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How Does Entrepreneurial Orientation Influence the Sustainable Growth of SMEs? The Role of Relative Performance

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Abstract: The answer to the question, “Which factors determine the sustainable growth of small- and medium-sized enterprises (SMEs)?” is still fragmented. While previous studies have paid attention to a firm’s entrepreneurial orientation (EO) as a key driver of SME growth, it is often overlooked that contextual factors can be crucial in order for EO to be effective in yielding sustainable growth in SMEs. This paper focuses on the role of relative performance as a boundary condition in the relationship between EO and sustainable growth of SMEs. We predict that the effect of EO on SMEs’ sustainable growth would differ depending on performance feedback based on their past performance. Our empirical analysis based on panel analysis shows that SMEs strongly pursue sales growth immediately after they achieve lower levels of performance than historical aspiration. However, when their performance goes beyond the historical aspiration level, their growth patterns appear to show a different pattern depending on their level of EO. SMEs with greater EO are more likely to pursue firm growth when performance is above historical aspirations while those with lesser EO are not. Our findings suggest that relative performance is an important boundary condition in the relationship between EO and SMEs’ sustainable growth.

Keywords: SMEs; firm growth; performance feedback; entrepreneurial orientation

1. Introduction

As small- and medium-sized enterprises (SMEs) are typically resource-constrained, the issue of SMEs’ sustainable growth often attracts significant attention from not only academics but also policymakers [1,2]. To contribute to the sustainable development and revitalization of the economy, SMEs should continuously create innovation, grow on the basis of it, and change to destroy the economic order established by existing enterprises [3]. In this sense, SMEs must be able to achieve sufficient growth to contribute to the economy by creating wealth, innovation, and new jobs and, most importantly, to survive [4–6].

Previous studies have shown that entrepreneurial orientation (EO) is one of the most influential determinants of firm growth [7–10]. Referred as the “pursuit of new market opportunities and the renewal of existing areas of operation” [11] (p. 901), EO is a key strategic orientation that encourages the exploitation of organizational resources towards entrepreneurial activities, which results in superior growth outcomes [12,13]. In fact, EO has been found to improve various firm performance outcomes, including those of SMEs [9,14]. However, scholars have recently been paying attention to the contingency factors that affect the relationship between EO and SME growth. It is suggested that it is more important to consider the boundary conditions of the EO–SME growth relationship, as firms may differ significantly

with respect to the effectiveness of EO at translating potentially valuable opportunities into growth trajectories [15].

In this paper, we argue that relative performance plays an important role as a boundary condition in the relationship between EO and sustainable firm growth in the context of SMEs. While the existing literature strongly agrees that EO positively influences SME growth [7–10], it is overlooked that SMEs may not always be able to exercise their EO tendencies towards entrepreneurial activities that will lead to firm growth. As such, even SMEs with similar levels of EO can be divergent in terms of their firm growth. Because SMEs face significant resource constraints [16], they should not be able to engage in risk-taking initiatives without any clear economic guidance even if they are committed to EO. To fill the gap in the literature, this paper explores the idea that SMEs' relative performance influences their growth decisions [17–19]. Specifically, we draw on the behavioral perspective to suggest that SMEs will use their past performance as a historical aspiration level to assess current performance to diagnose their current conditions [17–19]. By doing so, SMEs will make critical decisions about whether to actually engage in strategic behaviors associated with innovation, proactiveness, and risk-taking. Accordingly, we expect that there will be differences in firm growth among EO-committed SMEs depending on performance feedbacks.

This article is organized as follows: Section 2 briefly reviews the literature related to the determinants of firm growth. Section 3 suggests the original hypotheses of current research. Section 4 shows the methodology, including the sample description, measurement of variables, and the model specification. Section 5 then presents the results of empirical analysis and hypotheses testing. In Section 6, we discuss this paper's theoretical and practical contributions and provide suggestions for future research.

2. Literature Review and Hypothesis Development

2.1. Sustainable Firm Growth of SMEs and the Role of Entrepreneurial Orientation

For SMEs, firm growth is an especially important performance outcome [20,21]. Firm growth, which is defined as the "increase in a firm's size from one point in time to another" [22] (p. 33), is especially critical for SMEs because it allows them to survive and gain competitiveness [23]. Through growth, SMEs will be able to overcome the threats of firm failure and improve their likelihood of survival [5,23]. Examples of growth decisions include searching for new markets where their existing resources can be utilized [24,25] or where there are new resources that these firms do not possess [26], and developing new products and services [27]. Overall, scholars have long agreed that SMEs should place growth as its top agenda and are on a continuous quest for growth [23].

Accordingly, a vast amount of research has focused on the determinants of SME growth. For example, innovation and exports are argued to be important factors. According to Uhlander and her colleagues [28], external sourcing not only increases sales growth but also mediates the relationship between external sourcing and sales growth in SMEs. R&D offshoring has been found to have both a direct effect and an indirect effect via innovation on the sales growth of SMEs [29]. Furthermore, Love and Roper [30] found that SMEs that have more exporting experience will display higher growth because firms that export are more likely to have prior innovation experience. Similarly, Golovoko and Valentini [23] found that innovation and export are complementary strategies with respect to their effect on SME growth. Profitability has also been suggested to be another meaningful antecedent to high growth in SMEs. Davidsson and his colleagues [31] suggested that SMEs with high profitability are more likely to achieve higher growth in subsequent periods even if they had low growth at the time.

