WHY DOES ENTREPRENEURIAL ORIENTATION AFFECT COMPANY PERFORMANCE?

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## Table of Contents

Abstract 5

1. Introduction 6

2. Theory and hypotheses 8

3. Method 17

   3.1. Sample 17
   3.2. Variables and measures 18
   3.3. Analysis 19

4. Results 20

   4.1. Descriptive Statistics and Correlations 20
   4.2. The Relation Between EO and Performance 21
   4.3. Tests of Moderating Relations 22
   4.4. Tests of Mediating Relations 24
   4.5. Robustness Tests and Limitations 25

5. Discussions and implications 26

6. Conclusions 29

References 31

Appendix 1 35

Appendix 2 36
Abstract

Many studies find that entrepreneurial orientation (EO), comprising the dimensions of innovativeness, risk taking and proactiveness, is positively associated with company performance. We theorize and empirically test why this is the case by analyzing the interrelations between the dimensions of EO and their unique roles in determining performance. We find that: (i) constructive risk taking is rewarded with higher average performance; (ii) innovativeness increases the rewards to risk taking; and (iii) proactiveness often involves taking risks and therefore indirectly affects performance through its effect on risk taking. The results suggest that all three dimensions of EO have a positive relation with performance, but for different reasons.

**Key words:** entrepreneurial orientation, performance, risk taking, innovativeness, proactiveness

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