A Conceptual Model of Entrepreneurship as Firm Behavior

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This article outlines a conceptual model of entrepreneurship as an organizational-level phenomenon. The model is intended to depict the organizational system elements that relate to entrepreneurial behavior among larger, established firms, but may also be applicable in varying degrees to many smaller firms. Entrepreneurship is described as a dimension of strategic posture represented by a firm's risk-taking propensity, tendency to act in competitively aggressive, proactive manners, and reliance on frequent and extensive product innovation. The proposed model delineates the antecedents and consequences of an entrepreneurial posture as well as the variables that moderate the relationship between entrepreneurial posture and firm performance. The advantages of a firm-behavior perspective on entrepreneurship are discussed, as are the theoretical and managerial implications of such a perspective.

The domain of entrepreneurship is no longer restricted in a conceptual sense to the independent new venture creation process (see Wortman, 1987; Low & MacMillan, 1988). The growing interest in the process and practice of corporate entrepreneurship, for example, is indicative of an evolution in how managers and management scholars are willing to conceptualize the entrepreneurial process. Corporate entrepreneurship involves "extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations" (Burgelman, 1984, p. 154).

As the entrepreneurship paradigm expands, it is increasingly acknowledged that organizations, per se, can behave in entrepreneurial manners (Jennings & Lumpkin, 1989). Entrepreneurial organizations or, as described here, organizations with entrepreneurial postures, are those in which particular behavioral patterns are recurring. These patterns pervade the organization at all levels and reflect the top managers' overall strategic philosophy on effective management practice. According to Miller (1983, p. 780):

In general, theorists would not call a firm entrepreneurial if it changed its technology or product-line . . . simply by directly imitating competitors while refusing to take any risks. Some proactiveness would be essential as well. By the same token, risk-taking firms that are highly leveraged financially are not necessarily entrepreneurial. They must also engage in product-market or technological innovation.

In short, firms with entrepreneurial postures are risk taking, innovative, and proactive. They are willing to take on high-risk projects with chances of very high returns, and
are bold and aggressive in pursuing opportunities. Entrepreneurial organizations often initiate actions to which competitors then respond, and are frequently first-to-market with new product offerings. In support of this strategic orientation, entrepreneurial firms characteristically emphasize technological leadership and research and development (Khandwalla, 1977).

This article describes a conceptual model of entrepreneurial behavior at the organizational level. The following section describes the advantages of adopting a firm-behavior perspective on the construct of entrepreneurship. The desired characteristics of an organizational-level model are then discussed. The components of the model are presented, followed by a discussion of the interrelationships among these components. Finally, the limitations and the theoretical and managerial implications of the model are considered.

ADVANTAGES OF A FIRM-BEHAVIOR PERSPECTIVE

The adoption of a firm-behavior model of entrepreneurship has a number of advantages over more traditional entrepreneurship models and theories that focus on traits of the individual entrepreneur. Considering the level-of-analysis issue first, a firm-level model of entrepreneurship is appropriate because entrepreneurial effectiveness is arguably a firm-level phenomenon. That is, an entrepreneur’s effectiveness can be measured in terms of his or her firm’s performance. Second, and related to the first point, firm performance is a function of organizational- as well as individual-level behavior. Admittedly, individual-level behavior on the part of the entrepreneur may affect an organization’s actions, and in many cases the two will be synonymous. However, the fact that organizational-level behavior is a predictor of the key entrepreneurial effectiveness criterion of firm performance would seem an independently noteworthy reason for adopting an organizational-level perspective on the entrepreneurial process.

A behavioral model of entrepreneurship is suggested because behaviors rather than attributes are what give meaning to the entrepreneurial process. An individual’s psychological profile does not make a person an entrepreneur. Rather, we know entrepreneurs through their actions. Similarly, nonbehavioral organizational-level attributes, like organizational structure or culture, do not make a firm entrepreneurial. An organization’s actions make it entrepreneurial. In short, behavior is the central and essential element in the entrepreneurial process.

The issue of measurability also gives advantage to a behavioral model of entrepreneurship. Specifically, behavior is, by definition, overt and demonstrable. Knowing the behavioral manifestations of entrepreneurship, we can reliably, verifiably, and objectively measure the entrepreneurial level of firms. This is important because the development of entrepreneurial process knowledge hinges on our ability to accurately differentiate between more and less entrepreneurial firms.

Finally, a behavioral model of entrepreneurship is appealing because behavior is manageable. Firm-level entrepreneurial behavior is affected by and therefore can be managed through the creation of particular organizational strategies, structures, systems, and cultures. As such, a behavioral model of entrepreneurship allows for considerable managerial intervention, and the entrepreneurial process can be viewed as much less serendipitous, mysterious, and unknowable.