More recently, EO has been suggested to be a key determinant of firm growth in SMEs because only certain SMEs that are committed to EO tend to be able to transform risks into opportunities with their aggressive minds for change. EO is defined as "the strategy-making processes that provide organizations with a basis for entrepreneurial decisions and actions" [9] (p. 762). Despite the perception that SMEs are considered more entrepreneurial than larger enterprises [15,16], not all SMEs are willing

to engage in entrepreneurial behavior to the same degree. As such, some SMEs are more committed to EO, while others are less so. Nevertheless, such an ability to take risks and seek out new opportunities has been found to benefit SMEs, especially in the face of increasing environmental uncertainty [9,32–34]. Thus, existing literature suggests that EO positively influences firm growth [7–10].

2.2. Boundary Conditions in the EO–SME Growth Relationship

However, scholars are increasingly paying attention to the contingency factors that affect the relationship between EO and firm growth. This is because SMEs that are committed to EO may be different in terms of how effective they are at translating potentially valuable opportunities into firm growth [15]. Previous studies have suggested various factors that can serve as moderating variables. For instance, firm age has been suggested to be a meaningful moderator in the EO–firm growth relationship because it determines the extent to which firms possess an entrepreneurial strategic posture [15]. Using survey data collected from 230 SMEs in Japan, entrepreneurial strategies pursued by younger firms have been found to lead to more significant growth outcomes despite their limited market knowledge compared to larger firms [15]. The type of resources held by firms—rather than the absolute size of available resources—has also been suggested to be more meaningful in the relationship between EO and firm growth [14,35]. With a sample of 384 Swedish SMEs, Wiklund and Shepherd [14] found that EO enhances the positive impact of knowledge-based resources; this suggests that EO helps managers to better utilize knowledge-based resources. These findings suggest that intangible resource endowments allow firms to pursue entrepreneurial strategies that lead to positive growth outcomes because EO is by nature a resource-consuming posture [12,15]. Casillas and Moreno [36] suggested that family involvement has a positive moderating effect on the relationship between EO and growth because family members have a more long-term perspective. Using a sample of 110 manufacturing firms from the U.S., the relationship between EO and firm growth was found to be more positive among firms that adopt autocratic decision-making and an emergent strategy formation process [7].

Despite past attempts at identifying meaningful boundary conditions that intervene in the relationship between EO and firm growth, the role of past performance in SME growth has not yet been explored. This is surprising given that SMEs that are constrained in terms of resources may not always be able to use organizational resources towards entrepreneurial activities that will lead to superior firm growth even if they are willing to do so [12,13]. For example, even if an SME is committed to EO, they may be unable to exercise EO when external contingencies are not favorable or do not require excessive experimentation. Hence, simply considering the level of EO and other static variables such as firm age [15], a bundle of knowledge-based resources [14], and governance characteristics such as family ownership [36] seems to be far from sufficient. In an attempt to fill the gap in the literature, this paper suggests that the past performance of SMEs—particularly, the relative performance based on their historical aspiration level—is a meaningful boundary condition in the EO–SME growth relationship. That is, the effect of EO on SME growth must be considered simultaneously with the state of relative performance.

2.3. The Role of Past Performance in the EO–SME Growth Relationship

We suggest that SMEs will use past performance to assess their current performance before they make key growth decisions, thereby arguing that relative performance is a contingency factor in the EO–growth relationship in the context of SMEs. The behavioral theory of the firm emphasizes that decision-makers assess their current performance relative to an aspiration level, which is “the smallest outcome that would be deemed satisfactory by the decision-maker” [37] (p. 1053). As firm behavior differs depending on whether current performance is below or above a historical aspiration [17–19], previous studies based on the behavioral theory of the firm has investigated the impact of relative performance on a wide range of firm decisions related to innovation (e.g., R&D investments, practice, and process innovation) [35], corporate-level strategy (e.g., M&A) [38], and new market entry [39].

The level of current performance relative to past performance (i.e., historical aspirations) should influence the level of impact that EO has on SME growth because these firms by nature are resource-constrained [40]. In fact, a positive relationship between organizational resources and firm growth is established in the broader literature [41–43]. Such resource-based approaches emphasize that SMEs with larger resource endowments tend to show higher levels of growth because firms are able to exploit their resources in productive ways [22]. Examples of resource endowments include financial capital, production capacity, distribution capacity, and managerial time and attention [39]. This, in turn, suggests that SMEs facing resource constraints do not possess excess resources that can be utilized or redeployed in a productive form that will lead to firm growth [20]. SMEs without sufficient stock of resources do not have the flexibility to consume limited resources on decisions that encompass a risk of jeopardizing firm survival. As such, securing more resources for sustainable growth is very challengeable for SMEs because they lack resources in the first place [44,45]. What is more, the prospect of losing the limited resources that they have should be viewed as a bigger threat compared to firms with more abundant resource endowments. The use of resources also creates opportunity costs because consumption for a certain objective precludes its use for other objectives [39]. As a result, in the face of resource constraints, SMEs may not always be willing to engage in entrepreneurial activities that will lead to sustainable firm growth even if they are committed to EO.

