IBSA-STUDIES IN MANAGEMENT AND INNOVATION
EDITED BY HELGA MEYER, REBECCA PORTERFIELD, REINHOLD ROTH

Volume 3

PATTERNS OF ENTREPRENEURIAL BEHAVIOUR AND BUSINESS PERFORMANCE

HELGA MEYER | ANNA GLASER (EDS.)

Kellner
Bremen • Boston

Patterns of Entrepreneurial Behaviour and Business Performance

Edited by

Helga Meyer • Anna Glaser

With contribution by

Graham White • Isabelle Habegger • Blaine Olivia Prescott • Henrik N. Brun

IBSA-Studies in Management and Innovation
Volume 3

Kellner
Bremen • Boston

PATTERNS OF ENTREPRENEURIAL BEHAVIOUR AND BUSINESS PERFORMANCE

Edited by

Helga Meyer • Anna Glaser

With contribution by

Graham White • Isabelle Habegger • Blaine Olivia Prescott • Henrik N. Brun

IBSA-Studies in Management and Innovation
Volume 3

Contact: Kellner PublishingHouse
St.-Pauli-Deich 3 | 28199 Bremen, Germany
Fon +49 (0) 4 21 - 77 8 66 | Fax +49 (0) 4 21 - 70 40 58
sachbuch@kellnerverlag.de | **www.kellnerverlag.de**

Coverdesign: Designbüro Möhlenkamp, Bremen
Cover Pictures: Reinhold Roth

Copy Editor: Reinhold Roth

ISBN 978-3-95651-112-7

Acknowledgements

The International Business School Alliance (IBSA) provides graduate students the unique opportunity to choose among International Finance and Investments, Human Resource Management, International Marketing, International Business Development and Consulting, Management in Emerging Economies, and International Logistics and Supply Chain Management as specialization topics for their final thesis. Focusing on practically relevant analyses IBSA has achieved an attractive portfolio of management knowledge, business solutions and case studies. Graduates and faculty are strongly committed to cutting edge research.

Our third volume of IBSA Studies in Management and Innovation would not have been possible without the academic competence and financial support of the participating IBSA partners:

> *Hochschule Bremen City University of Applied Sciences, Germany • Novancia Business School Paris, France • Ranepa, Institute of Business Moscow, Russia • Universitat de Valencia, Spain • University of Hertfordshire, U.K. • University of North Carolina Wilmington, U.S.A.*

Our particular thanks go to our colleagues who gave academic advice to the authors when they were pursuing their research projects:

Natalia Vila *(Universitat de Valencia, Spain)*
Anna Glaser *(Novancia Business School Paris, France)*
Clay Moffett *(University of North Carolina Wilmington, U.S.A.)*
Paul Smith *(University of Hertfordshire, U.K.)*

As always, we would like to express our gratitude to all the people at Kellner Publishing House for their efforts and patience, especially Manuel Dotzauer and Klaus Kellner.

Helga Meyer
Reinhold Roth
Bremen 2017

Table of Contents

Introduction
What drives the performance of firms?

There is vast literature dealing with the measurement of firm's performance. The firm's performance in different business environments (e.g. mergers, recession, financial crises) is observed either by financial ratios or by cost and profit efficiency or the stock prices.[1] Despite different measurement approaches the results of this branch of literature suggest that the majority of firms could do better if their management could close the gap to the best practice firms.

Another branch of literature analyzes the sources of success, which is usually attributed to industry- and firm-specific factors.[2] The early research has been dominated by industrial organization studies, which argue that specific characteristics of industries were the central determinant of firm's profitability.[3] The differences in performance were explained by industries. The structure-conduct-performance (SCP) model was the favored framework in explaining the relationship between industrial structure and performance.[4] Then, some researcher analyzed the firm's size, which was found a factor explaining the differences in profitability. However, the firm's size depends also on management decisions, e.g. when it decides to take over another firm in order to grow.

