

DOES A COMPANY'S COMMITMENT TO ENTREPRENEURSHIP MAKE ANY DIFFERENCE? EVIDENCE FROM TWO COUNTRIES

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ABSTRACT

This study explored and examined the relationship between a company's commitment to entrepreneurship (innovation and venturing) and its financial performance (return on assets, return on sales, sales growth, and earning per share). Using two samples of medium-size companies in the United States and Jordan, and utilizing factor analysis and multiple regressions, the findings of this study revealed a positive and significant relationship between the company's commitment to entrepreneurship and its financial performance in both countries.

INTRODUCTION

There has been continued controversy over the definition of entrepreneurship and the identification of entrepreneur in the past research (Hyrsky, 1999). For example, Ireland, Hitt, Camb, and Sexton (2001) define entrepreneurship as a context, dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities. This definition suggests that if a company gains access to a variety of resources and knowing how to leverage them creatively, this company has two core entrepreneurial functions. On the other hand, Guth and Ginsberg, (1990) define company's entrepreneurship as the sum of a company's innovation and venturing activities. While there are many definitions of entrepreneurship, there is at least general agreement regarding entrepreneurship's positive effects on a company's efforts for creating wealth (Lumpkin & Dess, 1996).

Zahra, Neubaum, and Huse (2000) claim that entrepreneurship is necessary in the 21st century's competitive markets because it can help the company acquire new capabilities, create and enter new business (Stopford & Baden-Fuller, 1994), develop new revenue stream in both domestic and foreign markets (Block & MacMillan, 1993), and improve its performance (Kuratko, Ireland, & Hornsby, 2001). Entrepreneurship is important for a company's survival, profitability, and growth. The development

of successful entrepreneurial activity proxy contributes towards the assessment of its contribution to growth (Salvato, 2004). Given these potential contributions, previous research attempted to identify the factors that promote a company's commitment to its entrepreneurship (Lumpkin & Dess, 1996). Currently, only a few empirical studies have explored and examined the impact of the company's commitment to entrepreneurship on its financial performance (Kuratko, Ireland, & Hornsby, 2001). The majority of the few conducted studies have focused on large American corporations. Since no study has been conducted on the relationship between entrepreneurship and financial performance, especially in less-developed countries, this study is using a sample of American and Jordanian medium-size public companies to test the relationship between a company's commitment to entrepreneurship and its financial performance.

COMPANY'S ENTREPRENEURSHIP AND ITS FINANCIAL PERFORMANCE

The relationship between a company's entrepreneurship and its financial performance in large organizations has been assessed differently over time. During the 1980s, some argued that it was difficult for people to act as an entrepreneur in bureaucratic organizational structures. Kuratko, Ireland, and Hornsby (2001) believe that entrepreneurial actions are possible for companies of any size, and could be expected to enhance company's performance. The

company's entrepreneurship renews a company's capabilities and increases its capacity to acquire and use new competencies that improve performance. These capabilities allow the company to improve its competitive position in domestic or international markets and enter new industries in the pursuit of profitability and growth. Tang and Koveos (2004) suggest that entrepreneurship is positively associated with a company's growth and profitability. Thus, there is a need to examine the relationship between entrepreneurship and financial performance. This study accomplishes this goal by investigating the relationship between the company's commitment to entrepreneurship and multiple indicators of its financial performance in the United States and Jordan. Zahra, Neubaum, and Huse (2000) assert that return on assets (ROA), return on sales (ROS), sales growth (SG), and earnings per share (EPS) are adequate measures for the company's financial performance.

HYPOTHESES

Building on the literature, the study tests the following hypothesis:

H_1 : There is a significant and positive relationship between a company's entrepreneurship and its ROA.

H_2 : There is a significant and positive relationship between a company's entrepreneurship and its ROS.

H_3 : There is a significant and positive relationship between a company's entrepreneurship and return on its SG.

