

INNOVATION AND PERFORMANCE-DRIVEN ENTREPRENEURSHIP:  
A COMPARATIVE ANALYSIS OF THE ENTREPRENEURIAL ORIENTATION OF BLACK  
SMEs VS. MAJORITY SMEs

By

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## **ABSTRACT**

### **INNOVATION AND PERFORMANCE-DRIVEN ENTREPRENEURSHIP: A COMPARATIVE ANALYSIS OF THE ENTREPRENEURIAL ORIENTATION OF BLACK SMEs VS. MAJORITY SMEs**

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The last 15 years have seen a significant increase in the participation of African Americans in the U.S. labor force and, as a result, a rapid growth in the number of self-employed Black businessmen and women relative to White Americans (Fairlie, 2004; Fairlie & Sundstrom, 1997). Noteworthy regarding the increase is that Black businesses in the U.S. struggled to perform, in comparison to majority-White businesses, in the increasingly competitive marketplace today. The purpose of this dissertation is to contribute to the general understanding of how businesses' entrepreneurial orientation (EO)—a firm-level strategic orientation which captures an organization's strategy-making practices, managerial philosophies, and firm behaviors that are entrepreneurial in nature —impacts Black business performance. Although research has been studying majority firms for years and correlated EO as a strong predictor of firm performance, there is a widening gap in the literature assessing the performance measures of Black businesses. Data gathered from this study contributes to the entrepreneurship literature by measuring the performance of Black and majority small and medium enterprises (SMEs) and by critically examining any disparities or commonalities that may exist individually, and between these two distinct organizations. New business start-ups (entries) into the marketplace have been very important to the nation's economic foundation and can be attributed to significant job growth. By measuring performance amongst Black SMEs, we can begin to learn significant information to help improve black businesses. Despite the increased growth of Black SMEs,

Black business owners struggled to perform at high levels of peak performance and degrees of success, in comparison to majority SMEs. Important to the performance measures of Black entrepreneurs, Black firms experienced challenges when operating in turbulent business environments with increased competition, even though they tried relentlessly to enter the marketplace. Thus, Black SMEs fail at a considerably higher rate than other majority organizations and barriers to entrepreneurship for these groups remain. Census data indicate that the rates of entrepreneurial activity for Blacks lag significantly behind those for Whites (Strom, 2007). The study is designed to examine the constructs of entrepreneurial orientation, which is a firm's innovativeness, ability to be proactive, risk-taking, competitive aggressiveness and autonomy, and its impact on performance in a comparison of Black and majority SMEs. I also examined whether the constructs and their measurements can be used to identify literature that is useful and relevant to the needs and improvements important to high performance of Black SMEs.

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This dissertation is dedicated to Black entrepreneurship and the entrepreneurs in the trenches of ownership and enterprise throughout America and the African Diaspora using innovation to shift our purpose, passion, and practice into economic freedoms that will lead our race toward financial independence, generational wealth, and entrepreneurial prosperity as a people.

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“It Couldn’t Be Done”

Somebody said that it couldn’t be done

But he with a chuckle replied

That “maybe it couldn’t,” but he would be one  
Who wouldn’t say so till he’d tried.  
So he buckled right in with the trace of a grin  
On his face. If he worried he hid it.  
He started to sing as he tackled the thing  
That couldn’t be done, and he did it!  
Somebody scoffed: “Oh, you’ll never do that;  
At least no one ever has done it;”  
But he took off his coat and he took off his hat  
And the first thing we knew he’d begun it.  
With a lift of his chin and a bit of a grin,  
Without any doubting or quiddit,  
He started to sing as he tackled the thing  
That couldn’t be done, and he did it.  
There are thousands to tell you it cannot be done,  
There are thousands to prophesy failure,  
There are thousands to point out to you one by one,  
The dangers that wait to assail you.  
But just buckle in with a bit of a grin,  
Just take off your coat and go to it;  
Just start in to sing as you tackle the thing  
That “cannot be done,” and you’ll do it.

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## **CHAPTER 1: INTRODUCTION**

### **Purpose of the Research**

The purpose of this study was to examine Black businesses on the Entrepreneurial Orientation (EO) scale and to determine the extent to which EO might explain the economic performance of Black businesses. Specifically, the study focused on three primary objectives: (a) the relationship between the EO of Black small and medium-sized enterprises (SMEs) and their market performance measures; (b) the differences in the EOs of Black SMEs and comparable majority SMEs; and (c) whether Black SMEs were equally deficient in each of the underlying factors of EO (e.g., risk taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy), compared to a proportionate number of majority SMEs.

Entrepreneurship supports economic growth and accounts for the majority of new business development and job creation in the United States, and it is an essential feature of high-performing firms (Lumpkin, 1996; Peters & Waterman, 1982). Yet, the performance of small businesses owned by African Americans between 2007 and 2010 was below that of all U.S. small businesses, and while Black business revenue grew by 26.5%, small business revenue as a whole grew by an average of 39% (Census, 2010). This points to a discrepancy between Black SMEs and majority SMEs. Examining EO may offer valuable data by which to examine the existence of this discrepancy. In the present study EO is defined by a focus on innovation, proactiveness, and risk-taking (Miller, 1983). Miller (1983) developed a scale to empirically measure these dimensions, which Covin and Slevin (1986, 1989) subsequently extended and refined to include competitive aggressiveness and autonomy. Wiklund (1998a) identified several studies based on Miller's and Covin and Slevin's (1986, 1989) instruments, which suggest that EO is a viable means to capture firm-level entrepreneurship and performance.

## **Background of the Problem**

The widely recognized definition of the “American Dream” was popularized by James Truslow Adams in his 1931 book, *The Epic of America*. Since then, various immigrant groups have come to American shores in search of this dream through educational, social, political, and economic means, with different levels of success (Meacham, 2012). Since the post-Civil War Reconstruction era, African Americans have often been successful in education, politics, and social standing, yet to a lesser degree entrepreneurially or in business (Ahiarah, 1993).

In the late 19th and early 20th centuries, the rationale for African Americans to go into business was to create jobs, enhance economic viability, and generate wealth within their own communities, as they were usually blocked from participating in mainstream economy. Today, the number of Black businesses has developed significantly but at the same time lacks growth capacity and compared to their White counterparts, economic disparities remain a fundamental struggle (Boston, 2011). Despite the increase in the number of Black businesses, the number of jobs generated and the level of wealth generated have been insufficient means to substantially impact the economic status and disparities that currently exist among Black entrepreneurs (Panth, 2013). Inquiry into the economic status of SMEs, either directly or indirectly, has served as the predominant focus of entrepreneurship research. Such investigation increased the understanding of entrepreneurial processes and problems for Black SMEs, and led to strategies designed to maximize the economic potential of this underserved population (Alegre & Chiva, 2013).

Since slavery, African Americans pursued the American dream—life, liberty, and justice—through educational, social, political, and economic means, which were the cornerstones of achieving this overall goal. Black businesses, coming from roots of slavery, had tremendous

economic hurdles to overcome. The slave system, under its own tenants, produced many racially oppressed institutions that created systematic barriers for Black entrepreneurship which both directly and indirectly affected Black businesses. A cornerstone of understanding the African American experience since the eradication of slavery on December 18, 1865, remains: a vast amount of effort was designed to disenfranchise Blacks and their subsequent reconstruction.

First, Black codes were adopted throughout the Southern and Midwestern states to regulate the northern migration of Blacks who were free. The same laws were implemented even more severely in the South to restrict Blacks' civil and economic rights, and maintain the old social structure that defined the South and slavery. The Bureau of Refugees, Freedmen, and Abandoned Lands was established in 1865 to provide relief and assistance to former slaves and abandoned freedmen including health, educational, and other services. However, prejudice continued and Southern discrimination prevailed; thereby, the net effect of this oppression relegated freed slaves to being second-class citizens. Unfortunately, the failure of reconstruction, the resurgence of the Democratic Party, and the passage of separate but equal laws relegated Blacks back into a subservient status. Jim Crow laws became policy after the 1890s and into the 1900s. Jim Crow segregation, as an American form of apartheid, completely prevented African Americans from participating in the economic fabric of society.

African Americans sought their economic freedom after the Reconstruction. Although they were successful in education, politics, and social standing after slavery, their entrepreneurial and business gains were limited (Ahiarah, 1993). First, paradoxically, Blacks were denied the fundamental right to freedom. Second, they were relegated to depending on the government for seldom-displayed support and intervention, due to the very limited economic progress in the African American community after the Reconstruction and the abolishment of slavery. Third,

opportunities to create and grow sustainable businesses in the marketplace was specifically and extremely limited for African Americans, especially when pertaining to acquiring access to much-needed capital and other economic prospects within the sharecropping agricultural landscape. The following are some of the barriers experienced by African Americans in their attempted businesses, growth, and development:

In the late 1880s and 1890s the Ku Klux Klan increased in strength and breadth, which resulted in less expansion and retracted growth and development of new Black businesses, as well as a limited capital and lack of credit availability, all of which severely hindered the growth and development of Black businesses. A large population of Blacks and Black businesses lost much of their capital and savings in American banks due to dishonest and crooked businessmen who owned the financial institutions. This prompted the establishment of the Freedman's Bank, which aimed to help free slaves deposit funds and also assist them in receiving government assistance through loans. The bank failed tremendously and subsequently following slavery, African Americans never truly established themselves economically.

At the end of the late 1800s, almost 95% of the African American population was still illiterate and uneducated, resulting in an unemployable population yet again dependent on the same racist system that precluded slaves from independently establishing themselves and their families financially. As of 1936, for example, there were only three Black PhDs employed by all-White universities and institutions across the country (Sowell, 1981, p. 47).

During the early years of the late 1800s, economic conditions for African Americans even worsened in certain capacities, compared to when they were under slavery. In response, many migrated west and north seeking greater opportunities for social, educational, and economic advancement. The late 1890s and early 1900s experienced, once again, a resurgence of

racial segregation, Black codes, Jim Crow laws, and separate-but-equal clauses, which regulated African Americans' advancement to a backward mode of progress. Blacks still could not advocate or have political influence by voting, nor could they find sufficient employment. More ghettos were segregated and education lacked equality.

The absence of fair and equal education and the systemic illiteracy in the Black community contributed to the growth of what many refer to as "Black ghettos" (Wallich & Dodson, 1972). This powerlessness led to a lack of self-employment success and dependence on a non-functional system of government that prevented economic opportunity. Subsequently, remnants of the past remain and in the current economy, limited opportunities exist for Black people. This is especially true in technology and entrepreneurship realms. Unfortunately, the perceived marginalization of African Americans appears to be tangibly evident, as many major public and private industry leaders who control market forces and globalization have perpetuated inequalities that African Americans face. These can be found in cases such as the affirmative action ban at the University of Michigan, which rescinded opportunities for Blacks and other minorities.

The historical experiences of African Americans in the United States including the negative impacts of slavery have perpetuated generations of oppression, racism, segregation, discrimination, and prejudice by race. Although the United States experienced phenomenal growth and the greatest accumulation of wealth and capital that the world has ever seen, African Americans, unfortunately, have not been the beneficiaries. Even though they helped produce a significant portion of the wealth as workers they have never been able to fully participate in the American dream of life, liberty, and the pursuit of happiness. As former enslaved people whose servant labor produced wealth that generated capital, African Americans remained victims in the

process. Their history shows no drastic differences even 150 years after the abolition of slavery and the Reconstruction. Unfortunately, although Blacks meet most, if not all, of the necessary criteria to become entrepreneurs, historically they have yet to advance into a more progressive economic state (Coles, 1982).

After the Reconstruction African Americans sought employment to care for their families, which served as survival incentive to go into business and create stable jobs. This transition was effectively a means of survival. Most Blacks in the trades viewed entrepreneurship, education, and training as a way to generate wealth and move toward economic viability. This sort of autonomy would allow an assured level of independence, resources, and lifestyle, which most ex-slaves had not yet experienced. In today's economy, Black businesses have grown significantly but lack capacity, and economic disparities still exist in comparison to their White counterparts. Despite the increase in the number of Black businesses, the number of jobs that they generated and their level of wealth creation is yet insufficient in having a substantial impact on the economic status and disparities that currently exist among entrepreneurs. Inquiry into such disparity led to a body of research into the development of strategies that might effectively augment autonomy and success for Black entrepreneurs (Alegre & Chiva, 2013).

EO has attracted increasing attention in entrepreneurship literature (Baron, 2010), fueled by the development of the EO scale, which is designed to measure the theoretical construct of EO and its contribution to business or firm performance. Although the topic of EO has become more prevalent in literature, the vast majority of research in this field focuses on SMEs (Covin & Lumpkin, 2012). To date, there have been no empirical results that focus on minority business enterprises (MBEs) or Black SMEs. In addition, there are no published studies that compare the

impact of EO among Black SMEs versus the impact of EO among majority SMEs. Assuming Black SMEs can be improved makes inquiry into the very construct of EO, such relationships and their impacts a vital research focus. The present research, therefore, examines these relationships through a comparative analysis methodology (Anderson & Covin, 2010).

