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Does Entrepreneurial Orientation Create Value for Stakeholders? Lessons Learned from S & P 500 Companies

Sara Antony
Economics and Accounting
Hamline University
Saint Paul, Minnesota 55104 USA

Faculty Advisor: Dr. Jae Hwan Lee

Abstract

Scholars have developed stakeholder theory as an alternative to shareholder theory to explain today's increasingly turbulent and globalized business environment. Stakeholder theory suggests that a business must engage its stakeholders such as customers, suppliers, communities, employees, and financiers, which then creates value for shareholders. This study explores the extent to which five dimensions of entrepreneurial orientation (autonomy, competitive aggressiveness, innovativeness, proactiveness, risk-taking) affects value creation stakeholder engagement, while controlling for five other influencers (company size, unabsorbed slack, absorbed slack, dynamism, munificence). Using three archival sources: the Kinder, Lyndenberg, and Domici database, Compustat, and shareholder letters to operationalize all the variables within the research model, a sample of 314 S & P 500 firms (1504 firm-year observations) from years 2009-2013 was constructed to examine the extent to which these firms pursued value creation stakeholder engagement with respect to six stakeholder types: community, customers, diversity, governance (shareholders), employees, and the environment. Generalized estimating equations was employed, which is well suited for longitudinal and panel-correlated count data. The results suggest the following relations to value creation stakeholder engagement: risk-taking is positively related with respect to communities, innovativeness is positively related with respect to customers, autonomy and risk-taking are negatively related with respect to customers, proactiveness is positively related with respect to governance, competitive aggressive and proactiveness are positively related with respect to diversity, innovativeness is positively related with respect to employees, innovativeness is positively related with respect to the natural environment, and risk taking is negatively related with respect to employees. The results show that strategic orientations and corporate cultures have an effect on stakeholder value creation, and the effect varies based on the type of stakeholders. These results have significant implications for potentially improving value creation through organizational strategic management, as well as contributions to economic sustainability research.

Keywords: Value Creation for Stakeholders, Entrepreneurial Orientation, Sustainability

1. Introduction

Stakeholders refer to "those groups and individuals who can affect, or are affected by the achievement of an organization's purpose."[14] In today's business environment there are many corporations that have been implementing programs and initiatives specifically for their stakeholders such as shareholders, customers, employees, suppliers, communities, and the natural environment.[14] For example, companies are trying to satisfy stakeholders by providing benefits for employees, offering team building activities, encouraging diversity and inclusiveness, promoting employees volunteering, providing excellent products to customers, and getting involved in the community.

Yet, at the same time, a plethora of companies are not good citizens, act irresponsibly, and even hurt stakeholders. These companies seem to have been more interested in only increasing value (profit) for their stockholders. Counterintuitively, their emphasis on the maximization of shareholders' profit at the expense of other stakeholders' well-being seems to have led the shareholders to have decreased profit. For example, the latest incidents of major US airlines' egregious mistreatment of customers have not only incited criticism from the public and government, but also hurt their bottom line. In particular, the United Airlines' public relations fiasco in scrambling to address a video showing a passenger being forcibly dragged off to accommodate their flight crew led its stock to plunge about 4% after the incident, knocking off close to $1.4 billion of the company's market value. So this begs the question, "Why do some corporations focus on creating value for stakeholders, while others do not?"

The entrepreneurship literature suggests that entrepreneurial orientation may have an impact on creating value for stakeholders, or value creation stakeholder engagement. Yet, this relationship has not been fully explored in the stakeholder literature. While multiple studies suggest that entrepreneurial orientation is a strong predictor of financial performance,[5; 28; 31; 36; 39; 46] no study has specifically examined the impact of entrepreneurial orientation on value creation stakeholder engagement. Hence, this study examined this relationship and its role in corporations becoming socially and economically sustainable.