H_4 : *There is a significant and positive relationship between a company's entrepreneurship and return on its EPS.*

METHODOLOGY

To test the formulated hypotheses, a combination of primary data (obtained through a mail survey) and secondary sources were utilized. A sample of 500 medium-size manufacturing companies located throughout the United States, competing in 10 industry groups, were identified from Compact Disclosure CD-ROM. Following criteria developed by Zahra, Newbaum, and Huse's (2000) procedure, companies were selected according to the following criteria: (1) companies should have been in existence for at least ten years to reduce the potential bias associated with company's newness, (2) companies should be publicly held because their data would be available, (3) companies should be in the \$25 to \$500

million-asset range to qualify as being medium in size. Companies were chosen from different industries to capture potential variations in innovation and venturing activities. A panel of Jordanian experts selected 300 Jordanian companies applying the same criteria. A valid and reliable questionnaire developed by Zahra, Newbaum, and Huse (2000) was mailed to the companies' CEOs (most senior executives) in both countries because of their familiarity with the company-wide commitment to entrepreneurship efforts. Out of the 500 questionnaires distributed to American CEOs, 120 (24% response rate) responded and mailed their completed questionnaires. Out of the 300 questionnaires distributed to Jordanian CEOs, 66 (22% response rate) responded and mailed their completed questionnaires. The survey data were collected in 2002 in the United States and in 2004 in Jordan. Respondents were asked to gauge their answers over the past three years (1999-2001 in the United States and 2000-2002 in Jordan).

A survey questionnaire was used to measure the companies' innovation and venturing in both countries. Thirteen and nine items were utilized to measure *innovation* and *venturing*, respectively. Using a 5-point scale, respondents in both countries rated their companies' actual emphasis on each item over the identified previous three years. Responses to the survey items were used to construct measures of innovation and venturing. To develop measures of *innovation*, the 13 survey items were subjected to orthogonal factor analysis with varimax rotation. This analysis produced three significant factors: product (5 items), process (4 items), and organization innovation (4 items). Average scores of the items in each of the three factors were used in the analyses. Similarly, the 9 survey items of venturing were subjected to orthogonal factor analysis with varimax rotation to develop measures of venturing. This analysis produced two significant factors: Domestic venturing (5 items) and international venturing (4 items). Due to the limited space, Tables concerning factor analysis are available upon request from authors.

This study used four financial measures (ROA, ROS, SG, and EPS) to examine the impact of entrepreneurship on the company's financial performance. Data concerning American companies were obtained from Compact Disclosure, Moody's Industrial Manual, Standard & Poor's Guide, and

annual reports. Data concerning Jordanian companies were obtained from various sources by the Jordanian panel of experts. Control variables that have potential impact on entrepreneurship are company's age, size, and its technological opportunity (Datta, Guthrie, & Wright, 2005). The company's *age* was measured by the number of years since it was established. The company's *size* was measured using the log of the number of a company's full-time employees.

FINDINGS OF THE STUDY

As Table 1 shows, the four regression equations are statistically significant, with F-value ranging from 4.16 to 9.82 and adjusted R² ranging from 0.39 to 0.51 confirming a positive and significant relationship between the American companies' entrepreneurship and their financial performance.

Table 2 also shows that the four regression equations are statistically significant, with F-value ranging from 3.18 to 5.82 and adjusted R² ranging from 0.32 to 0.41 confirming a positive and significant relationship between the Jordanian companies' entrepreneurship and its financial performance. Data Analyses in Tables 1 and 2 support the four hypotheses, indicating that American and Jordanian CEOs attested positive and significant relationships

between the five measures of entrepreneurship and at least three measures of the companies' financial performance. Product innovation of American and Jordanian companies in both countries is positively and significantly related to ROA, ROS, and SG (P< .05). While process innovation of American companies is also positively and significantly related to ROA, ROS, and EPS (P< .05), the same entrepreneurial measure of Jordanian companies is also positively and significantly related to ROA, ROS, and SG (P< .05). Also, for American companies the organizational innovation is positively and significantly related to EPS (P< .05), and marginally with ROA (P< .10), but it is not significantly related to any of the four financial measures for Jordanian companies.