One of the major reasons attributed to the poor performance of Black SMEs has been, in part, the lack of innovativeness and proficiency in their EO (Lee, 2000). Since Reconstruction, Black SMEs and both startup and existing firms have used entrepreneurship in pursuing business opportunities to spur economic expansion, including job and wealth creation. Entrepreneurship activity represents one of the major engines of economic growth; today, it is a dominant driving force that represents the majority of new business development and job creation in the United States (Business, 1993). As such, writers in both scholarly literature (Covin & Slevin, 1991) and popular press (Peters & Waterman, 1982) argue that entrepreneurship is an essential feature of high-performing firms (Lumpkin, 1996). However, the performance of small businesses owned by African Americans was below that of all U.S. small businesses between 2007 and 2010—a time period that corresponds to the start of the last recession and extends to one year after the current economic recovery began (Boston, 2011). During this 4-year period, Black business revenues grew by 26.5% and employment grew by 6.3%. In comparison, among all small businesses, revenue grew by 39% and employment increased by 11%, on average (Census, 2010). It is necessary for Black SMEs to perform better, specifically in their pursuit to produce economic opportunities, including creating jobs and accruing wealth within the Black community (Auster, 1988).



## **Statement of the Problem**

The objective of this quantitative study was to measure the entrepreneurial orientation as it related to Black SME's performance and to compare the EO of Black SMEs with majority SMEs. The number of Black SMEs increased by nearly three times the national rate in new entries, but they lack the necessary EO for successful start-ups (Anderson, 2009). This increased rate of startups shows that African Americans are seeking economic advantages by forming Black SMEs at an unprecedented rate. However, Black entrepreneurs face hardship when their businesses struggle or fail and find it difficult to compete in the global marketplace because of their lack of EO and other factors that dictate their ability to perform (Anderson, 1982).

Based on the foundational statements above, it is possible to identify a two-fold distinction in the current study: entrepreneurship from the perspective of business participation and from ownership. Schumpeter (1912) defined entrepreneurship as the entrepreneur's role to reform and revolutionize the pattern of production by taking steps such as producing a new commodity or an old one in a new way, by using a new supply outlet for products, or by reorganizing an industry. The entrepreneur's ability to reform and reorganize for success is a clear difference between starting and maintaining and owning a business. Three different problems arise. The first is that a majority of Black SMEs lack high performance, which can have a tremendous impact on the socioeconomic disparities that exist in the Black community (Anderson, 1982). It is likely that low percentages of Black SMEs advance and in most cases do not perform successfully due to their EO in the marketplace. The second is the alarming disparity between the performance of Black SMEs and majority SMEs and the implications of the various approaches for EO success. Lastly, an important construct in the EO of Black SMEs is

entrepreneurial innovation (as defined here in “Key Definitions”); entrepreneurs need to be innovators and without this they will not be able to thrive (Bates, 1989).

In his theory of economic development, Schumpeter (1912) denoted the value of innovation in the entrepreneurship process. He described a process of industrial mutation and the opening up of new markets that continually revolutionize economic structure from within, in which the old one is destroyed and replaced by a new one. He called this process creative destruction. Schumpeter also analyzed the capitalist model and tried to understand which companies would be more innovative. Initially he thought that small companies should be in a better position because of their flexibility, while large companies might become trapped in bureaucratic structures. Eventually, however, he changed his view, and stated that larger corporations, because of their monopolistic power, could have an advantage in developing innovations. According to this theory, entrepreneurial profit is the direct result of innovation and innovation is a temporarily productive factor.

This present study was designed to test, in conjunction with the other elements of EO, the innovativeness of Black SMEs as they enter the marketplace. Black SMEs depend on innovation, along with risk-taking, proactiveness, competitive aggressiveness, and autonomy, which are all EO constructs (Barnett, 2001). The purpose of this study is to measure the effects of Black SMEs on the EO scale and compare them to majority SMEs to determine to what extent EO explains the discrepancy between Black and majority SMEs economic performance.

### **Significance of the Study**

Historically, efforts to improve the performance and conditions of Black SMEs revolved around increasing access to resources and capital, improving education and training in various managerial roles, and preferential treatment in the marketplace (Koellinger, 2006). The present

study contributed information that may help to expand the overall market presence of Black SMEs by examining the importance of EO, and in particular, innovation as a driver of entrepreneurship. This research defined entrepreneurs as innovators, and showed that it is through innovation that entrepreneurship introduces new Black SMEs to the marketplace (Bates, 1989). By cultivating innovation-driven entrepreneurial activity, Black SMEs help to foster economic growth while encouraging sustainable communities (Bates, 1989). Innovation is a specific function of entrepreneurship that either constructs new wealth resources or strategically incorporates obtainable resources that have the potential to create wealth and jobs (Anderson, 1982). Schumpeter's (2012) theory of innovation and entrepreneurship assigns an important role of entrepreneurship in economic development. In addition, through his innovation model, Drucker (1985) found most innovative business practices and ideas can be conceptualized across seven areas of opportunity that lie within private companies or industries and in broader socio-economic demographic trends. This study was designed to evaluate the impact of innovation as a process in the systematic EO of Black SMEs, while analyzing how Black SMEs foster economic growth and performance, stabilize urban economies, and contribute economically to eradicating the existing barriers and disparities that exist in the marketplace (Bates, 1989).

### **Entrepreneurial Orientation**

Entrepreneurial orientation (EO) refers, among other things, to the strategy and performance of an organization (Wales, 2011). Based on the work of Miller (1983), EO can also be thought of as a group of entrepreneurial patterns, processes, attitudes and behaviors. Covin (1991) called EO a pervasive phenomenon in organizations. Later Covin and Lumkin (2011) examined whether EO was a dispositional or behavioral construct and noted that scholars do not agree on a clear definition. They found EO to be a composite construct that was defined by

behaviors including risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness. Kollmann and Stöckmann (2014) suggested it was difficult to convert EO into performance measures because disposition does not always translate into entrepreneurial behavior. However, these researchers found that EO and its effect on entrepreneurial behavior affects business performance, which may be a direct result of EO. Other empirical evidence also suggests EO actually improves firm performance (Covin & Slevin, 1991; Sexton & Bowman-Upton, 1991; Zahra, 2012).

### **Theoretical Lenses for Advancing EO Research**

The present study was guided by Kor, Mahoney, and Michael's subjectivist theory of entrepreneurship (as cited in Kor, 2007). The theorists emphasized the subjective nature of entrepreneurial discovery and how matters such as the entrepreneur's experience and prior knowledge can affect perceptions of opportunity. The theorists also posited that entrepreneurship occurs through subjective processes of discovery, learning, and creativity. Subjectivist theory might be used to explain, for example, why the availability of certain innovation-facilitating resources (e.g., technological knowledge, organizational slack, skilled labor) leads to high levels of EO in some firms, but not in others. Subjectivist theory, similar to Schumpeter (1912), indicates that the entrepreneur offers an innovation, but rather than affecting the whole economy, the innovation is new to the firm. This theory includes both individual creativity and the random nature of knowledge-creation and rejects economic rationality where actors engage in predictable moves on the basis of well-defined choice sets. It posits that uncertainty and subjectivity in decision making and creativity always exist. A subjectivist perspective of entrepreneurship also emphasizes the non-deterministic, evolutionary nature of dynamic capabilities and entrepreneurial activities. This theory will enhance the present study in its goal of determining

the performance of EO for Black SMEs compared to non-Black SMEs, and can also offer explanation into why some SMEs thrive in terms of EO and why some do not. Since this theory focuses on the subjective nature of entrepreneurial discovery and creativity, it can support inquiry into the demonstration of how SMEs are influenced by cultural prejudices as they infiltrate business infrastructure.

The present study was also guided by the theory of dynamic capabilities (Teece, 1997). Zahra, Sapienza, and Davidson (2012) defined dynamic capabilities as "abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s)" (p. 918). As argued by Jantunen et al. (2005), entrepreneurial firms create opportunities through their actions. To take advantage of these opportunities, such firms will often need to reconfigure their resource bases while dynamic capabilities are the enabling mechanisms for doing this. Aramand and Valliere (2012) further defined dynamic capabilities theory as the firm's ability to integrate and reconfigure internal and external competencies to keep up in a rapidly changing environment. If ordinary capabilities permit a firm to make a living in the short term, dynamic capabilities extend, modify or create these ordinary capabilities (Winter, 2003). For this reason, employing dynamic capabilities theory was particularly important to the present study because it explains how some SMEs thrive. Dynamic capabilities can additionally be understood as key means for linking EO to firm opportunity exploitation and subsequent performance.

The concept of dominant logic (Prahalad, 1986), and in particular, entrepreneurial dominant logic (Meyer, 2000) has also been employed in EO research. Prahalad and Bettis (1986) used the phrase dominant logic to refer to how firms "conceptualize and make critical resource allocation decisions—be it in technologies, product development, distribution,

advertising, or in human resource management" (p. 490). The concept of entrepreneurial dominant logic captures the collective mindset exhibited by entrepreneurial firms and is consistent with the notion that sustained patterns of entrepreneurial behavior, as is needed to infer the existence of EO, are the result of top management beliefs, attitudes, and philosophies regarding the value and advisability of entrepreneurial actions. As described by Meyer and Heppard (2000), an entrepreneurial dominant logic "leads a firm and its members to constantly search and filter information for new product ideas and process innovations that will lead to greater profitability" (p. 2). Evidence suggests that an entrepreneurial dominant logic both facilitates firm amenability to transformation (Dixon, 2007) and contributes to firm performance through encouraging experimentation with new entrepreneurial initiatives (Obloj, 2010). Thus, an entrepreneurial dominant logic operates in close causal adjacency through exhibiting entrepreneurial behavior. The concept of dominant logic can help explain why, for example, firms facing similar environments often vary in their exhibition of EO.

### **Research Questions**

Based on past theoretical constructs and empirical studies the following research questions were proposed:

RQ1: How does entrepreneurial orientation impact the performance measures of Black SMEs?

RQ2: How does entrepreneurial orientation impact the performance measures of SMEs?

RQ3: How do the entrepreneurial orientations of Black SMEs and majority SMEs differ?

RQ4: Is "Innovativeness" the most significant aspect of EO that explains the difference between Black SMEs and majority SMEs?

## **Hypotheses**

Considering past research there is likely no relationship between the EO of Black SMEs and their market performance measures (profit margins, growth rate, and/or market share). Those Black SMEs that reported a high degree of EO likely tend to have a higher degree of performance measures, while low degrees of EO would relate to a lower degree of performance measures considering profit margins, growth rate, and/or market share. In essence, this suggests that it would be possible to predict Black SMEs' level of performance by knowing their score on the EO scale plus their performance as it relates to each EO construct. In addition, there is presumably no difference in the EO of Black SMEs and the EO of a comparable majority of SMEs considering Black SMEs were deficient of each underlying factor of EO. The following four hypotheses are thus suggested:

1. There is no relationship between the EO of Black SMEs and performance measures.
2. There is no relationship between the EO of majority SMEs and performance measures.
3. No difference exists between the EO of Black SMEs and majority SMEs.
4. Innovativeness is not a significant contributor to the difference between the EO of Black SMEs and majority SMEs.

## **Summary of Key Definitions**

*Autonomy* –the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion, without being held back by overly stringent organizational constraints.

*Black-Owned Business or Black SMEs* - firms in which blacks or African-Americans own 51% or more of the equity, interest or stock of the business.

*Competitive aggressiveness* - a company's way of engaging with its competitors, distinguishing between companies that shy away from direct competition with other companies and those that aggressively pursue their competitors' target markets.

*Entrepreneurial Orientation* (EO) - a firm-level strategic orientation which captures an organization's strategy-making practices, managerial philosophies, and firm behaviors that are entrepreneurial in nature.

*Entrepreneurship* - the process of designing, launching, and running a new business, i.e. a startup company offering a product, process or service. It has been defined as the "...capacity and willingness to develop, organize, and manage a business venture along with any of its risks in order to make a profit."

*Firm performance* - a relevant construct in strategic management research that is frequently used as a dependent variable. Despite this relevance, there is hardly a consensus about its definition, dimensionality and measurement and the factors that limit advances in research and understanding of the concept.

*Innovation* - the process of translating an idea or invention into a good or service that creates value or for which customers will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources. It includes all processes by which new ideas are generated and converted into useful products. In business, innovation often results when ideas that are applied by the company in order to further satisfy customers' needs and expectations.



*Innovativeness* – a willingness to support creativity and experimentation in introducing new products, services, and novelty, as well as technological leadership and R&D in developing new processes.

*Minority Business Enterprises (MBEs)* - a business that is owned, capitalized, operated and controlled by a member of an identified minority group. The business must be a for-profit enterprise, which physically resides in the United States or one of its territories.

*Proactiveness* –an opportunity-seeking, forward looking perspective that involves introducing new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the business environment.

*Risk-taking* –a tendency to take bold actions such as venturing into unknown new markets, committing a large portion of resources to ventures with uncertain outcomes, and borrowing heavily.

*Small and medium size enterprises (SMEs)* - non-subsiidiary, independent firms that employ less than a given number of employees. This number varies across countries, while the United States considers SMEs to include firms with fewer than 500 employees set by the Small Business Administration based on industry, ownership structure, revenue, and number of employees.

### **Contribution of the Study**

Implications for positive social change include development on individual, community, and public levels. The present study provides information for future studies on Black entrepreneurship that might be used to influence corporate policy, as well as individual strategies for Black entrepreneurs. For the public at large, this research can be used to inform business and

political leaders the need to better understand how cultural phenomena influence business practices and outcomes.