2. Theories And Hypotheses

2.1 Value Creation Stakeholder Engagement

Stakeholders refer to "those groups and individuals who can affect, or are affected by the achievement of an organization's purpose."[14] Almost every business transaction involves customers, suppliers, communities, employees, and financiers. Other stakeholders such as media, additional civil society representatives, and NGOs are often "affected [by] or can affect value creation."[17] Stakeholders, whose well-being depends on the wealth created and distributed by the firm, are also those who supply critical resources to the firm itself.[14; 9] Therefore, stakeholders contribute to a firm's wealth-creating capacity and activities,[41] and its long-term survival and success.[9] Yet, at the same time, stakeholders can withdraw their support from the firm, if their interests and demands are not adequately met, thereby impairing the firm's capacity to generate and distribute wealth.[23]

Freeman[14] introduced a stakeholder approach to strategic management which is also known as stakeholder theory. This theory begins with the assumption that value is necessarily and explicitly a part of doing business.[14; 16; 17; 18] The firm's survival and continuing success depend upon "the ability of its managers to create sufficient wealth, value, or satisfaction for those who belong to each stakeholder group, so that each group continues as a part of the corporation's stakeholder system."[9]

The separation thesis suggests that ethics and economics can be neatly and sharply separated.[15; 18; 21; 37] Its advocates argue that the rightful purpose of a business is to maximize profits and that all other goals of a business must be instrumental and subordinate to the primary end of profit maximization.[37] Rejecting this separation thesis, stakeholder theory assumes that values are necessarily and explicitly a part of doing business and the purpose of the firm is therefore to create and distribute value to a plurality of stakeholders.

The primary argument of this theory is that firms create value for shareholders through creating value for other non-shareholder stakeholders, for example, through selling products and services that customers are willing to buy, offering jobs that employees are willing to fill, building relationships with suppliers that companies are eager to have, and being good citizens in the community.[16] This process is known as value creation stakeholder engagement.[14; 27] Creating value for stakeholders and achieving a competitive advantage go hand-in-hand; "[a] business has added value when the network of customers, suppliers, and complementors in which it operates is better off with it than without it."[20]

Therefore, stakeholder theory suggests that managers try to put together a deal so that suppliers, customers, employees, communities, managers, and shareholders all win continuously over time.[18] Well-respected firms such as J & J, eBay, Google, Lincoln Electric, AES, and those firms featured in *Built to Last and Good to Great*[10] and in *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose* provide[45] compelling examples of how managers see the importance of values and relationships with stakeholders as a critical part of their ongoing success.[18; 23] A recent study found that firms ranging from Costco to Commerce Bank are becoming value creators for all of their stakeholders, by generating every form of values that matters: emotional, experiential, social, and financial.[45]

2.2. Entrepreneurial Orientation

Entrepreneurial orientation (EO) refers to "the processes, practices, and decision-making activities that to lead to new entry."[29] Dess and Lumpkin[29] suggested that the key dimensions that characterize an entrepreneurial orientation include a propensity to act autonomously, a willingness to innovate and take risks, and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities. Autonomy is an entrepreneurial behavior that characterizes the ability to take independent action.[29] Autonomous organizations often encompass employees that can be self-directed in the pursuit of entrepreneurial opportunity.[7] Innovativeness is an entrepreneurial behavior that reflects an organization's effort to pursue new combinations or product development strategies that improve operations or provide a new basis for meeting consumer needs.[29] Innovative firms have experimentation, novelty, a willingness to support new ideas, and a willingness to depart from existing technologies and practices.[7] Risk-taking is the entrepreneurial behavior of entering into a costly commitment with an uncertain outcome.[29] Most entrepreneurial risk is associated with asset commitment, but it can also include intangible aspects such as reputation.[7] Competitive aggressiveness is a strategic behavior that focuses on expanding an organization's market share at the expense of competitors.[29] Firms that demonstrate competitive aggressiveness risk conflict and retribution rather than merely accepting a harmonious coexistence.[30] Proactiveness is the ability and willingness of an organization to conceptualize and implement a plan for opportunistic expansion for a first mover advantage to help capitalize on market opportunity.[29] Proactive firms tend to develop new procedures and technologies, introduce new products and services, anticipate changes and needs in the marketplace, and are among the first to act on these changes.[30]

2.3. Hypotheses

2.3.1. autonomy

When corporations have excessive bureaucracy and tradition, this prohibits independent action that leads to new ideas and activities.[29] The driver of corporate entrepreneurship resides in the autonomous strategic initiative of individuals at the operative levels in the organization.[6] Autonomy allows individuals and teams to exercise their creativity and champion promising ideas, rather than organizational superiors or processes inhibiting them.[29] So it appears that these types of companies will create more value for stakeholders because they are quicker to respond to stakeholder demand. In addition, firms with high levels of autonomy are more likely to create value for stakeholders than those with lower levels of autonomy because stakeholder-centered products, services, and initiatives are often met with more challenges and resistance within the firm but have higher pay-offs.[46] Therefore, it is proposed that:

Hypothesis 1. Value creation stakeholder engagement is positively related to autonomy.