3. Hypothesis Development

3.1. *The Interaction Effect of Performance below Historical Aspirations*

When performance is below historical aspirations, existing performance feedback literature predicts that firms should be more willing to embrace risk-taking activities to pursue growth because the failure to reach the performance goal would initiate an effort to make amends [46]. That is, firms are predicted to engage in a problematic search in order to implement changes that will improve the currently unsatisfactory situation [17,47]. Assuming that decision makers have the desire to find solutions to performance problems, their search for means to improve performance is predicted to lead to an increase in the acceptance of risky solutions such as risky growth decisions.

However, we suggest that SMEs' decision makers should perceive the situation of negative discrepancy attainment differently *depending on* their level of EO. On the one hand, SMEs with low EO are likely to perceive the situation of low relative performance as a threat because it should heighten their awareness of the danger of firm failure [48–50]. Consequently, as performance falls below the historical aspiration level, SMEs with low EO would be less able to engage in risky initiatives such as exploring new markets or developing new products and services. Lower relative performance indicates that the solution to improving performance requires more than a minor adjustment, thereby incurring a higher risk [51]. While risky initiatives may subsequently positively influence firm growth, SMEs with low EO would be less willing to embrace the associated high risk. Thus, SMEs with a lower commitment to EO should be less willing to undertake risky ventures for growth because these firms are more prone to adopt a conservative approach.

When performance is below historical aspiration levels, SMEs with high EO are more likely to search aggressively for entrepreneurial solutions to “fix” the performance problem compared to those with low EO. This is because a commitment to EO renders SMEs to become more willing to embrace risk to implement growth strategies in the face of performance shortfalls [13,34,52]. Decision-makers in entrepreneurially oriented SMEs will understand that performance problems cannot be resolved without proactive engagement in entrepreneurial activities in order to discover and exploit new opportunities [53]. Through such entrepreneurial activities, these firms will be able to grow and improve performance. In summation, we hypothesize the following:

Hypothesis 1. *When performance is below the historical aspiration level, the relationship between relative performance and firm growth is stronger for SMEs with high EO rather than low EO.*

3.2. The Interaction Effect of Performance above Historical Aspirations

On the other hand, SMEs' performance can be above the historical aspiration level. Although performance improvements can create more slack resources and better situate SMEs to acquire resources that are necessary for growth [17,54], it also means that there is no immediate threat of firm failure. Therefore, SMEs performing above their historical aspiration levels may be less likely to face the need to implement growth decisions as to the level of positive discrepancy attainment increases. Rather, SMEs may be more interested in sustaining the status quo due to their "desire to preserve a position of safety by avoiding additional losses" [40] (p. 85). As the status quo has been proven to be sufficient for the attainment of performance goals, SMEs may be motivated to continue with their existing routines and products [55]. SMEs may also shy away from growth decisions because these types of decisions are more likely to increase the complexity of organizational routines [56]. SMEs should be less able to deal with these problems because necessary solutions require the use of their scarce resources. For instance, firm growth may require SMEs to hire more operational and administrative personnel. Since the increase in employment may stimulate bureaucracy and require a more formalized system and procedures, such organizational demands can pose a severe challenge for SMEs. The burden of dealing with organizational complexities of firm growth can outweigh the need to resolve performance problems. Furthermore, SMEs will be less inclined to pursue growth in times of high relative performance because associated risks may result in low performance in the future [57]. Although the greater availability of resources resulting from high relative performance can serve as a better buffer against the downside of failure from experimentation [57], SMEs nevertheless have relatively low levels of resource endowments, which render them sensitive to considerable losses. That is, SMEs may not be as motivated to allocate their scarce resources to activities that can increase uncertainty about future performance.

Nevertheless, we suggest that SMEs performing above historical aspirations should show different patterns of growth depending on their commitment to EO. In other words, SMEs that are more committed to EO would be less likely to shy away from growth decisions in times of high relative performance. Compared to SMEs with low EO, those with high EO would be more willing to allocate organizational resources to pursue growth by discovering and exploiting new opportunities when they are facing a positive attainment discrepancy [53]. When performance goals are attained, decision-makers in SMEs with high EO can more readily approve growth initiatives that otherwise would not have been possible in the face of scarcity [17]. That is, these firms are willing to take the risks to seek out new opportunities that can eventually lead to growth [9,32–34]. This also suggests that SMEs with high EO are less likely to become inertial even when performance exceeds historical aspirations; they are, in fact, more entrepreneurial even when performance goals have been attained.

By contrast, SMEs with low EO are more likely to decide that the current routines are sufficient and are unlikely to seek out new opportunities and engage in higher levels of risk-taking. Given that SMEs with low EO are less entrepreneurial in its strategic orientation, they are more likely to prefer maintaining the status quo as their strategy [55]. Although resource constraints are less of a burden in these firms in times of high relative performance, the potential downsides of taking risks and consuming scarce resources that could have otherwise been allocated elsewhere should be amplified for SMEs with low EO. As a result, growth decisions will be less pursued among SMEs with a lower commitment to EO, which in turn means that these firms are less able to transform risks into opportunities leading to growth. In summation, we hypothesize as follows:

Hypothesis 2. *When performance is above the historical aspiration level, the relationship between relative performance and firm growth is stronger for SMEs with high EO rather than low EO.*

4. Methodology

4.1. Data and Sample

The legal standards for classifying small businesses vary from country to country. Some countries are capital-based, while others are employee-based. South Korea mainly classifies small businesses based on the number of employees. In South Korea, firms with fewer than 300 employees are usually considered SMEs. South Korea's SMEs account for 99% of businesses in the country, or 86% wage earners. With such a large share of the Korean economy, the Korean government is emphasizing the role of SMEs for sustained growth.