DESIRED CHARACTERISTICS OF AN ORGANIZATIONAL-LEVEL MODEL

A meaningful model of entrepreneurship as firm behavior would have several essential characteristics, including the following:
1. The ultimate dependent variable is firm performance. Entrepreneurship is studied for a variety of reasons, but the overriding reason for current interest in the topic is the widespread belief that entrepreneurial activity stimulates general economic development as well as the economic performance of individual firms. Schollhammer (1982, p. 210), for example, wrote that "Entrepreneurship is the key element for gaining competitive advantage and consequently greater financial rewards." Accordingly, any systems or "macro" models of entrepreneurship, and certainly any model of entrepreneurship as firm behavior, would be remiss to ignore or subordinate the construct of firm performance.

2. The variables are clearly defined. This is critical to the development of a good model. Clearly defined variables allow models to be developed which precisely integrate conceptually similar streams of research and theories. Furthermore, conceptual clarity facilitates the testing of relationships depicted in a model that, in turn, can result in the validation, rejection, or modification of the model (DeGroot, 1969).

3. The model includes environmental, organizational, and individual-level variables. The importance of the external environment in models and theories of entrepreneurship is evident in the writings of Cooper (1986), Bruno and Tyebjee (1982), Bygrave (1989), and many others. As such, environmental variables provide a reasonable starting point for a firm-behavior model of entrepreneurship. Organizational-level variables also appear essential. Business strategy, organizational structure, and organizational culture, for example, can all affect the ability of a firm to engage in entrepreneurial activity (Maidique & Hayes, 1984; Zahra, 1986). Finally, individual managers can have a strong and direct impact on the entrepreneurial potential, behavior, and effectiveness of firms (Deeks, 1976). Not surprisingly, the individual manager/entrepreneur has often been portrayed as the key component in theories and models of the entrepreneurial process (Kirzner, 1983; Ronen, 1983). In short, a firm-behavior model of entrepreneurship has to consist of three levels of variables—environmental, organizational, and individual—in order to be reasonably adequate in scope.

4. The model includes both direct and moderator effects. A conceptual model, by definition, must depict direct or main effects between the component variables. However, research in the field of entrepreneurship has progressed to the point where contingency models are increasingly common. LaForge and Miller (1987), for example, studied the moderating effects of firm size on the relationship between several environmental and strategic variables. Peterson and Smith (1986) investigated the impact of cultural context on the success rate associated with particular entrepreneurial skills. These and other studies suggest that models of entrepreneurship must go beyond the depiction of direct effects and incorporate contingency or moderating effects.

**COMPONENTS OF THE MODEL AND THEIR INTERRELATIONSHIPS**

Figure 1 depicts the proposed model of entrepreneurship as firm behavior. The model shows the antecedents and consequences of an entrepreneurial posture as well as the variables that moderate the relationship between entrepreneurial posture and firm performance. The nine variables constituting the model and their interrelationships are discussed below.
Entreprenurial Posture

An entrepreneurial posture is reflected in three types of organizational-level behaviors: top management risk taking with regard to investment decisions and strategic actions in the face of uncertainty; the extensiveness and frequency of product innovation and the related tendency toward technological leadership; and the pioneering nature of the firm as evident in the firm’s propensity to aggressively and proactively compete with industry rivals. As argued by Miller (1983, p. 770), “The entrepreneurial role stressed by Schumpeter... is socially vital but it can be performed by entire organizations which are decentralized. It can easily exceed or even circumvent the contributions of one central actor.” Accordingly, the concept of entrepreneurial posture presented here is not
offered as a radical departure from more traditional views of entrepreneurship but, rather, as a logical extension of the basic construct.

**External Variables**

The external variables in the proposed model relate to several basic dimensions of a firm’s external environment. These dimensions include environmental technological sophistication, environmental dynamism, environmental hostility, and industry life cycle stage.

The external environment is identified as a component of the proposed model because of its seminal role in entrepreneurship theory and research. The concept of external environment is intended to include those forces and elements external to the organization’s boundaries that affect and are affected by an organization’s actions as well as more general economic, sociocultural, political-legal, and technological forces which provide the broader context for the organization’s operations.

Several scholars have developed theories and conducted research that demonstrates the inseparability of the external environment from the entrepreneurial process. For example, Bruno and Tyebjee (1982), drawing heavily on the resource exchange model proposed by Pfeffer and Salancik (1978), discuss the various environmental conditions that stimulate or impede entrepreneurial activity. A resource exchange model has been developed by Bygrave (1989) to explain the role of the venture capital industry in the entrepreneurial process. Others have talked about the impact of fiscal and regulatory environments on entrepreneurial activity (e.g., Kent, 1984; Kilby, 1971), noting that political-legal forces can have a great impact on the pervasiveness and success of new ventures. The environmentally focused population ecology paradigm (see Hannan & Freeman, 1977) has been used to explain new venture creation and survival (Pennings, 1982). Industry structure variables have likewise been shown to affect the success of new ventures (Sandberg & Hofer, 1987; McDougall & Robinson, 1988; Biggadike, 1976). Clearly an abundance of research, utilizing diverse methods and models, has demonstrated that the external environment has a strong if not deterministic influence on the existence and effectiveness of entrepreneurial activity. This same argument has been made when entrepreneurship is viewed as an organizational-level phenomenon (Miller, 1983; Khandwalla, 1987).