2.3.2. innovativeness

When existing market structures are disrupted by the introduction of new goods or services that shifted resources away from existing firms and caused new firms to grow, this propels the dynamic evolution of the economy.[42] Innovativeness represents a basic willingness to depart from existing technologies or practices and venture beyond the current state of the art.[29] Previous studies suggest that innovativeness increases value creation in non-profit theatre companies and closely held public companies.[32; 46] In addition, firms with higher levels of innovativeness are likely to offer more stakeholder-centered products, services, and initiatives to stakeholders with those with lower levels of innovativeness.[7] Therefore, it is proposed that:

Hypothesis 2. Value creation stakeholder engagement is positively related to innovativeness

2.3.3. risk-taking

Risk-taking is typically necessary in the interest of seizing opportunities in the marketplace and obtaining high returns.[29] Previous studies have suggested that risk-taking has a positive association with higher revenue and shareholder returns in nonprofit theater companies and closely held public companies.[32; 46] Firms with higher levels of risk taking are more likely to use a real options approach to build stronger corporate reputation and therefore make stakeholder happier than are those with lower levels of risk taking. Therefore, it is proposed that:

Hypothesis 3: Value creation stakeholder engagement is positively related to risk-taking

2.3.4. competitive aggressiveness

Competitive aggressiveness reflects a willingness to be unconventional rather than relying on traditional methods of competing to challenge industry leaders.[29] Competitive aggressive moves include setting ambitious market-share goals and taking bold steps to achieve them, such as cutting prices, spending aggressively on marketing, and sacrificing profits.[29] Many scholars have argued that an aggressive stance and intense competition are critical to the survival and success of new entrants.[29] Therefore, it is proposed that:

Hypothesis 4: Value creation stakeholder engagement is positively related to competitive aggressiveness

2.3.5. proactiveness

Proactive firms uniquely meet unfilled demand in an untapped market.[29] First-mover advantage is one of the best strategies for capitalizing on a market opportunity.[35] Exploiting market asymmetries allows the first-mover to capture unusually high profits and get a head start on brand recognition.[29] Previous studies have suggested a link between proactiveness and higher sales and profit growth in New Zealand manufacturing firms and closely held public companies.[31; 32] In addition, firms with higher levels of proactiveness are likely to attend to stakeholders' claims[33] and create more value for stakeholders than are those with lower levels of proactiveness. Therefore, it is proposed that:

Hypothesis 5: Value creation stakeholder engagement is positively related to proactiveness

Figure 1 presents a research model of value creation stakeholder engagement used in this study, wherein the five dimensions of entrepreneurial orientation are hypothesized to be positively related to value creation stakeholder engagement with respect to four primary stakeholders.

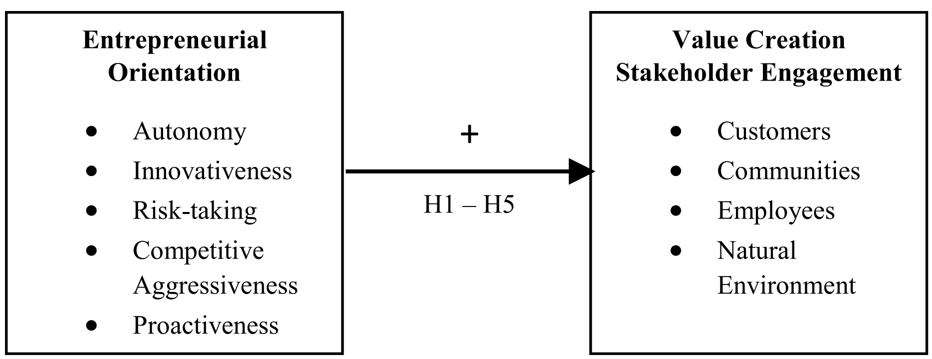

Figure 1. a research model of value creation stakeholder engagement

3. Methods

3.1 Research Design and Data Gathering

The research model was tested using empirical data acquired from three archival sources: the Kinder, Lyndenberg, and Domini (KLD) ratings, Compustat's North American data, and shareholder letters. The post-economic crisis (2009-2013) was used as the context of the research setting because the business environment during this period was supposedly dynamic. The S & P 500 index was used as the sampling frame for this research, because it represents the U.S. equity market.[11] 5-year panel data was assembled, which did not always provide firm-year observations in a consistent manner due to some firms not consistently being listed in the S & P index from 2009-2013. To address this issue, list wise deletion was implemented, resulting in a sample of 276 firms (1176 firm-year observations).