Our original panel data were constructed from data obtained from three different sources. First, the original sample of this study was SMEs listed in the Human Capital Corporate Panel (HCCP) database. HCCP is a secondary database for a nation-wide representative survey, and these data are collected by the Korean Research Institute for Vocational Education and Training. This dataset is approved by the Korea National Statistical Office and used for empirical analysis in top business journals [58,59]. Second, data representing SMEs' financial information were obtained from the Korea Information Service (KIS) database. The KIS database has been adopted in previous studies that utilize Korean firms as a sample [60,61]. Lastly, to measure the EO of each SME, we collected data through a questionnaire conducted through face-to-face interviews and e-mail surveys.

Among the 239 firms in the initial SME sample, questionnaires were randomly distributed to 165 SMEs in September 2010. Because CEOs should be the most knowledgeable about the level of EO of their firms, we requested that the questionnaires be answered by the CEO of each SME. Of the 165 questionnaires distributed, 104 were returned (63.0%). Out of 104 respondents, 18 cases were excluded due to a lack of information. Following this procedure, 86 respondents remained. By combining KIS, HCCP, and original questionnaire data, we constructed original panel data with a final sample size of 86 SMEs and 325 observations during 2010–2013. During this period, there was no change in CEOs for all sampled SMEs.

4.2. Variable Measurement

4.2.1. SMEs' Firm Growth

The growth criterion of an SME can vary depending on what it is based on. It can be based on the number of employees, on the volume of sales, or on the size of assets. Of these, we measured based on the criterion of sales, because we judged that growth based on sales is the best indicator, which is determined under intentional strategic decision-making for SMEs. Thus, *SMEs' firm growth* was measured as the growth rate of total sales between year t and $t + 1$. Following previous studies [23], sales growth was the representative variable for firm growth ("the single most common growth measure") [22] (p. 16). If there was no change in the total sales of Firm A during the given period, the variable was coded as 1.

4.2.2. Entrepreneurial Orientation

Entrepreneurial orientation (EO) is an indicator of how much an organization has a propensity to be entrepreneurial. This may be measured on the basis of the firms' behaviors (such as R&D investment or new product development) or the intention of the decision maker (mainly the CEO). In this study, reflecting the characteristics of small businesses, we measured the EO from the CEOs of small businesses. Entrepreneurial orientation was measured by multiple items, as suggested by Colvin and Slevin [12]. EO is composed of three sub-dimensions: innovativeness, proactiveness, and risk-taking [34,62,63]. Innovativeness refers to a firms' tendency to engage in the experimentation of new ideas and creative processes, which may result in new products or services. Proactiveness refers to the entrepreneurial willingness to win the competition with a proactive and aggressive stance. Lastly, risk-taking refers to the willingness to invest significant resources in finding a way to overcome

uncertain circumstances [34]. Accordingly, CEOs were asked to evaluate their EO using the nine-item measure. Sample items include “in my company, there exists a very strong emphasis on R&D, technological leadership, and innovation (innovativeness)”, “my company is typically the first to initiate actions to competitors, for which the competitors then respond (proactiveness)”, and “I have a strong preference for high-risk projects with chances of very high return (risk-taking)” (1, “strongly disagree”, to 5, “strongly agree”; Cronbach-alpha = 0.749). Full items are provided in Appendix A.

4.2.3. Relative Performance

Following previous studies in the performance feedback literature, historical aspiration was created by generating average performance, measured as ROS (return on sales), of the last three years of each firm [64]. Performance relative to historical aspiration is calculated by the difference between firms’ prior ROS and the historical aspiration level:

$$\text{Performance relative to historical aspiration}_t = \text{ROS}_{t-1} - \frac{\text{ROS}_{t-2} + \text{ROS}_{t-3} + \text{ROS}_{t-4}}{3}. \quad (1)$$

Specifically, ROS for 2009 and those for the average of the previous three years (2006–2008) were used to predict the outcome variables in 2010. From the above formula in terms of performance relative to historical aspiration, we created two variables: *Performance below historical aspirations* takes the value of the performance relative to the historical aspiration level when this value is negative, and 0 otherwise, to reflect decreasing performance. *Performance above historical aspirations* takes the value of the performance relative to the historical aspiration level when this value is positive, and 0 otherwise, to reflect increased performance.

4.2.4. Control Variable

By reference to the previous studies, this study controlled a number of external factors that could affect SMEs’ firm growth. We included control variables that can impact SME growth. *Firm age* is the number of years since the firm’s founding. To account for size effects, *firm size* was controlled for by including the natural logarithm of the total number of hired employees. *Capital intensity* was measured by the natural logarithm of the ratio of fixed assets to sales for each year. Lastly, year dummies and industry dummies were controlled for.

4.3. Model Specification

To test the hypotheses, panel analysis was conducted. Panel analysis is a useful way to overcome the limitations of causal relationship estimated by cross-sectional analysis, which is repeatedly pointed out in the management field. One of the strong advantages of panel analysis is that it is possible to control for the unobserved characteristics of each entity that is not identified as a measurement variable. By doing so, panel analysis enables increasing the efficiency of the causality estimation. In general, the ordinary least square (OLS) model, which is frequently used in regression analysis, has difficulty obtaining effective estimates because of the presence of autocorrelation and heterogeneity. Thus, we used generalized least squares (GLS) modeling.

