

## Chapter 4

# The Moderating Effect of Family Firm Status on the Entrepreneurial Orientation– Performance Relationship: An Empirical Study With SMEs From Portugal

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### ABSTRACT

*Although management literature mostly reports a positive association between entrepreneurial orientation and firm performance, it also recognizes that different business contexts may prompt different manifestations of entrepreneurial orientation. Considering that family firms constitute the backbone of most economies across the globe, and based on arguments from socioemotional wealth perspective, this research aims to examine the moderating effect of being a family firm on the relationship between entrepreneurial orientation and firm performance. The empirical study is based on primary information obtained from the chief-executive-offices of 402 small and medium-enterprises (SMEs) from Portugal, a country located in southwestern Europe, and one that has been scantily investigated by the literature in the confluence between entrepreneurial orientation and family firms. Results show that the family firm status weakens the relationship between entrepreneurial orientation and performance in the Portuguese SMEs.*

DOI: 10.4018/978-1-5225-8479-7.ch004

## INTRODUCTION

As a driving force behind the organizational pursuit of entrepreneurial activities, the phenomenon of entrepreneurial orientation arose from strategic management literature and has been the subject of more than 30 years of theoretical (e.g., George & Marino, 2012; Lumpkin & Dess, 1996; Wales, 2016) and empirical inquiry (e.g., Covin & Slevin, 1989; Hughes & Morgan, 2007; Zellweger & Sieger, 2012), becoming a construct of central interest in management studies (Sciascia, Mazzola, & Chirico, 2013). The promise of the entrepreneurial orientation concept lies within its ability to further understanding of the entrepreneurial activities pursued by organizations (Covin & Wales, 2012). For this reason, entrepreneurial orientation has become a subject of increasing interest for research (e.g., Wales, Gupta, & Mousa, 2013) and constitutes today a key construct within strategic management and entrepreneurship literature.

Over these years of research, orientation toward entrepreneurial activity has received a variety of labels in literature, including entrepreneurial orientation, entrepreneurial intensity, entrepreneurial style, entrepreneurial posture, or entrepreneurial propensity, although in the end the most widely used term has been entrepreneurial orientation. It refers to a business' strategic orientation and captures specific entrepreneurial aspects of decision-making styles, methods and practices (Lumpkin & Dess, 1996). That is, while entrepreneurship is defined as new entry (entering new or established markets with new or existing goods or services or launching a new venture), entrepreneurial orientation describes how new entry is undertaken, which involves processes, practices and decision-making activities (Lumpkin & Dess, 1996). From this perspective, entrepreneurial orientation represents the process aspect of entrepreneurship, and has been generally reported as a driver of firm performance (e.g., Rauch, Wiklund, Lumpkin, & Freese, 2009).

However, the literature also indicates that the extent to which entrepreneurial orientation can predict the nature and success of a business may be contingent on factors such as country context (Adams, Adams, & Mensah, 2017) or business context (Hernández-Linares & López-Fernández, 2018). Thus, and despite the fact that the family business field did not begin to pay attention to entrepreneurial orientation until the mid-2000s (Zahra, Hayton, & Salvato, 2004), existing literature reveals that family firms share special characteristics that may influence their entrepreneurial intentions and activities (Cruz & Nordqvist, 2012; Naldi, Nordqvist, Sjöberg, & Wiklund, 2007). Considering these arguments, the main objective of this research is to examine whether family status moderates the relationship between entrepreneurial orientation and firm performance in the case of small- and medium- sized enterprises (SMEs) from Portugal, a country located in the southwest of Europe and that, with few exceptions (Hernández-Linares, López-Fernández, Naranjo, & Fielden, 2019; Pimentel, Couto, & Scholten, 2017), has been scantily researched by the literature on the confluence on entrepreneurial orientation and family firms (Hernández-Linares & Lopez-Fernández, 2018). To reach this research objective, the authors have conducted an empirical study based on primary information obtained with the application of a survey issued to 402 CEOs from Portuguese SMES. Results show that the positive association between entrepreneurial orientation and firm performance is weaker when the company is a family firm.

This research makes, at least, two contributions to the literature. First, it sheds light on the complexity of the EO–performance link in the singular context of SMEs, contributing to a more nuanced understanding of the drivers of performance heterogeneity across SMEs. In particular, this work emphasizes the need to focus on family firms because, despite the fact that studies of the relationship between entrepreneurial orientation and firm performance have so far dominated the general literature on entrepreneurial orientation (Wales, 2016), literature on entrepreneurial orientation began to pay attention to family firms only

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