3.2 Measurement

3.2.1. dependent variable

The KLD ratings have been widely used in stakeholder research.[1; 3] To operationalize the dependent variable of value creation stakeholder engagement, its four conceptual dimensions (e.g., customers, communities, employees , the natural environment) were measured by using four empirical KLD dimensions (i.e., product, community, employee relations, and environment, respectively) for years 2009-2013. These four primary stakeholders[9] were the focus of this study, because they are known to exert the most considerable influence on firms.[14]

3.2.2. independent variables

To operationalize entrepreneurial orientation,[29] its five dimensions (e.g., autonomy, innovativeness, risk-taking, competitive aggressiveness, proactiveness) were measured by conducting computer-aided text analysis[13] of the sample firms' shareholder letters for years 2008-2012. Existing word lists of the five entrepreneurial orientations[43] were used to first calculate each dimension's entrepreneurial scores for the firms included in the sample, and these scores were then divided by the total number of words in each document to eliminate the potential bias of document length.[38]

3.2.3. control variables

Five control variables were used: firm size, unabsorbed slack, absorbed slack, dynamism, munificence. Firm size was measured using the number of employees[24] for years 2008-2012. Unabsorbed slack was measured using cash[4; 24] for years 2008-2012. Absorbed slack was measured by calculating the ratio of selling, general, and administrative (SG & A) expenses to sales[44] for years 2008-2012. Operationalizing munificence and dynamism for years 2008-2012 relied on using sales data from years 2003-2011. Following Dess and Beard[12], mean value of industry sales over the previous five-year period was used to capture munificence, while the standard error of the regression slope coefficient divided by that mean value of industry sales over the same five-year period was used to capture dynamism. For example, industry sales data for years 2003-2007 was used to measure munificence and dynamism for year 2008.

3.3 Data Analysis

Since the data were five-year panel data, possible unknown correlations within firm observations were expected. Additionally, the dependent variable was a count variable, which took the non-negative integer values ranging from 0 to 9. Thus, using ordinary least square regression (OLS) would have violated assumptions, because the data were not normally distributed, heterogeneous, and correlated during the 5-year period.[22] To address these issues, a generalized estimating equation (GEE) was used to treat panel-correlated data with a count dependent variable such as the panel data used in this study.[2] To test the model, moderated hierarchical regression analysis was applied.

4. Results

Hypotheses 1, 4, and 5 were not supported with respect to any of the four stakeholders: customers, communities, employees, and the natural environment. For Hypothesis 1, the relationship between autonomy and value creation for customers was statistically significant; however, the direction was negative when it was predicted to be positive. For Hypothesis 2, a statistically significant positive relationship was found between innovativeness and value creation for customers, employees, and the natural environment, but not communities. Hence, Hypothesis 2 was supported with respect to these three stakeholders only. For Hypothesis 3, a statistically significant positive relationship was found between risk-taking and value creation for communities. The relationship between risk-taking and value creation for customers and the natural environment was statistically significant; however, in both cases the direction was negative when it was predicted to be positive. Hence, Hypothesis 3 was supported with respect to communities only. As a summary, the results of hypothesis testing are presented in Table 1.

Table 1. results of GEE analysis

Variables	Customers		Communities		Employees		Natural Environment	
Autonomy	**-.140**	***	.014		-.012		.024	
	(.0349)		(.021)		(.021)		(.015)	
Innovativeness	**.025**	***	.000		**.012**	**	**.007**	*
	(.005)		(.005)		(.004)		(.003)	
Risk-taking	**-.043**	*	**.011**	*	-.005		**-.033**	***
	(.017)		(.005)		(.01)		(.01)	
Competitive	.006		-.004		-.010		.007	
Aggressiveness	(.019)		(.014)		(.013)		(.01)	
Proactiveness	.017		.014		-.008		-.005	
	(.012)		(.01)		(.011)		(.01)	

Note: *** p< 0.001, ** p< 0.01, * p<0.05, † p<0.10.