In GLS, either a fixed-effects model or a random-effects model can be adapted depending on whether the error terms in the model are considered to be fixed-effects or random-effects. To determine this, Hausman-test was performed. As a result of the Hausman-test, it was found that the error term followed the probability distribution (chi-square = 9.65, $p = 0.290$). Thus, this study used GLS with random-effects model for empirical testing.

5. Results

5.1. Descriptive Statistics and Correlations

Table 1 reports the mean, standard deviation, and inter-correlations for each variable. The average firm size is 199 full-time employees (S.D. = 115.584). The average age of the sample firms is 29 years (S.D. = 13.793). The average of SMEs' firm growth for a sample of this study is 1.102, which means that the sample firms increased their sales by 10.2% on average. Consistent with our prediction, SMEs' firm growth is positively correlated with performance below historical aspirations ($r = 0.208, p < 0.001$). Surprisingly, performance above historical aspirations is also positively correlated with SMEs' firm growth ($r = 0.191, p < 0.001$).

Table 1. Descriptive statistics and correlations.

Variable	1	2	3	4	5	6	7
1. SMEs' firm growth	1.000						
2. EO	0.017	(0.749)					
3. Performance below historical aspirations	0.208 ***	-0.030	1.000				
4. Performance above historical aspirations	0.191 ***	0.012	0.124 *	1.000			
5. Firm age	-0.072	0.016	-0.032	0.049	1.000		
6. Firm size	0.077	-0.025	-0.241 ***	0.099	0.052	1.000	
7. Capital intensity	-0.057	0.018	-0.219 ***	-0.046	0.142 *	0.098	1.000
M	1.102	3.625	-0.054	0.048	29.643	199.544	-1.233
S.D.	0.400	0.354	0.154	0.138	13.793	115.584	1.216

Note: N = 325 for observation, and N = 86 for firm. † $p < 0.10$, * $p < 0.05$, *** $p < 0.001$.

5.2. Hypothesis Testing

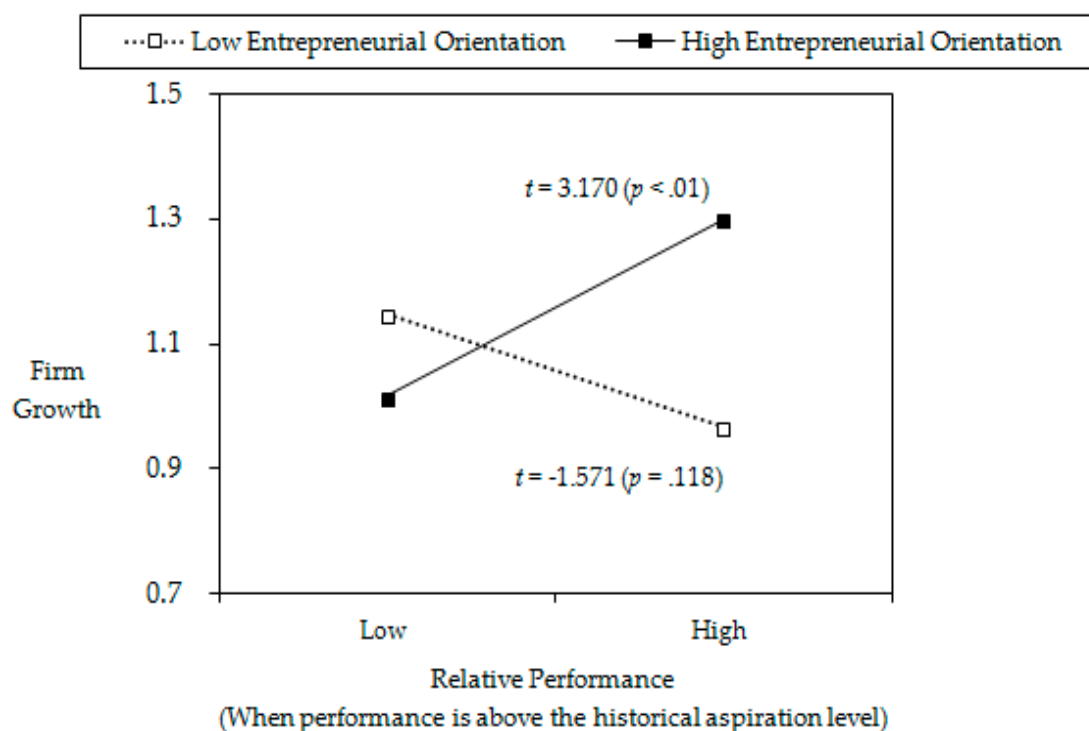
Table 2 presents the results for the models predicting SMEs' firm growth. Model 1 is the baseline model including control variables and our main variables (i.e., performance below historical aspirations and performance above historical aspirations). We added EO in Model 2. Next, to test Hypothesis 1, we entered the interaction term of the performance below historical aspiration and EO in Model 3. As shown in Model 3, the interaction of performance below historical aspirations and EO is not significant ($b = 0.287, p = 0.635$). This result is consistent with Model 5, the full model that includes all variables. Thus, Hypothesis 1 is not supported. Our prediction that SMEs with high EO will search more aggressively to fix the performance problem compared to their counterparts with low EO is not supported. Rather, SMEs that face low relative performance are likely to be willing to undertake risky ventures that can lead to firm growth. The different level of EO does not seem to play a meaningful role in creating differences in SME growth when these firms face low relative performance.