### **Structure of the Dissertation**

Chapter 1 includes the background, problem, and purpose, as well as significance in examining EO among Black SMEs and majority SMEs. It also includes the four research questions based on previous studies, examines the theoretical framework, and definitions associated with the present study. Chapter 2 includes a comprehensive review of current literature. Chapter 3 details the design of the present study and its methodology. Chapter 4 includes the results of the research, and Chapter 5 includes discussions of the results of the study in the context of the current literature and makes suggestions about recommended areas for further study.

## **CHAPTER 2: LITERATURE REVIEW**

Collectively, minority-owned business enterprises reflect the evolving constraints and opportunities that operate within the broader society. Minorities seeking to create viable business ventures have traditionally faced higher barriers than Whites. The market has been set up against them, market opportunities exploited, financing raised, and mainstream networks penetrated (Bates, 2011). The main purpose of this study was to measure the entrepreneurial orientation (EO) between Black SMEs and majority small and medium enterprises (SMEs) related to business performance. EO has become an important and extensively researched topic of literature (Wiklund, 1999) indicating a positive relationship between EO and performance. The relationship between EO and performance has inspired further research in the field of entrepreneurship. Empirical evidence suggests EO actually improves firm performance (Covin & Slevin, 1991; Zahra, 2012).

This study examines the impact of EO performance on Black SMEs versus majority small and medium enterprises (SMEs). In particular, it explores the influence of EO on Black SMEs and majority SMEs using a sizeable, longitudinal data set of firms. Miller (1983) described firms' degrees of entrepreneurship as the extent to which they innovate, take risks, and act proactively. EO, in this study, is defined as a focus on innovation, proactiveness, and risk-taking. Miller also developed a scale to empirically measure these dimensions while Covin and Slevin (1986, 1989) subsequently extended and refined this instrument. To denote a clearer understanding of the plight of Black SMEs, a historical overview of requisite literature is presented.

## Historical Significance

When scholars first began to collect and analyze data describing MBE performance, many argued that minority businesses generally, and black-owned ventures specifically — being few in number and small in size and scope — were collectively insignificant (Brimmer & Terrell, 1971; Osborne, 1976). Black business participation has been the pursuit of the African-American community in its goal to achieve economic parity and inclusion in the American way of life. The Black community has had trouble understanding reasons African Americans have limited involvement in American business (Massey & Denton, 1993). Contemporary authors asserted that the large and persistent racial inequalities in minority business ownership and performance in the United States has been a cornerstone of repression in the 19th and 20th centuries, and continues into the 21st century (Fairlie, 2008).

SMEs have become increasingly important components of economic development (Bates, 1989), but Black SMEs have had a far less significant impact. The Black political economy has been a source of much interest to scholars for generations. Classic works of pioneers such as W.E.B. Du Bois' *The Negro Artisan* (1902), E. Franklin Frazier's *Black Bourgeoisie* (1955), and Woodson's *The Negro Wage Earner* (1930) have established an intellectual tradition of the African-American political economy in the early 20th century. Their work has offered invaluable insight into socio-economic disparities that exist in the Black community, but more importantly, the lasting effects of reduced access to the marketplace that halts Black entrepreneurs' successful performance.

The Tulsa, Oklahoma race riot in 1921 framed the systemic segregation and targeted destruction of historic African American businesses. The Greenwood district, an all-Black enclave within the city of Tulsa, was known as the "Black Wall Street" because of its booming

economy built on successful Black businesses and professional firms (Johnson, 1998). On May 31, 1921, a young Black man was arrested for allegedly assaulting a White woman, and the White residents of Tulsa charged through the Greenwood district, killing 300 people, burning down the entire 35-block area, and leaving 10,000 Black residents homeless. Considered the deadliest race riot in American history, Fields-White (2011) suggests an economically viable Black business district like Greenwood would never exist again. After Greenwood, Black business districts were limited and restricted, and those that did subsequently develop in later years, such as the Black Bottom/Paradise Valley district in Detroit, were decimated by government decree. The entire section Paradise Valley area of Detroit was destroyed to make room for an Interstate highway in the late 1950s under the guise of “urban renewal” (Gibson, 1982).

The traditional route to successful business ownership and operation in the 19th and early 20th century urban America entailed selling personal services to affluent whites, while catering and barbering were prominent lines of black enterprise. In trades connoting servility, Whites were reluctant to create firms, leaving Blacks with a near-monopoly in more than 162 minority communities in the United States (Harris, 1936). African Americans entrepreneurs were thus relegated to owning businesses in fields deemed appropriate for freed slaves. W.E.B. Du Bois (1899), in *The Philadelphia Negro*, observed that because of this Blacks owned the city’s leading catering firms. Black caterer Peter Augustin, for example, originated this Philadelphia tradition, entering business in 1818 and then establishing a reputation for courtesy and efficiency that spread nationwide. Throughout most of the 19th century, no entertainment in Philadelphia’s high society was socially correct if not catered by Augustin and his successors (Du Bois, 1899). Lieberman (1980) observed affluent Whites of the times viewed certain jobs as suitable for

Blacks to perform so long as they serviced Whites such as preparing and serving meals, ironing shirts, and shining shoes. Prevailing White attitudes opened certain entrepreneurial opportunities for Blacks yet blocked others (Bates, 2011). Through the lens of these historical events several African Americans trained as economists and made critical analyses of the economic circumstances affecting their race including: Abram Harris' *The Negro as Capitalist* (1936), George Edmund Hayes' *The Negro Labor* (1946) and *The Negro Ghetto* (1948), Phyllis Wallace's *Women, Minorities, and Employment Discrimination* (1977), Margaret Sims and Julianne Malveaux's *Slipping Through the Cracks: The Status of Black Women* (1986), Darlene Clark Hine's *Black Women in White: Racial Conflict and Cooperation in the Nursing Profession (1890–1950)*, and Jacqueline Jones' *Labor of Love, Labor, of Sorrow: Black Women, Work, and Family From Slavery to Freedom* (1985).

Scholarly work, such as Oliver Cox's *Caste, Class, and Race* (1948), W.E.B. DuBois' *Negroes and the Crisis of Capitalism* (1953), James Boggs' *Racism and the Class Struggle: Further Pages from a Black Worker's Notebook* (1970), Robert Browne's *A Different Vision: Black Economic Thought* (1997), Frank Davis' *The Economics of Black Economic Development* (1972), William Tabb's *The Political Economy of the Black Ghetto* (1970), Thomas Sowell's *Race and Economics* (1975), William Julius Williams' *When Work Disappears: The World of the New Urban Poor* (1996), William A. Darity's *Persistent Disparity: Race and Economic Inequality in the United States Since 1945* (1999), and Timothy Bates' *Minority Entrepreneurship* (2011), delved into deeper economic analysis of the situation. A significant portion of research has covered the historical, political, and sociological aspects of the African-American political economy, but few has examined business performance and entrepreneurship as defined by Drucker (1985). For Drucker, entrepreneurship involves identifying and

speculating about moments of change and transforming them into business opportunities. This approach diverges from previous attempts that centered on improving management skills and providing preferential access to capital and the market. This gap in literature needs to be examined in more detail to provide a foundation for further study and to examine why entrepreneurial socio-economic disparities still exist in the Black community.

### **Entrepreneurship: An Introduction**

The concept of entrepreneurship and the emergence of the entrepreneurial class can be traced back to the early 18<sup>th</sup> century and French economist Richard Cantillon. Shortly thereafter, French economist J.B. Say added to Cantillon's definition by including the idea that entrepreneurs had to be leaders. Say claimed that an entrepreneur is one who brings other people together in order to build a single productive organism (Schumpeter, 1951). Economics, generally defined as the study and process of producing, distributing (or exchanging) and consuming goods, products, commodities or services, penetrates deeply into every aspect of social life. The area of focus matters not, economics and entrepreneurship encompasses a broad range of topics including, but not limited to poverty, income, jobs, housing, class, racial discrimination, religion, the arts, and social status. These major ideologies and socioeconomic systems of today (e.g., capitalism, socialism, and nationalism) compete for the hearts and minds of everyday people, i.e., capitalism, socialism, and nationalism. African Americans have been either directly or indirectly impacted by all of the above mentioned tenets of economics and entrepreneurship.

In their 2009 book, which detailed recent entrepreneurship studies, Campbell and Spicer (as cited in Carter, Mwaura, Ram, Trehan, & Jones, 2015) offered a thorough examination of entrepreneurial attention in academia. Their work contributes to a vast amount of research and

has contributed to the establishment of collaborative research organizations that help to fill gaps in scholarly entrepreneurship discourse (Ewing Marion Kauffman Foundation, 2016).

Entrepreneurial inquiry has since become one of the most rapidly evolving subject matters in economics, management, finance, and even legislation (Baron, 2010). A tremendous amount of empirical evidence suggests that the impact of new firm creation is a critical driving force of economic growth and development as it creates hundreds of thousands of jobs (Neumark, 2008). The U.S. Census Bureau reported that Black SMEs are among the fastest-growing segments of the nation's economy—up 45% from 1997–2002—and serve to boost local communities (Wiklund, 2007). A nation's dynamism and wealth depends on its companies' competitiveness, which in turn is fundamentally based on capacities that entrepreneurs and managers exhibit (Cuervo-Cazurra, & Genc, 2008). Drucker (1985), a management theorist, defined the entrepreneur not so much as a change agent, but an enterpriser who identifies and speculates about the moments of change, transforming them into business opportunities. This definition is intrinsically unique to African-American entrepreneurs who exploited change due to market access to form enterprises when scarce opportunities were made available.

Due to the African-American community's economic conditions, entrepreneurs have had to be both innovative and enterprising just to enter the competitive marketplace. Although more Black small- and medium-sized enterprises (SME) entered the marketplace recently, Fairlie and Robb (2007) showed that they lagged well behind White-owned businesses in sales, revenues, employment, and survival. For African-American entrepreneurs to succeed and make an impact in their communities, Black SMEs must perform at higher rates while innovating in the marketplace. The early work of economist Joseph Schumpeter (1912) reframed the entrepreneur as an innovator and a key figure in driving economic growth and development. Wennekers and



Thurik (1999), and more recently Caree (2002), provided an extensive body of literature examining the relationship between entrepreneurship and economic growth.

New start-up firms provide employment opportunities in themselves and also create employment in existing firms (Fitch & Myers, 2000). The Schumpeterian definition of entrepreneurship (Schumpeter, 1912) has coupled this with innovation, while expanding it to embrace other core constructs such as risk-taking, proactiveness, competitive aggressiveness, and entrepreneurial autonomy. This shift offers integral tools by which to examine the role of Black SMEs and majority SMEs in job creation and economic growth.

### **Entrepreneurship Orientation (EO)**

Entrepreneurship theory was developed in the first half of the 20<sup>th</sup> century concentrating on defining entrepreneurship and clearly identifying its role in business and economic development (Burns & Stalker, 1961; Marshall, 1930; McClelland, 1961; Say, 1834; Schumpeter, 1934, 1942). In the 1960s and 1970s the focus shifted toward identification of factors affecting entrepreneurship and the mechanics of how entrepreneurs started small and medium size enterprises. Soon entrepreneurial researchers began to recognize entrepreneurial behavior (Conley, 1974; Hagen, 1962; Kilby, 1971; Lachman, 1980; Mintzberg, 1973; Weick, 1976). In the 1980s and 1990s entrepreneurial research moved toward the development of EO and its dimensions and other EO-Strategy models, which align different research strategies (Barringer & Bluedorn, 1999; Burgelman, 1983; Covin & Slevin, 1988; Covin et al., 1994; Dess et al., 1997; Galbraith & Kazanjina, 1986; Lumpkin, 1996; Miller & Friesen, 1982; Miller & Toulouse, 1986; Zahra, 1993). Further developments in the EO-performance relationship followed in the last two decades (Viji & Bedi, 2012).

EO can be traced back to the research of Mintzberg (1973) who theorized about strategic decision-making, an entrepreneurial strategy making mode in which a managerial disposition is characterized by an actual search for new opportunities (Covin & Wales, 2011). Subsequently, Khandwalla (1976, 1977) advanced the concept of management styles as the operating set of beliefs and norms about management held by organizations' key decision makers.

EO has become an important and extensively researched topic in the literature (Wiklund, 1999). Although several authors challenged its connection to firm performance (Covin & Slevin, 1991; Zahra, 1991), empirical evidence suggesting that EO can improve company performance has mounted (Dess, Lumpkin, & Covin, 1997). Establishing the positive relationship between EO and performance is necessary in order to effectively create a conceptual framework and interpretive measure using the EO scale.

Because entrepreneurship depends on economic and business structures that allow entrepreneurs or businesspeople to launch start-ups and innovate with them, EO and performance have become critical variables. Although there is a substantial and increasing amount of literature pertaining to EO and performance, virtually none exists in measuring Black SMEs. Further research can help African-American firms understand and improve performance, catalyzing economic growth in Black communities and driving the free marketplace and local economies. Black SMEs facilitate the spread of innovation, exploiting more opportunities to create jobs and then create sustainable Black communities. Attempting to chart a rational but effective economic development path for African Americans in the United States is particularly difficult because of the dual inequities of American society (Boston, 2011). Market presence, market share, and the creation of businesses that have transcendent impacts on communities and societies require radical innovation in either technology or business models. This type of

innovation and market success tends to occur in firms that exhibit a high degree of competence in those areas captured by EO constructs. To help Black SMEs gain market presence and market share, this study will measure the degree of their competence compared to other SMEs, using EO constructs.