Certain environmental characteristics may elicit entrepreneurial behavior on the part of organizations. High-tech industries, for example, are commonly composed of disproportionate numbers of entrepreneurial firms (Maidique & Hayes, 1984). Similarly, dynamic environments have been found to encourage entrepreneurial firm-level behavior (Miller, Droge, & Toulouse, 1988). Organizations often respond to challenging environmental conditions, such as those present in high-tech or dynamic environments, by taking risks, innovating, and exhibiting proactive behaviors—that is, by adopting entrepreneurial postures (Khandwalla, 1987).

Just as environmental conditions may prompt entrepreneurial postures, such postures may induce a change in environmental conditions. The argument for a bi-directional relationship between entrepreneurial posture and environmental conditions has been made most convincingly by Miller and Friesen (1982, p. 6):

Entrepreneurial firms are often found in dynamic and hostile environments because their venturesome managers prefer rapidly growing and opportunelful settings; settings which may have high risks as well as high rewards. Such firms may even be partly responsible for making the environment dynamic by contributing challenging product innovations (Peterson and Berger, 1971). Because innovation prompts im-
iteration, the more innovative the firms, the more dynamic and competitive (hostile) their environments can become.

On the whole, however, environmental conditions will likely have a stronger impact on entrepreneurial posture than vice versa.

Several studies indicate that the relationship between entrepreneurial posture and firm performance is moderated by environmental conditions. In highly competitive, unforgiving, “hostile” environments, for example, entrepreneurial postures appear to promote high levels of firm performance (Covin & Slevin, 1989). On the other hand, the relationship between entrepreneurial posture and performance may be much less positive or even negative in nonhostile or “benign” environments (Miller & Friesen, 1983). Likewise, industry life cycle stage appears to have a moderating effect on the entrepreneurial posture-performance relationship. New ventures in emerging industries have been found to benefit more from the adoption of entrepreneurial postures than new ventures in more advanced industry life cycle stages (Covin & Slevin, 1990). In a related vein, Mintzberg (1973) has argued that uncertain and “yielding” environments are particularly congenial contexts for the use of entrepreneurial strategy-making modes, implying the existence of an environmental contingency effect. In short, the effectiveness of an entrepreneurial posture may be contingent upon a wide variety of environmental conditions.

The following propositions summarize how entrepreneurial posture may relate to several key environmental variables.

P1: Entrepreneurial posture is positively related to environmental technological sophistication.
P2: Entrepreneurial posture is more positively related to firm performance among firms in technologically sophisticated environments than among firms in technologically unsophisticated environments.
P3: Entrepreneurial posture is positively related to environmental dynamism.
P4: Entrepreneurial posture is more positively related to firm performance among firms in dynamic environments than among firms in stable environments.
P5: Entrepreneurial posture is positively related to environmental hostility.
P6: Entrepreneurial posture is more positively related to firm performance among firms in hostile environments than among firms in benign environments.
P7: Entrepreneurial posture is most common among firms whose industries are in their early life cycle stages.
P8: Entrepreneurial posture is more positively related to firm performance among firms whose industries are in their early life cycle stages than among firms whose industries are in their latter life cycle stages.

Strategic Variables

The strategic variables in the proposed model include mission strategy and the firm’s business practices and competitive tactics.

Mission strategy. Mission strategy represents the firm’s overall strategic philosophy or orientation concerning the likely trade-offs between market share growth and short-term profits. “Build” strategies are aimed at increasing market share at the possible expense of short-term profits. “Hold” strategies are intended to enable the firm to maintain market share and realize moderate or reasonable returns on investment. “Harvest” strategies are used when firms are willing to sacrifice market share for short-term profitability and cash flow maximization. Finally, “divest” strategies are used when a firm intends to sell or liquidate some portion or all of its operations (Abell & Hammond, 1979; Gupta & Govindarajan, 1984). Mission strategy is more concerned
with the broad objectives sought by the firm than with the specific means used to achieve these objectives.

Entrepreneurial postures may be associated with particular mission strategies. Geller (1980) argued that a risk-taking, highly venturesome, and innovative top management style is appropriate in “invest/grow” situations; a moderately conservative management style is appropriate in “earn/protect” situations; and a risk-aversive, highly conservative management style is appropriate in “divest/harvest” situations. Partial support for these assertions was provided by Gupta and Govindarajan (1982), who found that the general managers of “build” SBUs exhibit a greater willingness to take risks than the general managers of “harvest” SBUs. In short, current theory and research suggest that entrepreneurial postures are particularly well-suited to and common among firms with build-oriented mission strategies. The primary direction of the “main effect” appears to be from mission strategy to entrepreneurial posture.