Models 4 and 5 tested Hypothesis 2. The interaction between performance above historical aspirations and EO is significant and positive ($b = 2.361, p < 0.01$). To better understand the patterns of interaction, Figure 1 shows the plot that was drawn around the values above and below one standard deviation from the mean. The results of the hierarchical regression, as well as the slope-difference test, show that, when EO is high (+1 SD, about 3.979), the slope with the relative performance for SMEs' firm growth is positive and significant ($t = 3.170, p < 0.01$). However, when EO is low (-1 SD, about 3.271), the relationship between relative performance and SMEs' firm growth is not significant ($t = -1.571, p = 0.118$). Thus, Hypothesis 2, which predicts that the relationship between relative performance and firm growth is stronger for SMEs with high EO rather than low EO when performance is above the historical aspiration level, is supported. This suggests that EO is meaningful for SME growth when these firms face high relative performance. SMEs with high EO will be more willing to truly act in an entrepreneurial manner that will lead to firm growth.

Table 2. Results of panel regression analysis on SME firm growth.

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	0.603 [†] (0.360)	0.316 (0.436)	0.283 (0.444)	0.690 (0.444)	0.704 (0.457)
Firm age	−0.002 (0.002)	−0.002 (0.002)	−0.002 (0.002)	−0.001 (0.002)	−0.001 (0.002)
Firm size	0.106 [*] (0.048)	0.108 [*] (0.048)	0.107 [*] (0.048)	0.074 (0.048)	0.075 (0.048)
Capital intensity	−0.025 (0.028)	−0.022 (0.028)	−0.022 (0.028)	−0.014 (0.027)	−0.014 (0.027)
Year dummy	Included	Included	Included	Included	Included
Industry dummy	Included	Included	Included	Included	Included
Performance below historical aspirations	0.611 ^{***} (0.154)	0.616 ^{***} (0.153)	−0.442 (2.362)	0.650 ^{***} (0.151)	0.977 (2.374)
Performance above historical aspirations	0.330 [†] (0.188)	0.328 [†] (0.188)	0.329 [†] (0.188)	−8.371 [*] (3.306)	−8.468 [*] (3.384)
EO (entrepreneurial orientation)		0.091 (0.080)	0.106 (0.087)	0.027 (0.081)	0.021 (0.090)
Performance below historical aspirations × EO			0.287 (0.638)		−0.088 (0.640)
Performance above historical aspirations × EO				2.361 ^{**} (0.896)	2.387 ^{**} (0.917)
Overall R ²	0.235	0.239	0.239	0.257	0.257
F-value	82.85 ^{***}	85.36 ^{***}	84.97 ^{***}	96.25 ^{***}	95.93 ^{***}

Note: $N = 325$ for observation, and $N = 86$ for firm. Unstandardized coefficients are reported, parentheses are standard errors. [†] $p < 0.10$, ^{*} $p < 0.05$, ^{**} $p < 0.01$, ^{***} $p < 0.001$.

**Figure 1.** Interaction of EO in the relationship between relative performance and firm growth.

To understand the results from a broader perspective, Figure 2 shows the relationship between relative performance and SME's firm growth, based on statistics derived from the analysis results. As shown in Figure 2, the pattern of the relationship between relative performance and SMEs' firm growth is different based on the point in the x-axis where the relative performance based on the

historical aspiration value is zero. When SMEs' performance is lower than their historical aspiration level (i.e., when current performance is lower than past performance), SMEs were found to promote firm growth regardless of their EO (left side of Figure 2). However, if their performance is higher than the historical aspiration level, which refers to the condition of economic affluence, the patterns differ depending on their EO. SMEs with high EO that are more inclined to pursue risk-taking and explore opportunities were found to drive rapid growth at a time when relative performance is good. However, SMEs with low EO are passive in entrepreneurial endeavors and challenges show different results with respect to firm growth. Although these SMEs enjoy positive performance results, they do not use them to promote more growth. Instead, our results suggest that SMEs with low EO will try to maintain the status quo even when performance is above historical aspirations.