The availability of large databases containing firm-specific data reveals that the SCP model cannot explain differences in profitability between firms within industries. The strategic management research focuses on the firm itself to explain the differences in profitability. The overwhelming majority of these studies indicate that the firm-specific particularities are more important over the industry-specific factors. Among those studies the resource-based view of the firm is recently the most popular approach, which identifies firm's bundle of recourses and capabilities as performance

---

[1] Cf. e.g. Charnes et al. (1978), Banker et al. (1984), Berger and Humphrey (1991, 1997), Molyneux (1996), Varmaz and Laibner (2016).

[2] Cf. e.g. McGee and Thomas (1986), Rumelt, et al. (1994), Short et al. (2003).

[3] Cf. e.g. Porter (1980).

[4] Cf. e.g. Scherer (1980).

driver. In similar vein, it is argued that some firms are part of a strategic group. The strategic groups have an array of competitive approaches, of which some offer a better performance relative to others. Recent empirical results suggest that the firm's management and the strategic group are the most important value creators. Accordingly, superior (poor) management leads to superior (poor) performance irrespective of the industry, in which a firm is operating.[5] The remaining firms are stuck in the middle. Their performance depends on the industry, in which they are operating because the average management cannot lead to industry-unspecific profitability.

The crucial role of the management for firm's success is analyzed in the subsequent papers. Larry White highlights the importance of management orientation towards entrepreneurship for the success of the entry into a newly liberalized market. He finds that the entrepreneurship orientation correlates with the marketing strategy and with the profitability. Interestingly, there is no relation between entrepreneurship orientation and risk of the entry choice. Isabelle Habegger conducts an empirical study, which aims to identify the decision-making process of Swiss start-ups in Zurich that led to an incubator choice. She concludes that incubators' success might be due to tangible services and not intangible services. Blaine Olivia Prescott analyzes empirically the relation between mindfulness, workplace satisfaction and workplace stress. Her findings from a well-designed empirical study suggest that such a relation exists and can be exploited to improve the workplace satisfaction. In his study Henrik N. Brun asks whether management decisions vary in events of recessions and financial crises relative to times before the events. He studies equity repurchases announced by US publicly listed companies before and after the financial crisis in 2008. His main results support the signaling and the cash flow hypotheses, which imply that the management communicate to the investors that the share is undervalued.

Armin Varmaz
Bremen 2017

[5] Cf. e.g. Hawawini (2003), Short et al. (2007).

References

Banker, R. D., Charnes, A., & Cooper, W. W. (1984). *Some Models for Estimating Technical and Scale Inefficiencies in Data Envelopment Analysis*. Management Sciences, 30(9), 1079–1092.

Berger, A. N. und Humphrey, D. B. (1997). Efficiency of financial institutions: International survey and directions for future research. *European Journal of Operation Research*, 98, 175–212.

Berger A. N. & Humphrey D. B. (1991). The dominance of inefficiencies over scale and product mix economies in banking. *Journal of Monetary Economics*, 28(1), 117–148.

Charnes, A., Cooper, W. & Rhodes, E. (1978). Measuring the efficiency of decision making units. *European Journal of Operational Research*, 2, 429–444.

Hawawini, G., Subramanian, V., & Verdin, P. (2003). Is performance driven by industry-or firm-specific factors? A new look at the evidence. *Strategic Management Journal*, 24(1), 1–16.

Molyneux, P., Altunbas, Y. & Gardener, E. (1996). *Efficiency in European Banking*, Chichester: John Wiley & Sons Ltd.

Porter, M.E, (1980). *Competitive Strategy*, Free Press, New York

Rumelt RP, Schendel DE, Teece DJ. (1994). *Fundamental Issues in Strategy*. Harvard Business School Press: Boston, MA

Scherer, F. M. (1980). *Industrial Market Structure and Economic Performance*, Houghton-Mifflin, Boston

Short, J. C., Ketchen, D. J., Palmer, T. B., & Hult, G. T. M. (2007). Firm, strategic group, and industry influences on performance. *Strategic Management Journal*, 28(2), 147–167.