The preceding logic suggests that the more build-oriented the mission strategy, the more entrepreneurial the firm’s strategic posture should be in order to facilitate the achievement of growth goals. As such, mission strategy may moderate the entrepreneurial posture-performance relationship. This expectation is indirectly supported by the arguments of Hofer and Davoust (1977), Gerstein and Reisman (1983), Leontiades (1982), and Tichy, Fombrun, and Devanna (1982). The general proposition advanced in each of these writings is the same: General managers favorably disposed toward entrepreneurial action will be effective in businesses with strategies aimed at market growth. Conversely, more conservatively styled general managers will be effective in businesses with market share maintenance or harvesting strategies.

Collectively, the aforementioned literature supports the following propositions.

P9: Entrepreneurial posture is highest among firms with growth strategies.
P10: Entrepreneurial posture is more positively related to firm performance among firms with growth strategies than among firms with less ambitious growth or nongrowth strategies.

Business practices and competitive tactics. The content of business-level strategy is defined in terms of the firm’s overall collection of business practices and competitive tactics. These include decisions relating to such things as financing alternatives, personnel practices, manufacturing or operations strategy, pricing policy, and customer service systems, just to name a few. Business practices and competitive tactics are the bottom-line manifestations of the firm’s more basic strategic direction. They are the specific means through which entrepreneurial posture and mission strategy are implemented. As such, business practices and competitive tactics are the mechanisms that allow entrepreneurial firms, and all other firms, to reach their markets. Examples of the patterns or profiles of business practices and competitive tactics associated with entrepreneurial posture firms are identified by MacMillan and Day (1987), Robinson and Pearce (1988), and Miller and Camp (1985).

Entrepreneurial posture reflects an overall strategic philosophy concerning how the firm should operate on particular behavioral dimensions. It is a “higher-order” construct whose dimensions are associated with a diverse array of more specific tactical manifestations. Karagözoglu and Brown (1988), for example, observed that environmental uncertainty has different effects on the expected change in a firm’s rate of innovation for entrepreneurial and conservative firms. Miller and Friesen (1982) found that entrepreneurial firms, relative to conservative firms, rely more extensively on technically trained personnel. Covin and Adler (1989) found that entrepreneurial firms, relative to conservative firms, have higher scores (indicating greater emphasis or support) on variables representing the following constructs: long-term financial orientation, external financ-
ing, service/support, warranties, advertising, innovative marketing, high price, product quality, patents/copyrights, innovative operations, and industry awareness. Collectively, these studies provide strong support for the contention that entrepreneurial posture affects a firm’s business practices and competitive tactics.

Any particular strategic orientation or posture will be effective only if it is well implemented, and business practices and competitive tactics provide the means for this implementation. Accordingly, they can serve in a moderating capacity. Related to this point, research by Covin and Adler (1989) suggests that the strength of the relationship between entrepreneurial posture and firm performance is contingent upon the set of business practices and competitive tactics chosen by the firm. These authors found that firms with equally entrepreneurial strategic postures can achieve different levels of performance depending upon their use of particular configurations of ‘strategic variables.’ Therefore, the manner in which entrepreneurial posture is reflected in a firm’s business practices and competitive tactics may, to a great extent, determine the effectiveness of an entrepreneurial posture for that firm.

Clearly those decisions and actions that represent business practices and competitive tactics are diverse and wide ranging. The ways in which a few, select business practices and competitive tactics are thought to relate to entrepreneurial posture, as suggested by one or more of the aforementioned studies, are specified in the following propositions.

P11: Entrepreneurial posture is positively related to a firm’s effort to predict industry and market trends.

P12: Entrepreneurial posture is more positively related to firm performance among firms that emphasize the prediction of industry and market trends than among firms that do not emphasize the prediction of industry and market trends.

P13: Entrepreneurial posture is positively related to a firm’s level of advertising and promotion effort.

P14: Entrepreneurial posture is more positively related to firm performance among firms with high advertising and promotion efforts than among firms with low advertising and promotion efforts.

P15: Entrepreneurial posture is positively related to a firm’s emphasis on product quality.

P16: Entrepreneurial posture is more positively related to firm performance among firms that strongly emphasize product quality than among firms that do not strongly emphasize product quality.

P17: Entrepreneurial posture is positively related to the relative price (i.e., relative to competitors) of a firm’s principal product(s).

P18: Entrepreneurial posture is more positively related to firm performance among firms with relatively high product prices than among firms with relatively low product prices.

**Internal Variables**

Four internal variables are included in the proposed model of entrepreneurship as firm behavior: top management values and philosophies, organizational resources and competencies, organizational culture, and organizational structure.

**Top management values and philosophies.** It is generally acknowledged that strategic decisions are influenced by the beliefs, value structures, and management philosophies of the strategists. Andrews (1980) has argued that top management’s values and philosophies are major determinants of competitive strategy choices. Guth and Tagiuri (1965) have documented value differences among business leaders and linked those value structures to particular corporate strategy preferences. The linkage between the
individual manager’s values and the firm’s actions is perhaps most clearly drawn in the entrepreneurship and new venture literature. For example, Sexton and Bowman-Upton (1987, p. 82) have argued that “growth is not a natural phenomenon which occurs in and of itself; it is a social phenomenon which is under the control of the owner of the firm.” This line of argument clearly places the entrepreneur, or more generally the top executives, at the center of any model of firm behavior. Accordingly, top management values and philosophies are essential variables in the proposed model of firm-level entrepreneurship.