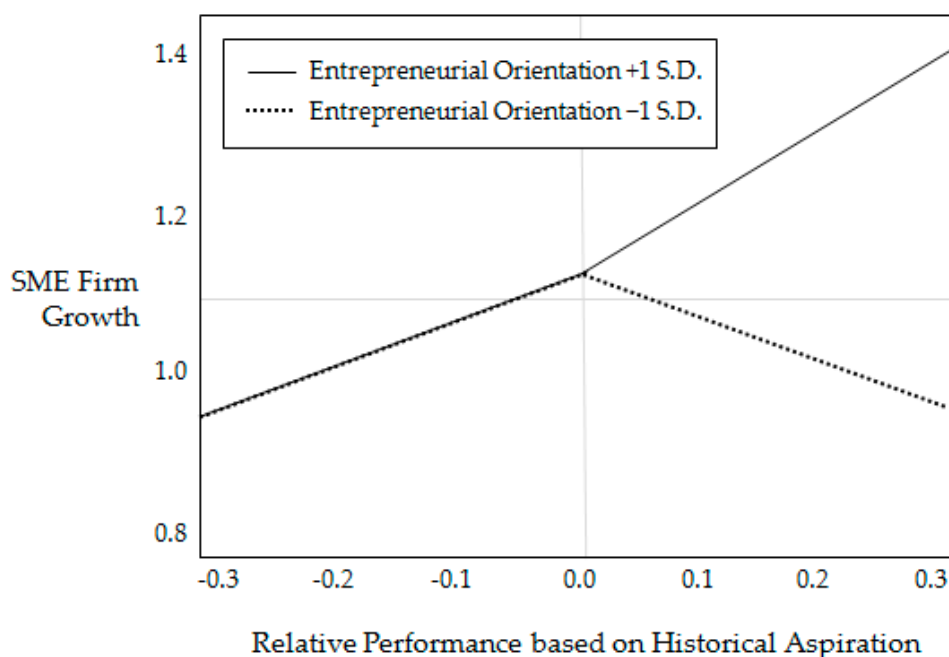


Figure 2. Historical aspiration levels and the rate of SME firm growth.

6. Discussion

6.1. Research Summary

By addressing the research question “Which factors determine the sustainable growth of small- and medium-sized enterprises (SMEs)?”, the findings of this paper advance our understanding of the factors that lead to SMEs' sustainable growth. Contrary to our expectations, our empirical analysis finds evidence that SMEs achieve sales growth *regardless* of their level of EO when they face lower levels of performance than historical aspiration. This means that SMEs are willing to act in an entrepreneurial manner by engaging in risky initiatives to solve the performance problems. At the same time, when SMEs' performance goes beyond historical aspiration levels, their growth patterns deviate *depending on* their level of EO. In times of high relative performance, SMEs that are strongly committed to EO are more likely to pursue firm growth, while their counterparts that are not committed to EO are not. Overall, the paper shows that SMEs' relative performance with respect to past performance is an important boundary condition in the relationship between EO and the sustainable growth of SMEs. The effect of EO on SMEs' sustainable growth differs depending on the relative performance that is derived from performance feedbacks using past performance as an aspiration level. That is, the effect of EO goes beyond the positive relationship between EO and SME growth as previously suggested [7–10,14].

6.2. Theoretical Contributions

Our paper provides several important theoretical contributions to the existing literature. First, we contribute to the literature on SME growth by providing a clearer insight into when SMEs grow. A significant limitation in the existing literature is that the dominant theoretical approaches to explaining firm growth have been the resource-based approach that argues firms with greater resource endowments will be better able to achieve firm growth [41–43]. However, these resource-based approaches provided very limited implications for SME growth [44,45]. As SMEs lack resource endowments, the absolute amount of resources has low explanatory power in understanding SME growth. Because SMEs lack excess resources to buffer against potential harms that risk-taking initiatives may cause [44,45], these firms should be more selective in choosing to utilize their scarce resources and undertake risky initiatives for firm growth. Even more problematic is that there might be a tautology issue. The argument that more resources produce profits, and that higher profits bring about accumulation of resources again, leading to the growth of companies, is highly likely to be an error of circular logic. Our findings overcome such prevailing limitations in the existing literature by going beyond such resource-based approaches.

Second, our findings contribute to the broader literature on EO by showing that even SMEs that are committed to EO may not always be willing and able to engage in entrepreneurial activities to promote firm growth. Instead, our findings suggest that the state of relative performance plays an important contingency role in the positive relationship between EO and SMEs' firm growth. While existing literature has emphasized that EO contributes to SME growth [7–10,14], the fact that SMEs by nature lack resource endowments is not sufficiently taken into consideration in the examination of the EO–growth relationship. Although CEOs as important decision-makers in SMEs may be committed to EO, their EO may not always play out in the same fashion because of situational differences. More specifically, our empirical findings highlight that the positive impact of EO on SME growth is more salient when performance is above historical aspiration levels (i.e., past performance). When performance is below past performance, SMEs tend to strive to improve firm growth regardless of their levels of EO. However, when SMEs are able to overcome such performance risks and face a positive situation in which performance is not above past performance, this is when the positive role of EO is now truly meaningful. SMEs' willingness to utilize the slack resource that is produced by high relative performance will differ depending on their level of EO. Without a commitment to EO, our study suggests that SMEs do not necessarily commit to strategic decisions that will lead to superior firm growth outcomes. Therefore, assuming that SMEs are simply more committed to EO compared to larger corporations [15,16] is an oversimplification that must be acknowledged. This is in line with the growing attention on the boundary conditions of the EO–SME growth relationship in the current literature.

Third, we contribute to the literature on EO and firm growth by focusing explicitly on firm growth in the context of SMEs. Although it is often assumed that a positive performance bias exists in favor of firms that have higher levels of EO [9,15], this can provide us with a thorough understanding about the impact of EO on firm performance, as there are various dimensions of performance that do not necessarily correlate positively with each other [8].