Domestic venturing of American companies is positively and significantly related to SG (P< .01), but it is negatively and significantly related to ROS (P< .05) and EPS (P< .05). However, this financial measure has a positive and marginal relationship with ROS and SG of Jordanian companies. The relationship between international venturing of American companies and SG was positive and significant (P< .01), and negative and significant with both ROA

Table 1: Regression Analysis, The Relationship between the American Companies' Entrepreneurship and Financial Performance

Independent Variables	Dependent Variables			
	ROA	ROS	SG	EPS
ENTREPRENEURSHIP				
Production Innovation	.3812**	.3841**	.4225**	.1025
Process Innovation	.2168*	.2105*	.0819	.1724*
Organization Innovation	.1120+	.0913	.1012	.2244*
Domestic Venturing	-.1063	-.2186*	.2738**	-.1916*
International Venturing	-.2231*	-.3147*	.3264**	.1268
CONTROL VARIABLES				
Company's age	.1026	.0934	.0725	.0827
Company's size (log employees)	.0926	.1097+	.11028+	.0822
R-squared	.51	.48	.45	.39
Adjusted R-squared	.46	.43	.38	.32
F-value	9.82	7.46	5.22	4.16

*P < .05; **P < .01; +P < .10

Table 2: Regression Analysis, The Relationship between the Jordanian Companies' Entrepreneurship and Financial Performance

Independent Variables	Dependent Variables			
	ROA	ROS	SG	EPS
ENTREPRENEURSHIP				
Production Innovation	.2134*	.1925*	.2201*	.0928
Process Innovation	.1769*	.1867*	.1622*	.1021
Organization Innovation	.0814	.0913	.1022	.0985
Domestic Venturing	.1596*	.1148+	.1207+	-.0922
International Venturing	-.0648	-.0831	.0942	.1024
CONTROL VARIABLES				
Company's age	.1487*	.1734*	.1568*	.1083+
Company's size (log employees)	.1275*	.1469*	.1284*	.1032+
R-squared	.41	.37	.35	.32
Adjusted R-squared	.36	.33	.31	.27
F-value	5.82	4.27	3.32	3.18

*P < .05; **P < .01; + P < .10

and ROS ($P < .05$). The relationship between international venturing of Jordanian companies is negatively and insignificantly related to ROA and ROS, and it is positively and insignificantly related to SG and EPS. It can be seen that not all entrepreneurship activities improve company performance. For example, venturing activities, especially those conducted in foreign markets, have negative effects on ROA and ROS. Domestic venturing is also negatively associated with EPS. Thus, while venturing is often necessary to achieve growth, it can depress shareholders' short-term wealth.

With respect to control variables, the American company's age has positive and insignificant relationships with the four financial measures (ROA, ROS, SG, and EPS). The Jordanian company's age has positive and significant relationships with ROA, ROS, and SG ($P < .05$), and marginal relationship with EPS ($P < .10$). While the American company's size has two positive and marginal relationships with ROS and SG ($P < .10$), the Jordanian company's size has positive and significant relationships with ROA, ROS, and SG ($P < .05$), and marginal relationship with EPS ($P < .10$).

CONCLUSION

Entrepreneurial spirit has played a significant role in the creation and innovation of advanced products and services that, in turn, enhanced the quality of life for people. As the findings of this study revealed, a company's entrepreneurship is positively associated with its financial performance. Therefore, if CEOs want to enhance the financial performance of their companies, they have to encourage and support entrepreneurship, and entrepreneurship spirit among their followers and associates. We also need to keep in mind that enhancement in the financial performance of companies would lead to better economy, more job opportunities, and a higher standard of living for the members of the society.

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