### **The Dimensions of EO**

Miller (1982) conceptualized the three focal dimensions of EO as inventiveness, risk-taking, and proactiveness, and utilized them reliably as a part of measuring EO. Lumpkin (1996) portrayed creativity as an association's Schumpeterian propensity to participate in and bolster new thoughts, oddities, experimentation, and inventive procedures. Baird and Thomas (1985) highlighted three separate sorts of danger taking: venturing into the unknown, substantial acquiring, or committing significant resources to ventures in uncertain environments. Lumpkin contended that two extra dimensions were also notable parts of EO: aggressive forcefulness and self-governance. Covin and Slevin (1989) claimed EO to be a one-dimensional idea, though Lumpkin (2001), for instance, proposed that distinctive dimensions of EO may relate diversely to firm execution and thus advance a multidimensional notion of EO.

### **Innovativeness**

Innovation represents the advancement of businesses is through creativity, which, as per Lumpkin (1996) argued, is comprised of the affinity for production of new things, inventiveness in techniques, tests that prompt the improvement of new items or administrations, or even a new arrangement of mechanical procedures. For Drucker (1985), innovation is a tool entrepreneurs use to exploit change as an opportunity for a different business or a different service.

Entrepreneurs should search for sources of innovation, as well as changes and symptoms that might indicate opportunities for successful innovation (Drucker, 1985). Schumpeter (1912) gave

a premise for this term, contending that inventive things consolidated together in the commercial sector specifically foster advanced societies.

Schumpeter's (1912) insights notwithstanding, into how advancement or imagination plays a role in a firm's success are nonconventional because they far different from innovativeness. Imagination is a part of the general procedure of development, but it is insufficient for an SME to only be an inventive firm because advancement has to be maintained for SMEs to continue to thrive and maintain themselves (Prahalad, 1986)

Creativity in its substance infers an intention to develop new thoughts and methodologies, novel things, tests, imaginative strategies and steps beginning with the assembled standards and advancements (Lumpkin, 1996). In a study done by Tajeddini (2010), there was a positive relationship between innovativeness and business execution in the administrations segment.

### **Risk-Taking**

Risk-taking has always been a key characteristic associated with entrepreneurship. Its original conception referred to the risk of being an entrepreneur, as opposed to working for someone else as an employee. Today, risk-taking can be associated with companies whose managers make decisions that allocate significant amounts of resources to projects with uncertain outcomes. Risk-taking is also identified with the risk of turnover or to the danger of other monetary examination (Prahalad, 1986). Anything defined as a tremendous activity of obtaining capital or money-related terms that may encounter instability could be viewed as danger taking (Baird & Thomas, 1985). This danger could be seen as an organization's expectation to be included in grandiose, dangerous undertakings and administrative alternatives inverse to prudent activities (Miller, 1983). Historically, risk-taking refers to the propensity to take bold steps into

unknown new markets and committing a large portion of resources to projects with uncertain outcomes (Viji & Bedi, 2012). Catillion (1930) described the entrepreneur as a rational decision maker “who assumes risk and provides the management of the firm.” In the 1800s, John Stuart Mill argued that risk-taking was a paramount attribute of entrepreneurship (Viji & Bedi, 2012). Other scholars implied risk-taking to be the willingness to commit large amounts of resource to opportunities that involve a probability of high failure (Mintzberg, 1973; Wiklund & Shepard, 2003; Zahra, 1991).

### **Proactiveness**

What makes a firm proactive? Proactive firms are continually the first contestants or pioneers in a new business (Barnett, 2001). To be considered first in the business arena, an association of being first by giving considerable offerings in response to the needs of clients needs to be perceived (Lumpkin, 1996). When a firm has been a first-mover as its point of interest, it opens opportunities to gain preferences within a market segment by using a “skimming” methodology of estimation to make connections in the market (Zahra, 2012). Correspondingly, it can turn into a business sector controller in checking appropriating chains, and may seek to rapidly secure brand distinguishment (Wiklaund, 1999). Proactiveness also describes the characteristics of entrepreneurial actions to anticipate future opportunities, both in terms of products or technologies and in terms of markets and consumer demand (Schillo, 2011). This characteristic, which was at the center of early economic thought, suggested the entrepreneur to be someone who identifies opportunities in the marketplace and proactively pursues them (Lumpkin, 1996). Translated to the level of the firm, proactive companies are leaders in the market, rather than followers (Schillo, 2011). Proactiveness is an opportunity-seeking, forward-looking perspective involving introducing new products and services ahead of

the competition and acting in anticipation of future demand to create, change or shape the environment (Kreiser, Marino, & Weaver, 2002; Lumpkin, 1996). Proactiveness is manifested in the following: (a) aggressive behavior directed at rival firms and (b) the organizational pursuit of favorable business opportunities (Viji & Bedi, 2012). Simply put, proactiveness is the manager's ability to take initiative, whenever the situations demands. Porter (1985) suggested that in certain situations, firms could utilize proactive behavior in order to increase their competitive position in relation to other firms. Proactiveness is concerned with first mover and other actions aimed at seeking to secure and protect market share and with a forward-looking perspective reflected in actions taken in anticipation of future demand (Dimitratos et al., 2004; Lee & Penning, 2001; Naman & Slevin, 1993; Venkatraman, 1989a, 1989b). This defines not just a defensive posture, but an offensive posture as well. It refers to a process aimed at anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of the competition, and strategically eliminating operations that are the mature or declining stages of life cycle (Clercq et al., 2010; Green et al., 2008; Kreiser & Davis, 2010; Stam & Elfring, 2008; Swierczek & Ha, 2003). Thus, competitors respond to the managers' willingness to initiate proactive measures.

### **Competitive Aggressiveness**

Competitive aggressiveness refers to the company's way of engaging with its competitors, distinguishing between companies that shy away from direct competition with other companies and those that aggressively pursue opportunities within their competition's target markets. Competitive aggressiveness refers to a firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the marketplace (Kraus et al., 2005). It also reflects the willingness of a firm to be

unconventional rather than rely on traditional methods of competing. This aspect is used to measure how entrepreneurial firms deal with threats, and it also refers to the firm's responsiveness directed toward achieving a competitive advantage (Frese et al., 2002; Grande et al., 2011; Lumpkin, 2001). In literature, the terms proactiveness and competitive aggressiveness are often used interchangeably but there is a difference between both of these. Proactiveness refers to how a firm relates to market opportunities in the process of creating demand, while competitive aggressiveness refers to how firms relate to competitors, that is, how firms respond to trends and demands that exist in the marketplace (Lumpkin, 2001).

### **Autonomy**

Autonomy refers to the independent action of an individual or a team in bringing forth an idea or vision and carrying it through to completion (Lumkin & Dess, 1996). In general, it refers to the ability and will to be self-directed in the pursuit of opportunities. In an organizational context, it refers to freely taken action that is irrespective of organizational constraints, for establishment and smooth running of a venture (Kraus et al., 2005; Shrivastava & Grant, 1985; Stevenson & Jaillo, 1990). Autonomy in firms may vary with the size of organization, management style, or ownership (Lumpkin, 1996).

### **SME Entrepreneurial Innovativeness**

With respect to entrepreneurial innovation, innovativeness is defined as the ability to do something new when all known techniques fail. Bates (1989) suggested that innovativeness for individuals and employees involves the ability to harness creative abilities. Innovativeness explains how individuals and employees accomplish this, and how they put these abilities to use in facing challenges while deciding to improve their processes, procedures, and products. This is an inclusive definition that combines the results of other similar studies. As outlined in the

definition, innovativeness is a crucial process that comes into play in making decisions related to upgrading existing practices.

Examining innovation types assumed by firms is a way to understand innovativeness in SMEs (Alegre & Chiva, 2013). Alegre and Chiva (2013) presented a practical study explaining that a decision to pursue innovation is often based on the calculated extent of variation and the factors that bring about variation in products, services, and processes. While this is clear on a practical front, the explanation lacks theoretical and logical consistency required by those seeking a better understanding of innovativeness in SMEs. Four different directions are available for firms to follow while upgrading their processes including process, product, chain, and functional upgrading (Khandwalla, 1976, 1977). Humphrey and Schmitz (2003) pointed out that these categories are important contributions to the international debate on innovativeness and in doing so gained rapid recognition in the international sphere. Firms can therefore follow a hierarchy of upgrades.

Many researchers believed that technological innovation is equivalent to upgrading within a firm. In this context, Habaradas (2008) suggested that technological innovativeness is a process that consists of many steps. The main steps include technological, scientific, and commercial. Organizational and financial aspects are also counted as steps and are crucial in leading the firm to adopting innovative processes and generating enhanced products.

Innovation can be described as the creative application of suitable traits to business development activities (Lyons et al., 2007). To generate a definition of innovation, it would therefore be safe to say that innovativeness is the process of generating original concepts by using methodologies that are generally used to place creative ideas into action. Roy (2012) provided a direct correlation between innovation and profitability, and demonstrated that the



early and fast introduction of innovation into an enterprise brings in the highest possible market returns, as the firm becomes the first one to introduce a product or good into the market (Parkman, 2012). Innovation is therefore important for SMEs so they can earn monopoly profits, which are short in duration and valid only until a competitor arrives on the scene. Competitive advantage is a direct outcome of innovation among competitor brands; hence, innovativeness is the essential element of many firms' strategies for growth and is an integral part of EO (Panth, 2013). Firms can hit the jackpot if their EO is driven by a thrust to innovate at each and every step of the work. It has a positive effect not only on market performance, but also on the brand's long-term reputation, helping firms retain customers after the initial product breakthrough (Bodenhorn, 2011).

### **SME Entrepreneurial Risk Taking**

Entrepreneurial risk taking has many aspects, and charting studies in this field can help clarify many of the factors that increase or decrease the level of risk in a decision and the role risk taking in EO plays. Risk taking is ideally a combination of bold steps that a firm takes to improve its business returns. These include venturing into unknown markets, investing in ventures that have uncertain outcomes, and borrowing large quantities from the market (Baker & Sinkula, 2009). An alternative definition that delineates risk taking is the readiness to commit huge amounts of resources (monetary, human) to projects that may have high probabilities of failure (Eggers et al., 2013).

Generally, firms built on EO are often classified or characterized by their risk-taking potentials or strategies. These would include taking on large debts or making large resource commitments toward projects that secure high market returns thus making the most of opportunities in the marketplace. In short, risk taking is a measure of a firm's ability to venture

into the unknown and break away from the conventional path. Hughes and Morgan (2007) suggested that entrepreneurially-oriented firms undertake risks in order to secure favorable performance. McGrath (2001) elaborated suggesting that following conventional paths leads to a high mean performance while risk taking has variable outcomes for businesses, including the potential for long-term profitability. Dess et al. (2011) and Tang et al. (2014) noted that entrepreneurial risk taking had a positive influence on organizational and business growth.

Risk taking and innovation are related aspects of EO as they both have positive impacts on the growth of a business by virtue of improved brand awareness in the market and the introduction of competition in the processes. Risk taking may boost crucial factors in innovation such as product innovation and services innovation, which, according to Hoonsopon and Ruenrom (2012), have a positive impact on the competitive advantage of firms. Such firms provide superior benefits to their customers (Zhou et al., 2005) and enhance their cost advantage over competitors by offering the same services and products at lower prices (Hoonsopon & Ruenrom, 2012). Therefore, entrepreneurial risk taking is positively related to SMEs' innovation.

### **SME Entrepreneurial Proactiveness**

The level of entrepreneurial proactiveness in a firm often determines the extent to which it will survive changes in the market. Proactiveness is often defined as the tendency of a firm to anticipate, understand, and act upon potential needs that will originate in the marketplace, thus leaving behind present competition and establishing a favorable first-mover benefit among competitors (Eggers et al., 2013). Fundamentally, proactiveness is a multi-dimensional tool that can be utilized in relation to innovativeness or independence. A forward-looking approach and a positive mindset help the firm use existing or old techniques to overcome imminent changes in the marketplace. However, a firm has the maximum chance of enjoying first-mover benefits

when it combines proactiveness with innovativeness to develop a solution that is brand new to the marketplace and is therefore accepted as a breakthrough. Entrepreneurial orientation rests on the capability of a firm to use its existing resources or redefine its investments to develop and introduce products and services that are completely new to the marketplace (Bolton, 2012).

Proactiveness has the capacity to not only project the firm forward in the market, but also shape the environment in the market and give the firm a new edge against existing competition (Bonds, 2007).

Constructive proactiveness is therefore a healthy supplement to competition as they propel one another. Essentially, proactiveness capitalizes on emerging markets (Tang & Hull, 2012). Proactiveness is significant in securing superior firm performance (Baker & Sinkula, 2009), and makes it easier for firms to target premium markets and take pleasure in the first-entrant advantages like skimming the market ahead of their competitors (Lumpkin, 2001; Tang & Hull, 2012).