6.3. Practical Contributions

Practical implications that will serve to be useful for policymakers are also provided. First, our empirical results provide important hints as to why SMEs are often unable to achieve strong and consistent firm growth. Specifically, our results show that, while firm growth of SMEs with low EO depends on relative performance with respect to historical aspiration levels, SMEs with high EO will be more likely to achieve consistent firm growth regardless of the state of relative performance. In the context of our empirical setting, one reason that explains such findings could be attributed to the government policies that are specifically tailored to SMEs. Based on the notion that “the protection and promotion of SMEs should be included among the basic responsibilities of the government” [65]

(p. 105), the Korean government currently implements a wide range of policies for SMEs in order to improve the business environment by helping SMEs grow and lower their traditional reliance on larger corporations such as *Chaebols* [65]. Due to the strong institutional framework supporting SMEs, these firms may prefer to adopt a more conservative approach towards growth in times of positive attainment discrepancy. Although low relative performance is a situation in which SMEs have no choice but to engage in growth decisions to survive, situations of high relative performance is a different matter. In times of high relative performance, SMEs that achieve strong firm growth may grow to the point in which they are no longer classified as SMEs, thereby losing many benefits and protections they have been receiving. This type of behavior is in line with the “Peter Pan Syndrome” that has actually been found to be displayed by SMEs [66]. Peter Pan Syndrome refers to SMEs intentional refusal to grow for reasons such as maintaining benefits of state support [66]. To prevent such Peter Pan Syndrome in SMEs, policymakers should avoid policies that are excessively generous for SMEs. Instead, government support should be rewarded to SMEs that seek long-term risky growth decisions rather than to take the safe route to preserve the status quo.

Second, our paper highlights that policymakers should make efforts to adopt a more long-term perspective in designing policies for supporting SMEs. This is because our empirical results highlight that EO is crucial for SMEs to grow even after they achieve high relative performance. Rather than adopting a short-term focus on improving profitability or growth measures as performance indicators, policymakers should seek to shape the fundamental personality of SMEs to become more committed to EO. Government policies should be carefully designed and implemented in a way such that SMEs are rewarded for taking risks and pursuing opportunities despite environmental uncertainty [9,32–34]. Such an institutional framework will, in turn, encourage SMEs to build a climate that encompasses an entrepreneurial posture [12,67].

Practical implications that are suitable for SMEs’ decision makers are also suggested. Our results highlight that decision makers (e.g., CEOs) should pay attention to fostering a culture that embraces and promotes EO in SMEs. Such an effort would benefit the firm especially in the long run because EO is critical for overcoming inertia that SMEs may face in times of high performance. While all SMEs may appear to be committed to EO when they face performance problems (i.e., when performance is below the historical aspiration level), the true value of EO becomes salient when SMEs do *not* face performance problems. Once SMEs reach a stage of stability by having been able to improve performance, we found that SMEs with low EO do not act in a truly entrepreneurial manner. In order for SMEs to avoid being inertial, the firm must possess EO that will drive them to be entrepreneurial in terms of their strategic decision making, even in times when they are not facing immediate performance problems.

6.4. Limitations and Suggestions for Future Research

Our research has limitations that provide valuable suggestions for future research. First, while the paper finds empirical evidence that relative performance with respect to historical aspirations is a boundary condition in the EO–SME growth relationship, we do not take into consideration the effect of social aspiration levels. Although the literature identifies historical and social aspiration levels as the two key aspired goals of firms [68,69], we pay attention to the historical aspiration levels that are constructed from SMEs’ own experiences. As SMEs’ product-market focus tends to be narrow and the evolution of their product portfolio is likely to be highly uncertain, delineating the boundary of SMEs’ exact product market domain in which they should identify competitors can be more difficult [70]. Nevertheless, future research should seek to explore the interaction effect of relative performance with respect to social aspirations in the EO–SME growth relationship. For example, social aspiration levels can be determined depending on how SMEs define who the important competitors are.

Second, as the sample used for empirical testing in this research is collected from a single nation (i.e., South Korea), future research should investigate whether our findings hold in other national settings as well. Different nations are idiosyncratic in terms of important factors such as institutional frameworks that offer protection for SMEs. While we previously mentioned that our empirical setting

is a nation with a high level of government policy activism for SMEs [65], not all nations offer similar levels of policy support for SMEs. As such, the literature should benefit from additional research utilizing a more international sample or with a sample from another nation.

Third, while our paper provides the contribution that we conducted a longitudinal study using a sample of SMEs, a broader generalization of our findings may be limited due to the relatively small sample size. Although there are a large number of SMEs in our research setting, our measure of EO is collected from a survey of CEOs, thereby limiting our sample size. Future research should aim to use a larger sample and to enhance the prospects for generalization.

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Appendix A

Entrepreneurial Orientation: Innovativeness

- (1) In my company, there exists a very strong emphasis on research and development, technological leadership, and innovations.
- (2) My company has introduced many new lines of products or services in the past five years.
- (3) The changes in product lines (types/number of products) for my company have usually been dramatic.

Entrepreneurial Orientation: Proactiveness

- (4) My company is typically the first to initiate actions to which competitors then respond.
- (5) Very often, my firm is the first company to introduce new products/services, techniques, technologies, etc.
- (6) My firm typically adopts a very competitive, “outdo-the-competitors” posture.

Entrepreneurial Orientation: Risk-taking

- (7) I have a strong preference for high-risk projects (with chances of a very high return).
- (8) I believe that, owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm’s objectives.
- (9) When confronted with decision-making situations involving uncertainty, my firm typically adopts a cautious, “wait-and-see” posture in order to minimize the probability of making costly decisions (reversed).

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