Varmaz, A. & Laibner, J. (2016), Announced vs Canceled Margers: Evidence from European Banking Industry, Journal of Risk Finance, 17(6)

Graham White

Entrepreneurship Versus Non-Entrepreneurship Orientated Managers Entering Newly Liberalized Markets: The Case for U.S. Managers in Cuba

1 Introduction

The word entrepreneur is used often in today's business climate. From entrepreneur, to an entrepreneurial attitude, to serial entrepreneurs, the term is becoming over used. However, one instance that is rarely heard outside of academia is entrepreneurship orientation. This lesser known term can be misleading. Unlike the word entrepreneurial, it does not refer to the propensity to start a business. Entrepreneurship orientation, or EO for short, refers to the entrepreneurial nature of entire companies.. In truth, it is a calculable variable. It has also been correlated with higher performance outcomes by firm's that display this characteristic more than their competitors. EO describes the character and nature of a company. Once this variable is known, a company's internal operations, outward goals, actions, management philosophies, marketing strategies, and performance can all be estimated against its competitors.

All firms can be calculated to have an entrepreneurship orientation. However, the companies that exhibit a higher EO have been proven to have more success in both their home markets and abroad. Therefore, this measure is critical to know when entering a new market. This importance cannot be understated when a firm considers entering a newly liberalized market. Newly liberalized markets are exactly as their title states. When entire national markets become open to international businesses they go through a growing phase of being new to global competition. The struggle of progression and change is felt both internally and to external companies that desire to enter these markets. As these environments offer challenges both known, and unknown, every advantageous opportunity must be seized by companies hoping to expand into these countries.

The dimensions of EO are still being debated and are complex (Rauch, 2009). Among them the three dimensions of EO innovativeness, proactiveness, and risk-taking are discussed. Innovativeness refers to a company's focus on creating new products, investing in R&D, and a desire to protect their intellectual property as it is a vital asset to their business. Proactiveness is the measure of a firm's desire to stay ahead of competition by releasing new products or services or entering new markets before their competitors. Risk-taking is self-explanatory. It is the degree to which a company is willing to take risks including taking on debt, allowing for uncertainties, or searching for alternative options that differ from "playing it safe." However, each dimension cannot have an equal affect on the final outcome of a firm's EO level. Therefore, if a firm does not exhibit a propensity towards risk-taking, it may still be innovative and proactive enough to have a high level of EO.

The purpose of this research is to explore the relationship between entrepreneurship orientation and a firm's operations, marketing strategies, and performance. Specifically, EO will be measured and calculated for companies within the United States that currently conduct business internationally and have an expressed desire to enter the Cuban market. The manager's sample will then be divided into two groups according to their entrepreneurship orientation level (Miller, 1983; Covin & Slevin, 1989). Then, both groups will be compared regarding four aspects that constitute the hypotheses: (i) entry mode, (ii) marketing strategies, (ii) government affiliation, and (iv) performance.

These four variables were chosen to compare alternative entrepreneurship orientation levels (high versus low) because, as several previous authors have demonstrated (Lumpkin & Dess, 1996; Matsuno et al., 2002; Lonial & Carter, 2015), managers' attitudes (entrepreneurship orientation) will determine their actions/strategies (entry mode choice, marketing strategies, and governmental dependence) and, consequently their results (performance). U.S. managers were chosen for research because of their proximity to Cuba, past business interactions between the nations (Hernandez & Yanez, 1991; Perez, 2012), and a perceived opportunity for (and desire of) U.S. business operations in Cuba (Hingtgen, 2015).

Cuba was selected as the newly liberalized market because, although previous literature has studied success strategies in newly liberalized markets such as *Chilean regional strategies in response to economic liberalization* (Del Sol, 2010) and *Market Entry into the Newly Opened Indian Market: Recent Experiences of US Companies in the Soft drinks Industry* (Amine & Raizada, 2015), the relevance of Cuba as a newly liberalized market is a recent phenomenon as of December 2014. New possibilities, specifically for U.S. firms, have emerged through political breakthroughs between the U.S. and Cuba that have promised to eliminate a U.S. imposed trade embargo, allowing access the island nation for American businesses for the first time in over 50 years.