Conventionally, innovations are classified as radical or incremental, depending upon the degree of novelty in their applications (Nieto et al., 2013). Studies on innovation management and degrees of proactiveness show that firms that succeed in balancing their existing expertise to proactively create improved incremental innovations are more likely to experience market success, though they are simultaneously required to develop new technologies to bring about major breakthroughs (Chang et al., 2011). In order to fulfill this prerequisite, a firm must be able to balance internal dilemmas between innovation pathways and challenges related to contradictory demands from the market environment that create external pressures on the firm (Jansen et al., 2006). A firm should therefore be able to effectively know how to strike a balance between radical and incremental innovative actions in order to accomplish superior sustainable

performance. A firm that falls short of this will end up becoming mediocre and uncompetitive in the market (Chang et al., 2011).

Innovativeness is akin to proactiveness as they are both derived in tandem with existing innovation protocols and are designed to meet emerging customer or market needs (Nieto et al., 2013). The innovative approach utilizes original designs, the creation of new markets, and new channels of distribution, which are developed through due diligence and proactiveness (Boston, 1998). Alternatively, incremental innovations exploit current capabilities while seeking continuous upgrades that generate consistent and positive returns as firms expand on the skills and knowledge they currently have (Nieto et al., 2013). They also enhance recognized designs and expand on existing products and associated services, which can increase the efficiency of existing distribution channels (Chang & Hughes, 2012). Hence, incremental innovations must build on existing knowledge and organizational learning frameworks bringing into focus existing skills, structures, and processes (Jansen et al., 2006).

Product and service innovations are normally categorized by closeness to novel or existing technologies, functions, product features, customers, market segments, and market routes (Chang & Hughes, 2012). Therefore, to enhance product and service innovations, firms must be focused on original and emerging customer needs in new, creative, or rising markets through the use of novel technologies, features, and functions that are significantly different from existing processes and products. Likewise, incremental innovations of both products and services can meet current market needs and those of customers with enhancements in modern technologies. Following this approach fulfills customer needs through new features and functions and also incrementally differentiates firms from their competitors' through offering different products (Chang & Hughes, 2012).

As noted earlier, innovations completely rely on using an inventive and proactive approach that is considered through prototyping, tests, research, and discovery. Firms that are known to introduce innovations also need to substantially change their ways of operating. This can be fulfilled by entry into unknown markets or introducing new services and products using new technologies to improve the total performance of the firm (Nieto et al., 2013). This type of proactive innovation undoubtedly destroys competence for the firm using it. Innovation combined with proactiveness, in this regard, represents a high-risk strategy (Boyd, 2000).

### **SME Entrepreneurial Learning**

Prior research suggests that entrepreneurial learning includes a number of entrepreneurial activities, such as knowledge acquisition and information sharing, which consciously influence firms' innovation performance (Sakiet al., 2013). Innovation can offer notable benefits to an organization if there is a steady amount of entrepreneurial learning in the firm inspired by EO. Importantly, entrepreneurial learning is a function of innovation and goes a long way in allowing a firm to make strategic moves in the market. Entrepreneurial learning and entrepreneurial orientation have a tenuous relationship considering entrepreneurial learning often eats away at the roots of firms' innovation, while entrepreneurial ventures are more a function of copying existing protocols (Avlonitis & Salavou, 2007). Entrepreneurial learning has also been proposed to have a positive impact on innovation (Renko et al., 2009). There is a general propensity for restricting lifecycles in both product and business structures in the modern business setting (Hamel, 2000).

Future profit from existing operations in entrepreneurial firms is uncertain, and businesses need to use entrepreneurial learning to continue searching for new opportunities. Empirical studies that examine this phenomenon have found that entrepreneurial learning has a

positive impact on entrepreneurial firms' performance (Eggers et al., 2013; Zahra, 2012).

Entrepreneurial learning also has a positive impact on the quality of performance, which has been proven through proliferating anecdotal evidence that supports the value of entrepreneurial orientation (Tang & Hull, 2012). The intensification of pioneering entrepreneurship offers significant purpose for any new enterprise, as it would increase its receptiveness to global and varying market settings. Today's firms cannot survive fast changes and novelty, making them susceptible to experiencing a downturn if they fail to develop entrepreneurial skills (Eggers et al., 2013). SMEs invariably lack the competence, market control, and resources of other big firms. To a great extent, their success depends on their innovative behaviors and ability to formulate competitive strategies, implement them, and respond to the challenges posed by market changes (Mbizi et al., 2013).

Entrepreneurial learning, from the perspective of SMEs, is both direct and impactful since there exists less of a focus on innovation and more of a focus on expansion and enhancement of services in these businesses. Internationalization is another necessary entrepreneurial activity as well as entering new geographic markets on a large scale. These are regarded as equivalent to adopting new practices and upgrades and implementing entrepreneurial teaching (Johnson et al., 2013). Prior research suggests that SMEs differ from larger enterprises in terms of their leadership styles, internal operations, organizational structures, existing assets, and environment reactions (Mbizi et al., 2013). SME owners or managers often emphasize the innovation phase in order to achieve greater growth rates with exciting variances in a given period of time. The results, however, entail a high failure rate as the innovative phase is highly uncertain, risky, and chaotic (Mueller et al., 2013). Entrepreneurial learning helps secure risk factors and keeps movements under control, although the product or service-launch phase is of

extreme importance in this regard. Entrepreneurial learning has an important role to play in the success of innovations. Supporting this contention, Oke et al. (2007) suggested that SMEs are more engaged in creating product and service innovations based upon important lessons in entrepreneurial learning and previous drives for innovation. Innovations are aimed at the creation and commercialization of improved products and services to meet demands of current customers and markets (Mueller et al., 2013). Such innovations have successful outcomes that are known to customers and firm builders, and therefore have a low-risk capability. Entrepreneurial learning is known to follow a particular or specific trajectory. Entrepreneurial strategists build upon previous experience, core competencies, entrepreneurial learning, and linkages in market and field knowledge (Kollman & Stöckmann, 2014). There is no doubt that in SMEs operating today, economies of scale and those of scope increase firms' profit margins greatly, and directly affect operational efficiency and profitability. Existing portfolios and products allow an easy synergy of strategy with profitability. SMEs have the benefit experience over new entrepreneurs, and as they apply their prior experience and develop extensions of present product lines, they must keep in mind that experience might greatly influence their entrepreneurial learning curve. In addition, innovations are presumed to enhance the life cycle of an SME's offerings, as relatively few resources are required and profit gains are observed within a very short duration of time (Mueller et al., 2013).

### **SME Entrepreneurial Resource-Based View**

In a competitive environment, firms deploy their physical, human, and organizational assets to gain an advantage in the marketplace (Auster, 1988). If these resources and capabilities are valuable to customers, as well as rare, and difficult to imitate, then these assets give rise to sustainable competitive advantage(s), which then boosts firm performance. Among various

intangible assets that a firm possesses, organizational orientations are considered some of the most important because these skills sets are deeply ingrained into the everyday routines of an organization and, as such, are problematic for competitors to copy (Bates, 2006). In turn, organizational orientations may give rise to sustainable advantage and superior company performance. Whereas firms may pursue various orientations, past research has noted the importance of EO and its corresponding relationship to company outcomes. In summary, companies that effectively deploy these organizational capabilities perform at high levels in the marketplace (Benjamin, 1996).

## **Conclusion**

This literature review explores the fact that while Black SMEs are a major part of the U.S. economy they face enormous existing disparities in comparison to other SMEs. Black entrepreneurship can be an avenue to achieve the American dream while providing sustainable impact in local Black communities. Through entrepreneurship African Americans have the chance to obtain wealth and direct access to the marketplace.

The present study contributes to the further development of Black SMEs, increasing the opportunity to exploit innovative strategies that can create wealth and sustainable communities (Brimmer, 2002). EO, including such characteristics as innovativeness, risk-taking, and proactiveness, has become a very popular concept in allowing Black SMEs to improve their performance. The results of this research will provide an empirical assessment of Black SMEs to improve the prospects of African Americans in achieving an equitable portion of America's wealth and economic influence. Further research can advance serious discussion on how to improve Black SMEs in America and further strengthen their ability to perform and compete.



### **CHAPTER 3: METHODOLOGY**

The research design used in this study was quantitative, comparative, cross-sectional, and descriptive. Quantitative research methodologies were used to facilitate collecting reliable and relevant data. In this study, the objective and subjective aspects were included to more completely explore the research questions presented.

#### **Research Objective**

To show that the lack of EO, innovativeness, and performance are significant contributors to the gap between Black SMEs and majority SMEs. The research objectives were defined using the following four research questions, which guided the study and the analyses:

RQ1: How does entrepreneurial orientation impact the performance measures of Black SMEs?

RQ2: How does entrepreneurial orientation impact the performance measures of SMEs?

RQ3: How do the entrepreneurial orientations of Black SMEs and majority SMEs differ?

RQ4: Is “Innovativeness” the most significant aspect of EO that explains the difference between Black SMEs and majority SMEs?

#### **Research Framework**

The central focus of this quantitative research was on Black SMEs as compared to other SMEs. Black SMEs represent the fastest growing segment of enterprises in Michigan and throughout the United States of America. The Black SMEs I analyzed represent \$4.6 billion in revenues and 30,874 jobs in the state of Michigan. As of 2007, African Americans owned 1.9 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia, an increase of 60.5% from 2002 and three times the national rate. These African American-owned firms also accounted for 7.1% of all nonfarm businesses in the United States, employed 921,032

persons (0.8% of total employment), and generated \$137.5 billion in receipts (0.5% of all receipts) (United States Census, 2010).

In comparison, since the Great Recession of 2007-2010, SMEs account for 63% of net new jobs created and, according to the SBA's Office of Advocacy, continue to play a vital role in the incubation of innovation and job creation in America. The following points also support the importance of African American-owned businesses to the overall local and national economies is related to job creation, revenue growth, and market share. These enterprises provide an opportunity for researchers to study Black SMEs faced with systemic barriers to capacity building, market entry, and increased competition, while modeling EO profiles with the important qualities of innovativeness and performance (United States Census, 2010).

### **Research Methodology**

EO was measured with a nine-item, seven-point semantic differential-type scale developed by Covin and Slevin (1991), and also based on the work of Miller and Friesen (1982) and Khandwalla (1976, 1977). In the present study, this variable reflects top management's behaviors in making strategic decisions and operating management philosophies, captured in the three dimensions of proactiveness, risk taking, and innovativeness.

Covin and Slevin (1991) developed this scale with the goal of measuring performance, and based the scores on respondent perceptions of their organization. In the current study, Black and majority SMEs were asked to assess the performance indicators under analysis as compared to their main competitors in terms of sales volume, growth in revenues, gross profit margins, net income, market share, change in market share, and entry to new markets (from -7, *much weaker*, to 7, *much stronger*).

This study included two regression analyses and a MANCOVA, which I used to assess the relationships between measures of EO, performance, and group placement into a Black or a majority SME. By using these statistical procedures, I addressed each of the four research questions.

## **Research Design**

This study employed an exploratory research approach with a quantitative research design. I used this research design to assess the opinions and views of respondents from SMEs through quantitative means, with numerical values assigned to the responses of the participants.

The quantitative methodology is used by the natural sciences and uses quantifiable data to assess and measure observations. This method of deductive reasoning works based on a representative sample of the universe studied. The research design is the structure used to guide the planning, implementation, and analysis of the study (Mousa & Wales, 2012). The design chosen for this study is a way of responding to the question or hypothesis of the research; different types of questions or hypotheses require different types of research designs, and preparation is necessary to gain a comprehensive understanding of the various types of research design available. Research designs are generally classified as qualitative or quantitative. However, it is becoming more common for researchers combine or mix multiple quantitative and qualitative designs in a single study. Quantitative research refers to studies that collect and analyze quantitative data that are highly objective and projectable.

Quantitative research designs generally reflect a deterministic philosophy, which is based on the paradigm or school of post-positivist thought. Post-positivism examines how different causes interact and influence the results. The post-positivist paradigm adopts a philosophy in which reality can be discovered, imperfectly but probabilistically (Parkman, 2012). The approach

is typically deductive, in that most of the ideas or concepts are reduced to variables and the relationships among them are subject to testing. Resulting knowledge is based on observation, measurement, and careful interpretation of objective reality. I employed a quantitative research design, which was best suited to the topic of the research (Reed, 1997).

### **Research Sampling Plan**

The Black SMEs and majority SMEs operating in the state of Michigan in 2013-2015 were chosen as the target population. A suitable sampling, with an appropriate sample size, and included firms from the Michigan Chamber of Commerce, including the Michigan Black Chamber of Commerce, the Michigan Minority Supplier Development Council, the Small Business Association of Michigan, the Detroit Regional Chamber of Commerce, and Dunn and Bradstreet, along with various other membership-driven organizations representing multiple industries and sectors. The stratified sample was based on two NAIC codes, majority, and Black ratios. This sampling method was intended to achieve near equally sized groups of Black and majority SMEs so that the two could be statistically compared with a lower margin of error (Cohen, 1988).

Data were collected from samples of Black and majority SMEs in a structured questionnaire used for the survey, which was disseminated electronically and physically by mail. A total of 600 questionnaires were sent to Black SMEs and an additional 600 to majority SMEs, for a total sample of 1,200 questionnaires. The expectation was that 180 questionnaires would be completed by respondents, with a response rate of at least 50%-60% for the purpose of analysis. To ensure that this number would contribute to a statistically valid analysis, an a-priori power analysis was conducted using G\*Power version 3.1.9. Using this power analysis software, each analysis was checked for a minimal sample size to contribute to empirically valid results, and the

multivariate analysis of variance (MANOVA) posed to inform RQ3 had the greatest sample size requirement.