The choice of an entrepreneurial posture can be a heavily value-laden decision reflecting top management’s beliefs of how a firm should be managed. Certain executives will be much more inclined than others to choose entrepreneurial-type postures for their firms regardless of specific forces in the larger business context (Gerstein & Reisman, 1983). As previously mentioned, it is virtually impossible to separate top management values from a firm’s strategic choices (Andrews, 1980), and the decision to adopt an entrepreneurial posture must be considered a strategic choice (Khandwalla, 1987). Some of the top management values and philosophies that may affect this choice are identified in the following propositions.

P19: Entrepreneurial posture is positively related to the value top management places on economic gain.

P20: Entrepreneurial posture is positively related to the value top management places on market share.

P21: Entrepreneurial posture is positively related to the value top management places on product-market diversification.

P22: Entrepreneurial posture is positively related to the value top management places on being perceived as an industry leader.

Organizational resources and competencies. A firm’s ability to engage in entrepreneurial behavior will depend, in part, on its resources and competencies. These variables are operationally defined in the broadest sense and are intended to include such things as monetary resources, plant and equipment, personnel, functional-level capabilities (e.g., manufacturing flexibility), organizational-level capabilities (e.g., ability to get a new product to the market in a timely fashion), and organizational systems (e.g., marketing research systems). Resources and competencies provide the bases for all forms of organizational action. They can serve as either facilitators or deterrents of entrepreneurial behavior, and influence the specific form of entrepreneurship in which the firm engages.

Entrepreneurial postures tend to be resource-consuming postures (Romanelli, 1987). Therefore, an organization’s entrepreneurial capacity will be, to some extent, limited by its resource base. Organizations with abundant resources may have a greater capacity than those with sparse resources to engage in entrepreneurial activity. Of course, the type of resources and capabilities possessed by a firm will also affect entrepreneurial activity. For example, firms with a relatively high percentage of scientific and technical personnel may possess a greater capacity for innovation than those with fewer such personnel. Finally, it should be remembered that organizational resources and competencies are therein viewed in the broadest sense and would include organizational systems such as the reward system. Considerable evidence suggests that an entrepreneurial posture can be either promoted or stifled by the incentives and disincentives individuals have to engage in behavior consistent with such a posture (Sathe, 1985; Quinn, 1985).

The strength of the relationship between entrepreneurial posture and firm performance will depend upon the extent to which the organization’s resources and competencies support such a posture. This is perhaps most evident when considering the
entrepreneurial posture dimension of product innovation. Successful product innovation is promoted by a number of organizational attributes, defined in terms of resources and competencies. For example, Maidique and Zirger (1984) found that product innovations are more likely to be successful if the developing organization excels in the marketing function and is willing to commit a significant amount of its resources to marketing-related activities associated with the new product. Accordingly, the strength of the marketing function may moderate the entrepreneurial posture-performance relationship. Other resources and competencies that may moderate this relationship would include the quality of the firm’s environmental scanning system, the ability of the firm to institutionalize innovation-related learning experiences, and the overall financial health of the organization.

The following propositions summarize a few of the relationships one might expect between entrepreneurial posture and an organization’s resources and competencies.

P23: Entrepreneurial posture is positively related to the ability of a firm to quickly bring new products to market.

P24: Entrepreneurial posture is more positively related to firm performance among firms that are able to quickly introduce new products than among firms that are not able to quickly introduce new products.

P25: Entrepreneurial posture is positively related to the percentage of a firm’s financial resources devoted toward R&D activities.

P26: Entrepreneurial posture is more positively related to firm performance among firms with a high percentage of their financial resources devoted toward R&D activities than among firms with a low percentage of their financial resources devoted toward R&D activities.

P27: Entrepreneurial posture is positively related to a firm’s proficiency at identifying opportunities for product-market development.

P28: Entrepreneurial posture is more positively related to firm performance among firms that are proficient at identifying opportunities for product-market development than among firms that are not proficient at identifying opportunities for product-market development.

P29: Entrepreneurial posture is positively related to a firm’s ability to create new product applications from generic technologies.

P30: Entrepreneurial posture is more positively related to firm performance among firms with a high ability to create new product applications from generic technologies than among firms with a low ability to create new product applications from generic technologies.