In sum, the overarching goal to build a "roadmap" for U.S. firms to reference when entering the Cuban market in order to achieve the highest level of success that is possible. It is as important to look inward within a company, as it is to look outward at a new market.

So, the added value can be synthesized in two main points. First, U.S. managers' attitudes (entrepreneurship orientation), strategies, and results have been seldom connected by literature. Although research has studied how entrepreneurship orientation can affect different variables such as market orientation (Datta et al., 2009; Lieberman & Montgomery, 1988; Matsuno et al., 2002), innovation (Dunning, 1988; Morris et al., 1993; Rauch, 2009), or performance (Boso et al., 2013; Keh et al., 2007; Lumpkin & Dess, 1996), the joint affect of entrepreneurship orientation of U.S. managers in terms of strategies (entry modes, marketing strategies and governmental dependence) and performance has not been yet been studied in depth. Second, the incidence of these concepts in newly liberalized markets is limited. That is, while much evidence does exist concerning entrepreneurship orientation (Miller, 1983; Lumpkin & Dess, 1996; Rauch, 2009; Matsuno et al., 2002), newly liberalized markets (Sheth, 2011; Del Sol, 2012), and firm performance (Boso et al., 2013; Lonial & Carter, 2015; Miller & Camp, 1985; Miller, 2011; Rauch, 2009; Zhang et al., 2014), there is little sufficient research connecting the three conditions together. Kumaraswamy et al. (2012) and Lumpkin & Dess (1996) have linked certain EO aspects to emerging economies, however specific implications of this characteristic as it is related to newly liberalized markets is uncommon. Specifically, given that Cuba has started its transformation into a newly liberalized market in 2015, literature pertaining to how a business should proceed in this market is even scarcer.

Firstly, the theoretical framework is developed to provide background and insight on the topic. Secondly, the theoretical framework also serves to provide the research that has been previously conducted on the various topics that affect the proposed hypotheses. Furthermore, the two EO levels of high versus low will be tested against each other in order to determine which one provides better firm performance. Lastly, the results will be compared in order to form managerial recommendations for companies in the United States that have a vested interest in entering the (soon-to-be) newly liberalized market of Cuba.

2 Entrepreneurship and Newly Liberalized Markets

2.1 Entrepreneurship Orientation

Developments in the field of entrepreneurship are lacking in agreement among researchers as central conceptual issues are still debated (Rauch, 2009). In past research, "[Entrepreneurship] classification systems typically depict differences in entrepreneurship as the result of various combinations of individual, organizational, and environmental factors that influence how and why entrepreneurship occurs as it does. This lack of consensus has impeded progress for researchers toward building and testing a broader theory of entrepreneurship, and has made it especially difficult for them to investigate the relationship of entrepreneurship to performance" (Lumpkin & Dess, 1996, p.135-136). However, not all areas of entrepreneurship studies lack this cumulative body of knowledge through consensus. "A large stream of research has examined the concept of entrepreneurial orientation" (Rauch, 2009, p.762). "As the field of strategic management developed, however, the emphasis shifted to entrepreneurial processes, that is, the methods, practices, and decision-making styles managers use to act entrepreneurially. These include such processes as experimenting with promising new technologies, being willing to seize new product-market opportunities, and having a predisposition to undertake risky ventures" (Lumpkin & Dess, 1996, p.136).

Entrepreneurship does not refer to the idea of working for oneself in terms of self-employment. Following with Lumpkin & Dess (1996), entrepreneurship is defined as *new entry*. The reason is that new entry permits to explain "*what* entrepreneurship consists of, and entrepreneurial orientation describes *how* new entry is undertaken...New entry can be accomplished by entering new or established markets with new or existing goods or services" (Lumpkin & Dess, 1996, p.136). In this line, literature has used several terms to describe the concept of entrepreneurship orientation as a generalized management process. "An entrepreneurship orientation refers to the processes, practices, and decision-making activities that lead to new entry...Thus, it involves the intentions and actions of key players functioning in dynamic generative process aimed at new-venture creation" (Matsuno et al., 2002, p.136-137). Following this approach of the term *entrepreneurship orientation* (EO) based on the idea that "more than