Assuming that there would be a medium sized difference between the three EO measures between Black and majority SMEs, a sample of 180 participants was required to determine these differences with an alpha of .05 and a generally accepted power of .80 (Cohen, 1988). For the best results, I contacted approximately 50 participants from majority SMEs, and 50 participants from Black SMEs. This activity contributed to the most robust analysis possible (Tabachnick, 2013). As this number did not exceed the expected sample of 200 participants, the analysis achieved a power of .80 at the alpha level of .05.

### **Sampling Procedures**

I selected the sample by using a stratified sampling procedure, with the intention of gathering a near equal amount of Black SMEs as majority SMEs. In doing so, the two groups in question had a nearly equal size, resulting in a greater degree of validity (Tabachnick, 2013). The sample also included industry and business-type specific inclusion criteria so that a range of businesses germane to this research were contacted for participation. Based on a-priori sample size calculations, I gathered a minimum of 180 participants, including 50 participants from Black SMEs and 50 participants from majority SMEs.

### **Sampling Units**

Though the analysis focused on the SMEs themselves, the unit of analysis was employees within each of these SMEs. Because each of these participants provided their perception of a specific SME, the data is applicable to the study, and describes the array of viewpoints within any given SME. As indicated by the sample size calculation, approximately 50 participants were

affiliated with Black SMEs, while an equal amount (50) of participants worked for or with the majority SMEs.

### **Data Results and Analysis**

Data generated from the quantitative data collection instrument were analyzed statistically using SPSS for Windows. The main categories of statistical procedures included descriptive and inferential. Descriptive statistics depict events or individuals with some predetermined characteristics, and will be used to describe the demographic layout of the final collected sample. This approach is intended to help determine the external validity of the results and express how well the sample represents the population of interest. Inferential statistics are used to determine and assess the relationships between variables or attributes of a particular sample with the goal of generating generalizations about a specific population. For this purpose, variables were coded and the effect of one variable over another was assessed. In this research, inferential statistics included the use of regression analysis and a MANOVA (Brimmer, 2002). Results were analyzed for each research question using the procedures outlined below.

### **Research Question 1**

Research Question 1 was how does entrepreneurial orientation impact the performance measures of Black SMEs? In order to address this research question, a multiple linear regression was conducted where the three measures of EO were assessed for a collective relationship with performance within the sample of participants from Black SMEs. In this analysis, the three measure of EO included the predictor variables, as well as risk-taking, innovativeness, and proactiveness. The dependent, or outcome variable was the overall performance score, which were calculated as the average of a participant's perceptions of their SME's growth in profit margins, growth rate, and market share

## **Research Question 2**

Research Question 2 was how does entrepreneurial orientation impact the performance measures of SMEs? To address Research Question 2, an identical multiple regression analysis was conducted as for Research Question 1, but with a sample of participants only from majority SMEs. As in the regression for Research Question 1, the three measures of EO were assessed for a collective relationship with performance. The dependent was again defined again as the overall performance score, and was calculated as the average of the participants' perceptions of their SME's growth in profit margins, growth rate, and market share.

### **Multiple Linear Regression**

The multiple linear regression is considered an appropriate analysis when the goal of research is to assess the collective relationship between a set of independent variables and a single continuous outcome variable. Because each of the measures included in either model was continuous, and because the goal was to assess the correlational relationship between the set of EO measures with performance, multiple linear regression analysis was appropriate (Stevens, 2009).

Variables were evaluated based on what each variable added to the prediction of the dependent variable that is different from the predictability provided by the other predictors (Tabachnick, 2013). The  $F$  test was used to assess whether the set of independent variables collectively predicted the dependent variable. The multiple correlation coefficient of determination ( $R^2$ ) was reported and used to determine how much variance in the dependent variable could be accounted for by the set of independent variables. If the results of the  $F$  test indicated that the model was significantly predictive, the  $t$  test was then being used to determine the significance of each predictor. For any significant predictor in the model, beta coefficients

were used to determine the extent of prediction. For these significant predictors, every one unit increase in the predictor, the dependent variable was interpreted as increasing or decreasing by the number of unstandardized beta coefficients (Urdan, 2010).

### **Assumptions of Multiple Linear Regression**

Prior to either regression analysis, the assumptions of this test were assessed. For a valid model, the assumptions of normality and homoscedasticity had to be met. In addition, the series of independent variables were assessed for multicollinearity, which is an indication that the independent variables are too highly correlated to provide a good model fit. Normality was assessed using a normal P-P plot, though deviations from this assumption are not likely to invalidate the model to any great extent so long as the sample size exceeds 30 (Stevens, 2009). Homoscedasticity was assessed using a standardized residual plot, and additionally, the issue of multicollinearity was assessed using variance inflation factors, or VIFs. According to Tabachnick and Fidell (2012), any VIF of 10 or greater may be indication that the independent variables are too highly correlated, and are artificially inflating the model to an extent that it may not be accurately fitted to the data.

### **Research Question 3**

Research Question 3 was how does the entrepreneurial orientations of Black SMEs and majority SMEs differ? To assess Research Question 3, a MANOVA was conducted. The MANOVA is similar to a collection of one way analyses of variance (ANOVAs), but takes into account the effect of repetitious analyses, which may result in an inflated instance of Type I error. The MANOVA created a linear combination of the dependent variables, which included all three EO measures of interest (i.e., risk taking, innovativeness, and proactiveness) and was assessed for overall differences based on group placement into a Black SME or a majority SME.



If an overall difference was determined, ANOVAs were utilized to determine which EO measures were different between the two groups (Tabachnick, 2013). For any EO measures that differed between the Black and Majority SMEs, a mean score was examined for both groups to determine which group had the significantly higher score.

### **Assumption of MANOVA**

Prior to conducting the MANOVA, the assumptions of normality and homogeneity of variance/covariance matrices were assessed. Normality is the assumption that the EO scores are normally distributed (i.e., bell shaped), and were assessed using the Kolmogorov Smirnov test. According to Stevens (2009), *F* tests such as MANOVA and regression are robust toward this violation with respect to Type I error. Homogeneity of variance is the assumption that both groups have statistically similar variances and will be assessed using Levene's test.

Homogeneity of covariance matrices is the multivariate equivalent to homogeneity of variance and were tested using Box's M test (Leech, 2011). Significant results for the Levene's test or Box's M test are indicative of violations to either assumption.

### **Research Question 4**

Research Question 4 was, is "innovativeness" the most significant aspect of EO that explains the difference between Black SMEs and majority SMEs? In order to assess Research Question 4, the results of the MANOVA was further assessed. Within the results of the MANOVA, the degree of difference for each EO measure was assessed using partial  $\eta^2$  values. The partial  $\eta^2$  is an indication of effect size, and may be used to interpret the statistical size of difference between two group measurements (Cohen, 1988). If the innovativeness measure of EO is found to be significantly different between participants from Black versus majority SMEs, this statistic was interpreted to determine if it was in fact the largest difference between these

groups. This result was compared to the differences between Black and majority SMEs for both risk-taking and proactiveness, and the findings were stated in relation to this research question. As such, this post-hoc interpretation of the MANOVA findings were used to effectively indicate whether the gap in innovativeness was larger than the gap in risk-taking or proactiveness between the two groups (Urdan, 2010). In addition, the results of the first two regressions were assessed, and innovativeness assessed for a significant relationship with performance above and beyond what is explained by risk-taking or proactiveness. If innovativeness was found to be a significant predictor, assuming that it is related to performance in a unique way that is not explained by risk-taking or proactiveness, and the partial correlation coefficient ( $\beta$ ) was used to determine the strength of correlation between innovativeness and performance while controlling for both other EO factors (Tabachnick, 2013).

### **Entrepreneurial Orientation Scale**

The Entrepreneurship Orientation (EO) Scale has been used extensively in the application of firm-level entrepreneurship research. Based on measures developed by Miller (1982), published by Miller (1983), and refined modified by Covin and Slevin (1986), and Khandwalla (1977), the EO scale focused on three dimensions of the entrepreneurial orientation construct—risk taking, innovativeness, and proactiveness. According to Kreiser et al. (2002) the scale is the most commonly utilized instrument in operationalizing EO. As early as 1999, Wiklund noted that more than a dozen studies had employed this scale or slightly modified versions of it. According to Zahra, Jennings, and Kuratko (1999), “there has been an unusually high degree of consistency in the way researchers measured firm-level entrepreneurship” (p. 54). The scale remains popular among researchers in the field (e.g., Green, Covin, & Slevin, 2006; Kreiser et al., 2002; Roberson & Park, 2004; Wiklund & Shepard, 2005).

## **Firm Performance Scale**

The firm performance scale was developed by Gupta and Govindarajan (1984). Measuring firm performance has always been a major challenge for researchers. In this study, firm performance measurement involves two Likert-type scales to capture the importance and satisfaction of firm performance indicators. Because of the difficulty getting small business owners to reveal their business data (Naman & Slevin, 1993), managerial perceptual measures to assess firm performance are used in this study. There is a series of well documented research with issues relative to firm performance measurement in the framework of small businesses by Sapienza, Smith, and Gannon (1988). Lyles and Salk (1996), Smart and Conant (1994), and Covin and Slevin (1989) used subjective, self-reporting measures of performance in the past. In addition, there is research evidence that managers' perceptions of their firm are highly consistent with how their firm actually performed as indicated by objective measures (Dess & Robinson, 1984; Wall et al., 2004). Therefore, the subjectivity of the measure was used in this study. Respondents were asked to indicate on a 5-point Likert-type scale (1 = *of little importance* and 5 = *extremely important*) signifying the degree of importance to their firm as it relates to the following criteria: sales growth rate, market share, and operating profits, profit to sales ratio, market development and new product development. Respondents are then asked on another 5-point Likert-type scale (1 = *highly dissatisfied* and 5 = *highly satisfied*) the extent to which their firm is satisfied with their firm's performance on each of these same items of firm performance criteria. "Satisfaction" scores are therefore multiplied by the "importance" scores to calculate a weighted performance index. This instrument has been used by scholars and researchers, including O'Regan and Ghobadian (2004), Kreisner, Marino, and Weaver (2002), Robertson and

Chetty (2000), and Covin, Slevin, and Schultz (1997). Additional support comes from Strandholm, Kumar, and Subramanian (2004) and Naman and Slevin (1993).

### **Demographics**

The survey instrument also included a number of demographic questions used for descriptive and control purposes that address a series of questions that address the age of the firm, number of employees, classification of industry, revenues, companies market share, profit margin, and average growth rate.

### **Data Reliability and Ethical Considerations**

For the reliability of survey questionnaires, Cronbach's alpha was used to measure internal consistency and estimate the reliability for a sample of participants. To ensure the validity is protected, data must be verified through statistical analysis. Therefore, I used statistical tools to ensure the validity of the research (Heywood, 1988).

All researchers strive to achieve the ideals of perfect reliability and validity. Because it is impossible to achieve perfection, a high degree of credibility, consistency, and dependability was attempted by this research by clearly conceptualizing constructs, using a precise level of measurement, and using multiple indicators, a pilot test, and representative reliability. High reliability is said to exist when other researchers under similar conditions can replicate the same study and achieve similar results (Zajonc, 2003).

The aspects of ethical consideration in this study concerned the involvement of human subjects and referred to the review of principles, criteria, and requirements that an investigation must satisfy to be considered ethical. Trust is the basis of ethical research. The dignity and welfare of individuals who participate in research should be a central concern of every person involved in a research project (Roy, 2012). The researcher is ultimately responsible for the

conduct of research, the project's performance, and the protection of the study subjects' rights and welfare.

### **Limitations of the Study**

Following are some limitations of this study:

1. This study was not a national study. The state of Michigan provides a limited scope of work in comparison to future national research.

2. One main focus of this study was small- and medium-sized enterprises SMEs. This contributed to limiting the scope of this study in that results cannot be made generalized to other sectors.

3. Another main focus of this study was Black SMEs, but not necessarily Minority Business Enterprises (MBEs). This also limited the scope of this study and the results.

### **Conclusion**

This chapter covered the research methodology used to test the hypotheses identified in Chapter 3. The methodology pertaining to the sample selection was provided. A description of the survey items used to develop the measures was presented, supporting the reliability and validity of information. Next, the data collection process was described. Finally, the operationalization of the variables described in Chapter 3 was provided, along with a description of the rationale behind the choice of multivariate techniques used to analyze the data.

## **CHAPTER 4: RESULTS**

In 2007 and 2010, the performance of small businesses owned by African Americans were below that of all U.S. small businesses, while Black business revenue grew by 26.5%, as small business revenue grew by 39% on average (Census, 2010). This points to a discrepancy between Black SMEs and majority SMEs and examining EO may be a way to define why this discrepancy exists. As such, the purpose of this study is to examine Black SMEs on the EO scale and determine to what extent EO might explain their economic performance.

In this study, I sought to show that entrepreneurial orientation, innovativeness, and performance are significant contributors to the gap between Black and majority small and medium enterprises (SMEs). This chapter includes multiple linear regressions and analyses of variance, meant to explore these relationships. Based on past studies the research questions and associated hypotheses stated in null and alternative form are displayed below.

RQ 1: How does entrepreneurial orientation impact the performance measures of Black SMEs?