Organizational culture. Organizational culture can be defined as the shared set of values, beliefs, attitudes, expectations, and assumptions, passed from one generation of employees to the next, that determine the norms for appropriate behavior within the organization (Wheelan & Hunger, 1988). An organization’s ability to develop and maintain an entrepreneurial posture is contingent upon that organization’s culture. Consistent with this point, Cornwall and Perlman (1990, p. 66) have recently written that

Culture is a key determinant of, and the first step in fostering, entrepreneurial activity within an organization. It touches and influences everything that people do. Positive cultures are ones that are in line with an organization’s vision, mission, and strategies. In entrepreneurial organizations positive cultures support organizational entrepreneurship. In other organizations where entrepreneurship is lacking as a strategic goal, the culture does not support risk taking, searching for opportunities, and innovation.
Clearly, the culture of an organization can strongly affect entrepreneurial posture. Research has demonstrated that a firm’s innovative capacity is affected by cultural norms (Kanter, 1982). Culture can encourage or discourage business-related risk taking (Burgelman & Sayles, 1986). Likewise, the level of competitive proactiveness exhibited by a firm will be, in part, culturally determined (Miller & Friesen, 1984). Not surprisingly, common cultural attributes are often identified with entrepreneurial firms (Cornwall & Perlm, 1990).

Just as culture may affect entrepreneurial posture, it is likely that entrepreneurial posture will help to shape an organization’s culture. Entrepreneurial posture is established at the uppermost level of a firm. The strategic managers at this level have a widely recognized impact on organizational culture through both their substantive and symbolic actions (Peters & Waterman, 1982; Deal & Kennedy, 1982). By encouraging innovation and risk taking, these managers help to create a culture whose norms in turn support an entrepreneurial posture. In short, it is easy to envision how entrepreneurial posture and organizational culture can be mutually reinforcing and, thereby, operate in a relationship of reciprocal causality. Nonetheless, because organizational culture provides the context within which entrepreneurial postures may or may not emerge, the primary direction of influence will likely be from organizational culture to entrepreneurial posture.

Some of the cultural phenomena thought to be associated with entrepreneurial posture are identified in the following propositions.

P31: Entrepreneurial posture is positively related to the degree to which the organizational culture values and supports the open expression of novel or radical ideas.

P32: Entrepreneurial posture is positively related to the degree to which the organizational culture values and supports the empowerment of middle- and lower-level employees.

P33: Entrepreneurial posture is positively related to the degree to which the organizational culture values and supports the belief that change and innovation are inherently positive and essential for long-term organizational survival.

P34: Entrepreneurial posture is positively related to the degree to which the organizational culture values and supports the spirit and practice of teamwork in carrying out the day-to-day operations of the firm.

Organizational structure. Organizational structure is sometimes defined as the arrangement of workflow, communication, and authority relationships within an organization. Structure can be operationally defined in several ways. For example, the formalization and centralization of a firm are indicative of its structure, as is the extent to which the firm is organic or mechanistic. Structure can also be defined in terms of the organization of departments or work units, like functional structure, product structure, and matrix structure. As with the other variables in the proposed model, structure can have a major impact on an organization’s entrepreneurial activity.

Given the breadth of the organizational structure construct, it is not surprising that various scholars have addressed the topic of the entrepreneurship-structure relationship from different perspectives. For example, Burgelman (1984) has discussed the structural design alternatives, defined in terms of administrative and operational linkages, through which firms may institutionalize corporate entrepreneurship. Miller and Friesen (1982) have studied the relationships between structural dimensions and innovative activity among firms with entrepreneurial postures. Covin and Slevin (1988) researched the impact of structural organicity on the relationship between an entrepreneurial top management style and firm performance. Collectively, these studies demonstrate the impor-
tance of including organizational structure as a variable in the proposed model of entrepreneurship.

A firm’s entrepreneurial posture can struggle or flourish in association with particular organizational structures. Khandwalla (1977, p. 426), for example, argued that wherever there is a strong [entrepreneurial] orientation there ought to be an organic orientation. This is because risk-taking managements usually seize opportunities and make commitments of resources before fully understanding what actions need to be taken. Unless management is flexible, the organization will not be able to adapt itself to the evolving situation.

Others have noted the relationship between a firm’s entrepreneurial capacity and structural formality (Stevenson & Gumpert, 1985), structural differentiation and decentralization (Miller, 1983), control mechanisms (Zahra, 1986), and number of layers in the organizational hierarchy (Peters, 1987). As such, a firm’s entrepreneurial capacity appears to be affected by multiple facets of organization structure.

By behaving in entrepreneurial manners, firms may elicit correspondingly aggressive or innovative behaviors from industry competitors. In order to be capable of adequately responding to others’ actions which their own actions may have induced, entrepreneurial firms often adopt particular structural attributes that permit flexibility and rapid decision making (Covin & Slevin, 1988). As such, entrepreneurial posture may affect organizational structure indirectly through its effects on the external environment. Entrepreneurial posture may also have more direct effects on organizational structure. For example, in an attempt to institutionalize innovation, which partially defines an entrepreneurial posture, firms often create special structural arrangements designed to separate the innovating unit from the operating core (Drucker, 1985; Burgelman, 1984). Nonetheless, organizational structure is most commonly depicted as a determinant—facilitator or inhibitor—of entrepreneurial posture (e.g., Hisrich & Peters, 1989; Schuler, 1986; Rule, 1988). Accordingly, the primary direction of influence may be from organizational structure to entrepreneurial posture.