5. Conclusion

There are trade-offs between fully appeasing one or more stakeholders at the expense of others. These tensions are increased by organizational networks that feature divergent demands and rewards as well as various levels of power, legitimacy, and urgency.[33; 46] Extending these studies, this study suggests that entrepreneurial orientation may be the reason why firms create value for some stakeholders, but not for other stakeholders.

Autonomy was found to be negatively related to value creation for customers. Possible explanations for this finding are customers may not appreciate the ability of employees to act independently because it may lead to inconsistencies and employees may become too focused on doing something new instead of what customers want. Overall, autonomy may act as a double-edged sword, with positive and negative effects for different stakeholders and could be explored more in future research.

Innovativeness was found to have a positive relation to value creation for customers, employees, and the natural environment. A possible explanation for this result is that creative and innovative products grab attention and lead to positive financial support from creative stakeholders. In addition, innovative "green" products are attracting customers' attention and have been successful in the market. Finally, innovative offices and employee relations create positive feelings towards the firm.

Risk-taking was found to be positively related to value creation with respect to communities. Risk-taking was found to be negatively related to value creation with respect to customers and the natural environment. A possible explanation for the positive relation to value creation with respect to communities is that corporate giving can be considered risky, but it is visible and positively accepted by communities. A possible explanation for the negative relationship between risk-taking and customers as well as between risk-taking and the natural environment is that these stakeholders may not see any financial benefit or return on investment when firms take risk, but they could negatively impact value if the risk doesn't payoff.

Neither competitive aggressiveness nor proactiveness had no significant relationship to stakeholder value creation. This was an interesting finding that could be explored more in future research. One possible explanation is there is a moderation effect. There is no significant correlation when controlled for slack, but if money is included in the equation, competitive aggressiveness or proactiveness could become positively related to stakeholder value creation. Money may be necessary for firms to have the first mover advantage and take proactive measures.

This study shows that value creation depends on different types of stakeholders. Strategic orientations and corporate cultures have an impact on value creation. The results have multiple implications for businesses. It clearly shows that innovativeness plays a huge role in value creation. In addition, customers are instrumental stakeholders and have the most significant relationship to value creation.

Limitations to this model and study is the reliance on a big and broad design with nuanced testing results. Theories utilized were overarching and did not allow for detailed analysis. In addition, specific stakeholder type circumstances could be different. Finally, a computer aided text analysis of shareholder letters could have errors or be less accurate than other methods at determining levels of entrepreneurial orientation.

6. Implications

The result of this research not only fills a gap in the literature on entrepreneurial orientation and stakeholder theory, but it also has connections to social and economic sustainability through entrepreneurial orientation's effects on value creation for stakeholders. Stakeholder theory argues that the goal of an organization is to create as much value for stakeholders as possible, and that in order to succeed and be *sustainable* over time, the organization must keep the interests of its stakeholders.[14] Stakeholders are any individual or group that can influence or is affected by achievement of the organizations objective.[14] This study focuses on primary stakeholders, in particular, employees, customers, communities, and the natural environment, because creating value for these stakeholders provides essential resources needed for the organization to survive.[1; 9]

Standard accounts of value creation[19; 25; 26; 40; 47] assume that shareholders, owners or investors are the ones that are entitled to the residual gains or losses that accrue from value creation attempts. For example, when profits are hurting, some firms lay off employees, provide customers with low value products or services, implement program against the communities, or pollute the natural environment to cut down costs to maximize value for shareholders. That is, they favor the right of shareholders to trump customers, communities, employees, and the natural environment. The results of this research suggest that this is not a sustainable business strategy because the firms will fail to gain continued support they need from non-shareholder stakeholders to survive in the long run.

Stakeholder theory appears to bring together both economic and social sustainability, as it aids us in understanding various aspects of sustainability, for example, universal well-being, ethics, workers' rights, fair trade, and a more prosperous and sustainable economy under the notion of creating value for a variety of stakeholders, not just for shareholders.[17] As such, stakeholder theory explains how and why an organization can achieve not only social and but also economic sustainability. This research employs this stakeholder-centered view of the organization which, as described above, suggests strong connection to social and economic sustainability, and explores positive or negative impact of entrepreneurial orientation on creating value for stakeholders.

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