RQ 2: How does entrepreneurial orientation impact the performance measures of majority SMEs?

RQ 3: How does the entrepreneurial orientation of Black SMEs and majority SMEs differ?

RQ4: Is “Innovativeness” the most significant aspect of EO that explains the difference between Black SMEs and majority SMEs?

This chapter includes descriptions of the data collection and characteristics of the sample, as well as variables of interest. For each research question, assumptions of the analysis were

assessed, and results of those assumptions presented. Statistical analyses were conducted and results are detailed.

### **Data Collection**

A sample was drawn from Black SMEs and majority SMEs operating in the state of Michigan. Random sampling of majority SMEs included firms from the Michigan Chamber of Commerce and the Small Business Administration of Michigan, while the Michigan Black Chamber of Commerce and Michigan Minority Supplier Development supplied participants who fulfilled the category of Black SMEs. The purpose of this sampling method was to achieve near equally sized groups of Black and majority SMEs so that the two could be statistically compared with a lower margin of error (Cohen, 1988).

A total of 206 responses were collected, and none were removed for missing responses or for leaving the survey early. Data were collected using a structured questionnaire meant to measure EO and performance. These data were entered into SPSS for ease of data management and to conduct statistical analyses. The calculation of each of the scales pertinent to the research is described below.

### **Performance**

Performance was measured using three different scales based on data that was representative of individuals' responses to one item each on the survey. For gross sales, participants were asked, "What is your firm's total gross sales/revenue?" with responses ranging from (1) to (11) where (1) = "under \$10,000," and (11) = "Over \$50 million." For market share, participants were asked, "What is your company's (organization's) market share?" with responses ranging from (1) = "0% to 5%" to (7) = "10.01% to 15%." For average growth rate, participants were asked, "What is your company's (organization's) average growth rate over the last 3 years?"

with responses ranging from (1) = “0 to 2%” to (7) = “Over 12%.” Finally, data for profit margin was collected using the question, “What is your company's (organization's) average profit margin over the last 3 years?” where responses ranged from (1) = “0% to 1%” to (6) = “Over 9%.” These responses were treated as dependent variables in Research Question 1 and Research Question 2.

### **Entrepreneurial Orientation**

Next, the EO scales were calculated including *risk taking*, *innovativeness*, *proactiveness*, *competitive aggressiveness*, and *autonomy*. *Risk taking* was calculated as the average of items RT1 through RT4 on the survey, *innovativeness* was calculated as the average of items IN1 through IN4, *proactiveness* was calculated as the average of items PR1 through PR3, *competitive aggressiveness* was calculated as the average of items CA1 and CA2, and *autonomy* was calculated as the average of items AU1 through AU4.

To assess the fit of each of these items in their overall scale, a latent variable analysis was conducted using generalized least squares. A varimax rotation was employed to simplify the expression of the factor loadings into these five scales. First, Eigenvalues were calculated for a solution of up to 17 factors (i.e., one factor for each item). Eigenvalues that drops below 1.00 for a number of factors used to group the items may not be the best solution (Stevens, 2009). As seen in Table 2, the Eigenvalue for a 5-factor solution was 1.18, and this value dropped below 1.00 (Eigenvalue = 0.99) for the 6-factor solution. This suggests that the 5-factor solution was the best fit, and indicates that roughly 59.36% of variance in item values is explained by grouping items in this way.



Table 1

*Eigenvalues for Factor Solutions of One to Seventeen*

Number of factors	Eigenvalue	Cumulative % of variance explained
1	4.03	23.72
2	2.12	36.20
3	1.51	45.06
4	1.25	52.43
5	1.18	59.36
6	0.99	65.15
7	0.82	69.99
8	0.77	74.52
9	0.68	78.53
10	0.63	82.26
11	0.62	85.89
12	0.53	89.01
13	0.49	91.87
14	0.48	94.69
15	0.39	96.98
16	0.33	98.93
17	0.18	100.00

Table 2

*Factor Loadings for Five Factor Solution*

Item	Component 1	Component 2	Component 3	Component 4	Component 5
IN1	0.58				0.38
IN2	0.53				0.37
IN3		0.39	0.58		
IN4		0.40	0.33	0.61	
RT1	0.65				
RT2	0.60				-0.48
RT3	0.67				
RT4	0.48		0.33		-0.44
PR1	0.70				
PR2	0.71				0.34
PR3	0.68		-0.42		
CA1	0.45			-0.46	
CA2	0.31		-0.38	0.43	
AU1		0.74		-0.31	
AU2		0.74	-0.39		

Table 2 (cont'd)

AU3		0.72	-0.33
AU4	0.37		

*Note.* Factor loadings below .30 are suppressed.

### Descriptive Statistics

A total of 206 majority and black SMEs were included in the final data set. Sixty-eight SMEs (33.0%) were aged 11-25 years while 51 SMEs were aged 5-10 years old. Most companies were publicly traded (92.7%,  $n = 191$ ), followed by non-profit (5.3%,  $n = 11$ ). The majority of SMEs were Black owned (75.7%,  $n = 156$ ). Ninety-six companies (46.6%) had a growing industry tendency in the past 3 years, and 91 companies (44.2%) had a stable industry tendency in the past 3 years. The majority of companies had a growing firm tendency in the past 3 years (55.8%,  $n = 115$ ). Seventy-six (37.3%) of the SMEs received support either from other business organizations and associations, or from financial and banking institutions. Table 3 displays the frequencies and percentages for the sample characteristics.

Table 3

#### *Frequencies and Percentages for Sample Characteristics*

Variable	<i>n</i>	%
Company Age		
Less than 2 years	23	11.2
3-4 years	16	7.8
5-10 years	51	24.8
11-25 years	68	33.0
Over 26 years	48	23.3
Privately owned / traded / non-profit		
Private	4	1.9
Publicly-traded	191	92.7
Non-profit	11	5.3
Black or majority owned		
Black	156	75.7
Majority	50	24.3

Table 3 (cont'd)

Variable	<i>n</i>	%
Net Sales		
Under \$10,000	14	6.8
\$10,000 - \$99,999	21	10.2
\$100,000 - \$249,999	24	11.7
\$250,000 - 499,999	21	10.2
\$500,000 - 999,999	22	10.7
\$1 Million - \$5 Million	54	26.2
\$5 Million - \$10 Million	16	7.8
\$10 Million - \$20 Million	7	3.4
\$20 Million - \$30 Million	5	2.4
\$30 Million - \$50 Million	3	1.5
Over \$50 Million	19	9.2
Number of employees		
Under 10	119	59.8
10-19	28	13.6
20-49	21	10.2
50-99	12	5.8
100-249	13	6.3
250-499	8	3.9
500-999	1	0.5
Over 1000	4	1.9
Industry tendency in past 3 years		
Growing	96	46.6
Stable	91	44.2
Declining	19	9.2
Firm Tendency in the past 3 years		
Growing	115	55.8
Stable	75	36.4
Declining	16	7.8
Receipt of support from:		
Business organization or associations	76	37.3
Chambers of commerce	47	23.3
Colleges / Universities	32	15.8
Entrepreneurship Training and Development Programs	60	29.4
Faith-based institutions	34	16.9
Financial or banking institutions	76	37.3
Federal government agencies	38	18.7
Incubators / Co-working spaces	15	7.4
Not for profit organizations	36	17.7
Philanthropic / Foundation community	23	11.4

Table 3 (cont'd)

Variable	<i>n</i>	%
Receipt of support from:		
Private sector or corporate community	54	26.7
Procurement programs	41	20.6
Professional organizations and associations	65	32.2
Public sector or economic development corporations	31	15.4

When comparing Black versus majority SMEs several group-wise differences and similarities become evident. Proportionally, more majority-owned SMEs had companies over 26 years old (24, 48%) than did the Black-owned SMEs (24, 15%). However, both groups were mostly privately owned and largely reported sales between one and five million dollars. Similarly, the majority of both groups reported that they were either stable or growing (see Table 4).

Table 4

*Comparison of Frequencies and Percentages between Black and Majority SMEs*

Variable	Black SMEs		Majority SMEs	
	<i>n</i>	%	<i>n</i>	%
Company Age				
Less than 2 years	22	14.1	1	2.0
3-4 years	13	8.3	3	6.0
5-10 years	42	26.9	9	18.0
11-25 years	55	35.3	13	26.0
Over 26 years	24	15.4	24	48.0
Privately owned / traded / non-profit				
Private	148	94.9	43	86.0
Publicly-traded	4	2.6	0	0
Non-profit	4	2.6	7	14.0
Black or majority owned				
Black	156	100	-	-
Majority	-	-	50	100

Table 4 (cont'd)

Variable	Black SMEs		Majority SMEs	
	<i>n</i>	%	<i>n</i>	%
Net Sales				
Under \$10,000	12	7.7	2	4.0
\$10,000 - \$99,999	19	12.2	2	4.0
\$100,000 - \$249,999	21	13.5	3	6.0
\$250,000 - 499,999	19	12.2	2	4.0
\$500,000 - 999,999	12	7.7	10	20.0
\$1 Million - \$5 Million	38	24.4	16	32.0
\$5 Million - \$10 Million	12	7.7	4	8.0
\$10 Million - \$20 Million	6	3.8	1	2.0
\$20 Million - \$30 Million	2	1.3	3	6.0
\$30 Million - \$50 Million	1	0.6	2	4.0
Over \$50 Million	14	9	5	10.0
Number of employees				
Under 10	100	64.1	19	38.0
10-19	18	11.5	10	20.0
20-49	14	9.0	7	14.0
50-99	8	5.1	4	8.0
100-249	6	3.8	7	14.0
250-499	7	4.5	1	2.0
500-999	0	0	1	2.0
Over 1000	3	1.9	1	2.0
Industry tendency in past 3 years				
Growing	78	50.0	18	36.0
Stable	66	42.3	25	50.0
Declining	12	7.7	7	14.0
Firm Tendency in the past 3 years				
Growing	89	57.1	26	52.0
Stable	55	35.3	20	40.0
Declining	12	7.7	4	8.0
Receipt of support from:				
Business organization or associations	57	36.5	19	38.0
Chambers of commerce	37	23.7	10	20.0
Colleges / Universities	24	15.4	8	16.0
Entrepreneurship Training and Development Programs	51	32.7	9	18.0
Faith-based institutions	28	17.9	6	12.0
Financial or banking institutions	50	32.1	26	52.0
Federal government agencies	28	17.9	10	20.0
Incubators / Co-working spaces	13	8.3	2	4.0
Not for profit organizations	29	18.6	7	14.0
Philanthropic / Foundation community	16	10.3	7	14.0

Table 4 (cont'd)

Variable	Black SMEs		Majority SMEs	
	<i>n</i>	%	<i>n</i>	%
Receipt of support from:				
Private sector or corporate community	40	25.6	14	28.0
Procurement programs	39	25.0	2	4.0
Professional organizations and associations	50	32.1	15	30.0
Public sector or economic development corporations	23	14.7	8	16.0
Sector				
Construction	15	9.6	5	10.0
Manufacturing	15	9.6	10	20.0
Wholesale trade	12	7.7	1	2.0
Retail trade	6	3.8	5	10.0
Transportation and warehousing	9	5.8	1	2.0
Information	2	1.3	1	2.0
Finance and insurance	9	5.8	12	24.0
Real estate and rental leasing	3	1.9	1	2.0
Professional, scientific, and technical services	19	12.2	4	8.0
Management companies and enterprises	6	3.8	1	2.0
Administrative and support and waste management and remediation services	3	1.9	1	2.0
Educational services	3	1.9	8	16.0
Health care and social assistance	9	5.8	5	10.0
Arts, entertainment, and recreation	7	4.5	10	20.0
Accommodation and food services	2	1.3	1	2.0
Other services (except public administration)	6	3.8	5	10.0
Other	30	19.2	1	2.0

Next, continuous measures of interest to the study were assessed for their spread and central tendency. Table 5 shows descriptions for the continuous scores of EO and performance among all samples, as well as within the sub-group of Black or majority-owned SMEs. The highest EO scores overall were proactiveness ( $M = 4.48$ ,  $SD = 1.26$ ) and competitiveness / aggressiveness ( $M = 4.38$ ,  $SD = 1.01$ ), while the lowest were autonomy ( $M = 3.92$ ,  $SD = 1.05$ ) and risk taking ( $M = 3.91$ ,  $SD = 1.08$ ).