An entrepreneurial posture will be most positively related to firm performance when administered through an appropriate organizational structure. The attributes of an “appropriate” structural form will often include decentralization of decision-making authority, minimal hierarchical levels or structural layers, free-flowing communications channels, and closely integrated R&D, manufacturing, and marketing functions. The quote from Khandwalla (1977) presented above clearly argues that organic structures are appropriate when a firm’s top managers have an entrepreneurial style. This prescription is supported by Slevin and Covin (1990), who found that the combination of entrepreneurial postures and organic structures is associated with higher performance than the combination of entrepreneurial postures and mechanistic structures. Moreover, other evidence suggests that organicity may be only one structural attribute to have such an effect (see Bahrami & Evans, 1988). In short, the moderating effect of organizational structure on the efficacy of entrepreneurial firm-level behavior is generally acknowledged and has been clearly demonstrated (see Khandwalla, 1987).

To summarize, the following propositions indicate how entrepreneurial posture is often depicted as relating to key dimensions or forms of organizational structure.

P35: Entrepreneurial posture is negatively related to a firm’s level of structural formalization.

P36: Entrepreneurial posture is more positively related to firm performance among firms with a low level of structural formalization than among firms with a high level of structural formalization.
P37: Entrepreneurial posture is negatively related to a firm’s level of structural centralization.

P38: Entrepreneurial posture is more positively related to firm performance among firms with a low level of structural centralization than among firms with a high level of structural centralization.

P39: Entrepreneurial posture is negatively related to a firm’s level of structural complexity.

P40: Entrepreneurial posture is more positively related to firm performance among firms with a low level of structural complexity than among firms with a high level of structural complexity.

P41: Entrepreneurial posture is positively related to a firm’s level of structural organicity.

P42: Entrepreneurial posture is more positively related to firm performance among firms with organic structures than among firms with mechanistic structures.

**Firm Performance**

The growing interest in the study of entrepreneurship is a response not only to the belief that entrepreneurial activity will result in positive macroeconomic outcomes but to the belief that such activity can lead to improved performance in established organizations. While “improved performance” could be defined in terms of a wide variety of organizational effectiveness criteria, a narrower financially based definition is proposed for the current model. A firm’s economic performance is generally acknowledged to have two primary dimensions—growth and profitability. The financial criteria implied by these dimensions would include, for example, sales growth rate, return on assets, and the profit-to-sales ratio. The prospect of favorable ratings on such criteria must be regarded as a key reason why firms engage in entrepreneurial behavior.

Like the aforementioned variables, the level at which a firm performs may affect its entrepreneurial posture. Both high and low performance may prompt entrepreneurial postures. On this point, Covin and Slevin (1988, p. 230) have argued that

Some managers may feel compelled to adopt a more entrepreneurial style if they perceive that bold, entrepreneurial actions are needed to improve their firm’s performance. Other top managers in poorly-performing firms may feel that risky, entrepreneurial actions are exactly what their firms must avoid. Likewise, it is conceivable that some top managers in high-performing firms may feel that the inherent risk of an entrepreneurial style will jeopardize their firm’s performance, and should therefore be avoided. Other top managers in high-performing firms may feel that an entrepreneurial style is the key to their success.

Clearly, firm performance can be used as a justification for or against the choice of an entrepreneurial posture. Top management’s values and philosophies will likely determine the direction of this relationship.

Firms adopt entrepreneurial postures in the hope and under the assumption that the associated behaviors will help to create or sustain a high level of performance (Cornwall & Perlman, 1990). Surprisingly little systematic empirical evidence is available to support the belief in a strong positive relationship between entrepreneurial posture and firm performance. One study that has addressed this issue was conducted by Zahra (1986). He found that a firm’s emphasis on corporate entrepreneurship, defined in terms of the component dimensions of product innovation, risk taking, and “futurity,” is a significant and positive predictor ($p < .01$) of the net income-to-sales ratio. Another study that has examined the entrepreneurial posture-performance relationship was con-
ducted by Covin and Slevin (1986). They found a zero-order correlation of \( r = .39 \) (p < .001) between an entrepreneurial posture scale and a firm performance scale, the latter of which assessed organizational effectiveness in terms of twelve financial and nonfinancial criteria. Of course, a considerable amount of anecdotal evidence suggests the existence of a positive relationship between entrepreneurial posture and firm performance. Much of this evidence implicitly presents high performance as a consequence of an entrepreneurial posture (Peters & Waterman, 1982).

P43: Entrepreneurial posture is positively related to revenue generation by the firm.

P44: Entrepreneurial posture is positively related to firm profitability.

CONCLUSION

There are several limitations to the proposed model that should be identified prior to discussion of its implications. First, despite its deliberately generic orientation, the model may not be applicable to all business organizations. It is intended to depict the causes and consequences of organizational-level entrepreneurial behavior among larger, established firms and is perhaps less applicable to new ventures and many small "mom-and-pop" businesses. In the latter organizations, structural and cultural influences on entrepreneurial posture, for example, may be negligible. Second, the model is composed of multiple constructs representing several levels of an organizational system. As such, the model would be difficult to test in its entirety in a single research study. More realistically, the model would be tested through independent examinations of its component relationships. Third, while the variables in the model are clearly specified, many of them represent broad constructs that operate at a high level of generality. The external environment, for example, can be operationally defined in terms of forces or elements that are too numerous to incorporate in a specific sense in a single model. A result is that the model is not as prescriptive as a more narrowly defined model might be.

