial Results of Mexican SMEs

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### ABSTRACT

*The purpose of this chapter is to analyze the opportunities for entrepreneurship, the behavior of the entrepreneurial orientation, and the orientation towards the market that is developed in the SME, and the effects which exert in the innovation and the profitability in the field of SMEs. The research is based on a sample of 1012 commercial, services, and industrial enterprises in the Northwest region of Mexico. The data collection was carried out during the period from September to December 2016, through a self-directed survey to the manager. The relations estimates have been tested through the Structural Equation System (Hervas-Oliver, Sempere-Ripoll, and Boronat-Moll) based on the variance with the PLS technique, supported by the software SmartPLS version 3.2.6. The results demonstrate that entrepreneurial orientation has a significant influence on innovation activities and on the profitability of SMEs. Also, the innovation has a significant positive influence on the profitability. In addition, market orientation shows significant and negative effects on the profitability of SMEs. For these types of companies, it is important that they focus their efforts on customers, the market and the main competitors. This investigation contributes to the development of the literature on entrepreneurial behavior and dynamic capabilities.*

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## INTRODUCTION

In recent years, the entrepreneurship has been one of the most studied topics by experts and researchers in the business administration area (Zahra & Wright, 2011; Zahra, Wright, & Abdelgawad, 2014). Throughout these investigations there has been a firm intention of knowing the impulses, the behavior of the entrepreneurs and the entrepreneurial spirit (Covin & Lumpkin, 2011). Being the entrepreneurial behavior a central point of the business process and of the competitiveness of the organization (Marvel, Davis, & Sproul, 2016). Frequently, the development and competitiveness of the companies are achieved through intentions and orientations focused on entrepreneurship (Anderson, Kreiser, Kuratko, Hornsby, & Eshima, 2015). These entrepreneurial behaviors are intimately related to proactivity, competitive aggressiveness, risk, autonomy and the ability of innovation (Matsuno, Mentzer, & Özsomer, 2002). Entrepreneurship is considered as the fundamental axis of knowledge which supports the detection of business opportunities (Rauch, Wiklund, Lumpkin, & Frese, 2009). For this purpose, the entrepreneur utilizes all the abilities to transform the resources and to take advantage of them in the new business opportunities (Jantunen, Ellonen, & Johansson, 2012). Business opportunities with an innovative approach, which are put into practice, are generally riskier (Suddaby, Bruton, & Si, 2015). To counteract these effects, in addition to detecting opportunities, entrepreneurs must focus their resources and abilities on profitable markets (Lessard, Teece, & Leih, 2016). However, in today's highly competitive markets, entrepreneurs must develop the market orientation (MO) capability. This ability is considered as an activity that derives from the competitive advantage theory and marketing theory (Kirca, Jayachandran, & Bearden, 2005; Porter & Kramer, 2019). Therefore, the MO is considered as a marketing strategy which helps the company to detect market opportunities, satisfy customers, create superior value for customers and study the competitor (Jaworski, Kohli, & Sahay, 2000; Kaur & Gupta, 2010). These capabilities and business practices which help the company in its growth, development and consolidation are addressed by the theory of dynamic capabilities. This theory states that the superior and sustained innovation and profitability achievements are a consequence of entrepreneurial ability and the use of resources and capabilities (Lessard et al., 2016; Teece, 2007).

Nevertheless, in enterprises named SMEs (Small and medium-sized enterprises), these accomplishments are difficult to achieve. This is mainly due to difficulties in accessing financial credits, lack of technological infrastructure, lack of interest in innovation, lack of support for government subsidies, lack of entrepreneurial skills and a focus on short-term results (Kuckertz & Wagner, 2010; McKeever, Jack, & Anderson, 2015). In the empirical revision, there is found a significant number of studies which analyze the relationship between entrepreneurial orientation and market orientation compared to innovation and efficiency in the enterprises (Miles & Arnold, 1991; Zahra, Sapienza, & Davidsson, 2006). These investigations have mostly analyzed the effect of these variables on large companies (Zahra & Wright, 2011). Despite the growth in the analysis of these variables at the SME level, these studies are still at a development stage (Zahra et al., 2014). Two main objectives have been considered in the analysis. In the first place, it has been studied the effects of entrepreneurship and market orientation on innovation and profitability in SMEs. In the second, there were analyzed the effect of innovation in the financial results of SMEs. The research questions elaborated for this investigation are:

1. Does the Entrepreneurship Orientation, have influence on the innovation, the orientation to the market and the profitability in the SME?
2. Does the Market Orientation, have an influence on the profitability of SMEs?

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