The preceding limitations notwithstanding, the proposed model of entrepreneurship as firm behavior has several important implications. A primary theoretical implication is that organizations can and should be viewed as entrepreneurial entities. To say that organizations, per se, can be entrepreneurial is not a subversion or misapplication of the construct of entrepreneurship. Rather, it is a defensible and meaningful assertion based on the fact that organizations, like individuals, can create new value for society through the thoughtful and productive assemblage of resources. Limiting discussion of entrepreneurship and the entrepreneurial process to individuals is unduly restricting.

A second theoretical implication of the model is that entrepreneurial firm-level behavior can be a pervasive and integral part of an organization’s operations. Entrepreneurial activity should not be thought of as either absent or present in organizations, nor should it be thought of as an inherently unnatural or disruptive process in the functioning of organizations. A more meaningful perspective on this matter would be to view entrepreneurial behavior, or, more specifically, entrepreneurial posture, as a strategic dimension on which all firms can be plotted. In doing so, we create a conceptually appealing framework and implicitly acknowledge the fact that organizations often have within themselves the ability to, as Miller (1983, p. 770) stated, “renew themselves and their markets by pioneering, innovation, and risk taking.”

A primary managerial implication of the model is that since entrepreneurial posture is a behavioral phenomenon, it can be managed. Consider the underlying elements of an entrepreneurial posture: risk taking, proactiveness, and innovation. Behaviors reflecting each of these entrepreneurial components can be encouraged or discouraged depending
upon the characteristics of the organizational reward structure. Senior managers can create ‘speculative fund’ pools for high risk–high return projects. R&D, manufacturing, and marketing personnel can be encouraged to think of ways the organization might leverage its core technologies as a means for creating new product/market opportunities. Organizational employees at all levels can be rewarded for identifying and suggesting realistic paths for exploiting competitors’ product line deficiencies or other areas of vulnerability. In short, there are numerous and diverse means through which managers can alter their organizations’ positions on the entrepreneurial posture dimension (see Schuler, 1986; Hisrich & Peters, 1989; Rule & Irwin, 1988).

Another managerial implication relates to the fact that entrepreneurial posture affects and, more significantly, is affected by multiple organizational system elements. Specifically, because of the numerous and complex interrelationships between entrepreneurial posture and other contextual variables, managers must not only manipulate the organizational reward structure in order to manage entrepreneurial posture and derive the benefits thereof, they must create, to the extent possible, an organizational context that supports and helps to sustain such a posture. This would require consideration of aspects of organizational structure, culture, and resources and competencies that can indirectly support or impede entrepreneurial firm-level behavior.

Related to the preceding points, the proposed model has value in that it depicts firm-level entrepreneurial behavior as an element within a larger organizational system framework. In contrast, the majority of the writings on the topic of entrepreneurial behavior and its correlates are more limited in scope, focusing on one or a few of the elements in the proposed model (see, for example, Schuler, 1986; Burgelman, 1984; Khandwalla, 1987). These more limited models generally have a high degree of face validity. However, they risk oversimplifying the means through which organizations can become more entrepreneurial. Specifically, they often overlook a sizable portion of the variables in the larger organizational system which can affect such efforts. In short, no known theories or models of entrepreneurial posture or related constructs encompass as broad a range of associated variables as the model proposed here. The identification of the forces that shape and are affected by entrepreneurial posture is important because, as argued by Khandwalla (1987, p. 40), “from macro-social considerations (promotion of economic growth in the developed and the developing worlds) and organization-level considerations (improvement of organizational performance), a further study of vigorous modes of management may have high social relevance.”

It may be inferred from the prior discussion that entrepreneurial firm-level behavior is desirable in all cases. No such implication is intended. In fact, in certain contexts, a conservative strategic orientation will be preferable to a highly entrepreneurial posture (see, for example, Covin & Slevin, 1989). It is nonetheless felt that knowing how to manage entrepreneurial posture will become increasingly important because the environmental conditions that “require” such a posture are evolving rapidly. The proposed model of entrepreneurship as firm behavior could serve as a conceptual starting point toward this end.

Future research into this topic could proceed along a number of important paths. Studies of the forms of entrepreneurial firm-level behavior would certainly be useful in helping to better define the process and domain of entrepreneurship as they pertain to established organizations. As implied above, studies that seek to determine when and where an entrepreneurial posture is appropriate would be particularly useful. No less significant would be research into the management of entrepreneurial posture. Finally, the proposed model presents numerous specific relationships that are open to investigation. Hopefully, future researchers will find this model a valuable conceptual framework that suggests promising research directions.
REFERENCES


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**ENTREPRENEURSHIP THEORY and PRACTICE**


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