Table 5

*Continuous Variables of Interest among Black Owned, Majority Owned, and All SMEs*

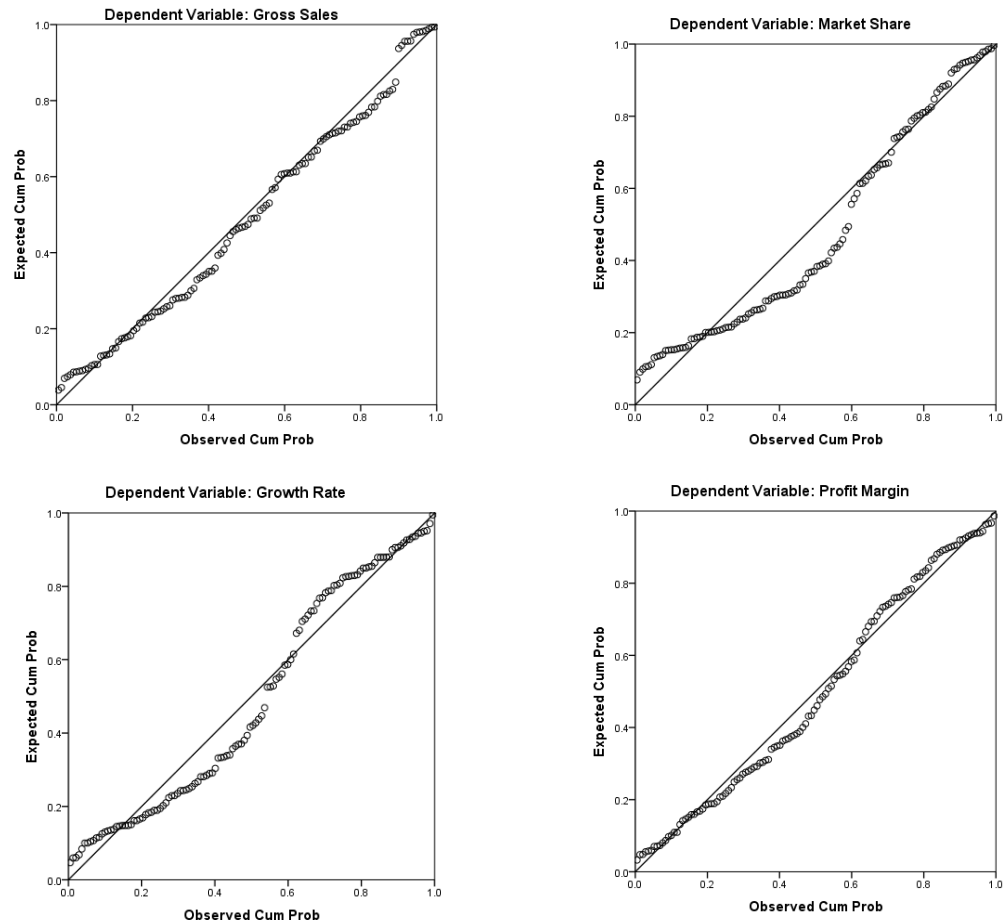
Variable	Overall ( <i>n</i> = 206)		Black owned ( <i>n</i> = 156)		Majority owned ( <i>n</i> = 50)	
	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>
Risk taking	3.91	1.08	3.98	1.06	3.68	1.13
Innovativeness	4.03	1.03	4.06	1.07	3.93	0.89
Proactiveness	4.48	1.26	4.53	1.21	4.33	1.40
Competitive	4.38	1.01	4.47	0.98	4.11	1.08
Aggressiveness						
Autonomy	3.92	1.05	3.95	1.08	3.83	0.95
Performance	11.17	4.16	11.45	4.13	10.30	4.16

### Results for Research Question 1

How does entrepreneurial orientation impact the performance measures of Black SMEs?

To answer Research Question 1 a series of four multiple linear regressions were conducted using data for the group of Black SMEs. A multiple linear regression was used, as it is appropriate for the goal of assessing how well a set of continuous or dichotomous independent variables predicts a single continuous dependent variable (Pallant, 2010). Prior to analysis, the assumption of normality in the residuals was assessed by viewing a series of P-P scatterplots, with one per regression. The P-P scatterplots showed that data closely followed the normality trend line for all four regressions (see Figure 1), indicating that the assumption was met for this series of analyses. The assumption of homoscedasticity was assessed using a scatterplot between the residuals and predicted values for each regression. These plots all showed approximate rectangular distributions (see Figure 2), meeting the homoscedasticity assumption for all four regressions. Finally, the absence of collinearity assumption was assessed using Variance Inflation Factors (VIFs). Any VIF values over 10 suggest the presence of multicollinearity and a

violation of the assumption (Stevens, 2009). Because all VIFs were under 10, this assumption was fulfilled and the analysis was conducted as proposed.



*Figure 1.* Normality P-P scatterplots of residuals for Black SME group



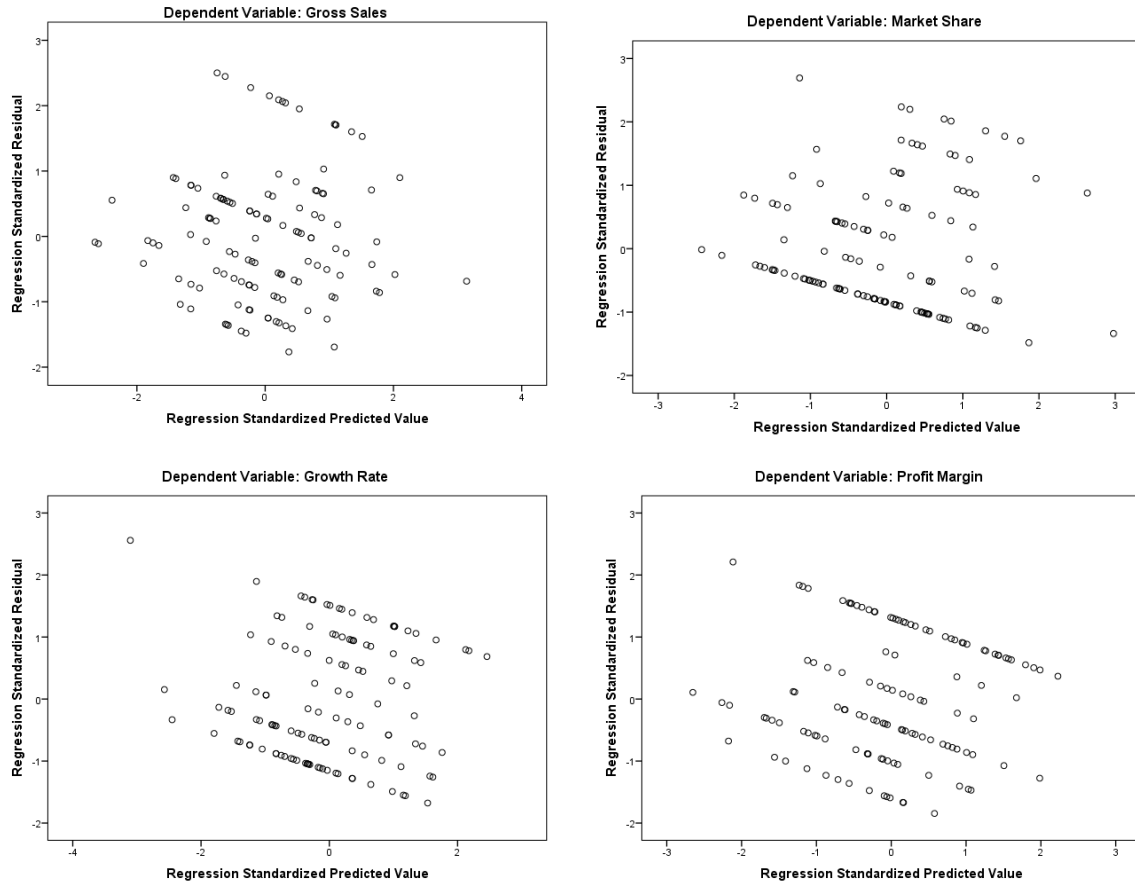


Figure 2. Homoscedasticity plots of residuals and predicted values for Black SME group

The multiple linear regression models for gross sales ( $F(7,118) = 3.30, p = .003, R^2 = .16$ ), market share ( $F(7,118) = 2.09, p = .050, R^2 = .11$ ), and profit margin ( $F(7,118) = 3.22, p = .004, R^2 = .16$ ) were statistically significant. Because three of the four regression equations were significant, the predictors for these regressions were assessed further. These results are described in the three sections below.

### Gross Sales

For gross sales, autonomy was the only significant EO factor ( $p = .003$ ), where higher autonomy scores corresponded with a higher average gross sale. In addition, assessment of the industry type indicated that both service and retail industries had significantly lower gross sales than manufacturing industries in the sample.

## Market Share

For market share, autonomy was again the only significant EO factor ( $p = .015$ ), where higher autonomy scores corresponded with a higher average market share. None of the other variables were significantly predictive of market share, indicating that the market shared did not differ based on the industry type.

## Profit Margin

For profit margin, proactiveness was the only significant EO factor ( $p = .001$ ), where higher proactiveness scores corresponded with a higher average profit margins. In addition, assessment of the industry type indicated that both service and retail industries had significantly lower profit margins than manufacturing industries in the sample. Results of each of the four regressions are displayed in Table 6.

Table 6

*Regressions with Entrepreneurial Orientation Predicting Performance Scales in Black SMEs*

Source	<i>B</i>	<i>SE</i>	$\beta$	<i>t</i>	<i>p</i>
Gross sales					<b>.030</b>
Services (ref: manufacturing)	-1.52	0.59	-.27	-2.56	.012
Retail (ref: manufacturing)	-1.84	0.73	-.26	-2.51	.013
Risk Taking	-0.36	0.27	-.14	-1.35	.180
Innovativeness	0.18	0.24	.08	0.78	.439
Proactiveness	0.31	0.23	.14	1.39	.169
Competiveness / Aggressiveness	-0.30	0.26	-.11	-1.15	.254
Autonomy	0.69	0.23	.26	2.98	.003
Market Share					<b>.050</b>
Services (ref: manufacturing)	-0.70	0.43	-.18	-1.64	.104
Retail (ref: manufacturing)	-0.42	0.53	-.09	-0.80	.425
Risk Taking	0.19	0.19	.10	0.96	.338
Innovativeness	0.03	0.17	.02	0.16	.875
Proactiveness	-0.01	0.16	-.01	-0.05	.957
Competiveness / Aggressiveness	0.13	0.19	.06	0.68	.498
Autonomy	0.41	0.17	.23	2.48	.015

*Note.* For each dependent variable, overall ANOVA  $p$ -values are listed in bold.

Table 6 (cont'd)

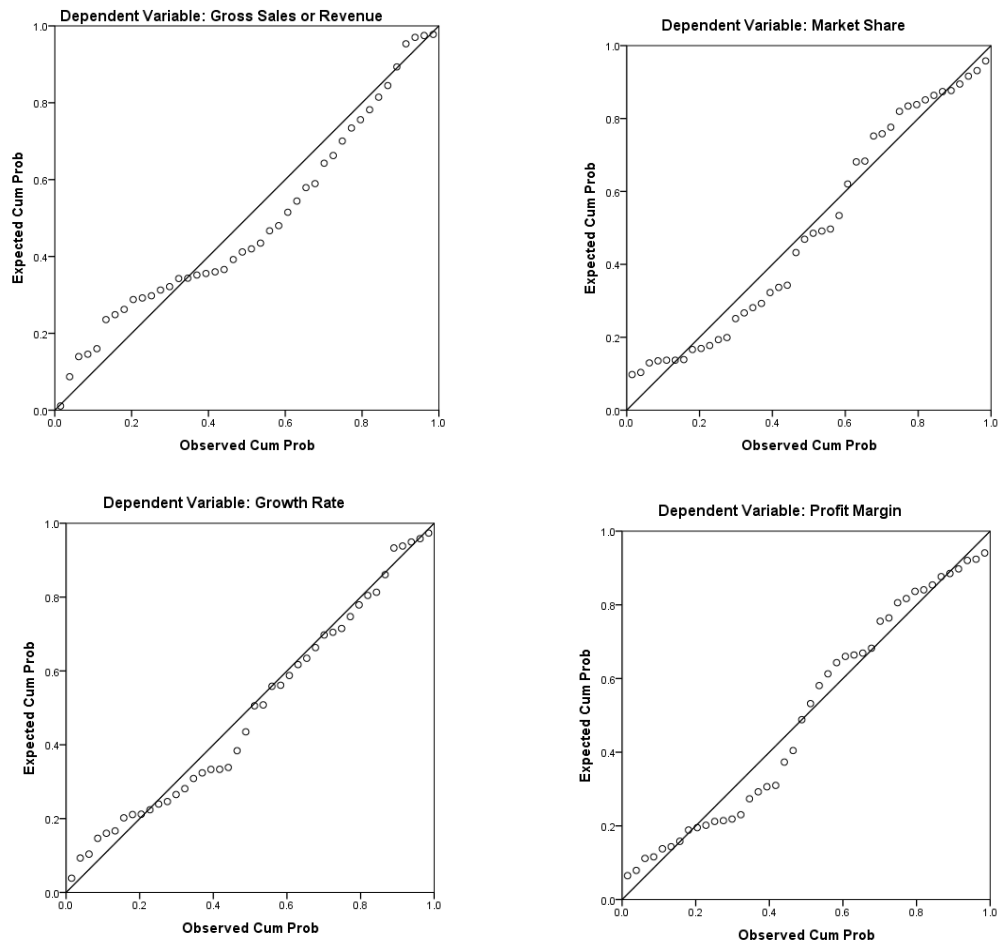
Source	<i>B</i>	<i>SE</i>	$\beta$	<i>t</i>	<i>p</i>
Growth rate					<b>.057</b>
Services (ref: manufacturing)	-0.53	0.50	-.12	-1.06	.292
Retail (ref: manufacturing)	-1.01	0.62	-.18	-1.62	.108
Risk Taking	0.35	0.23	.17	1.53	.128
Innovativeness	-0.20	0.20	-.10	-0.99	.323
Proactiveness	0.25	0.19	.14	1.32	.189
Competitiveness / Aggressiveness	0.01	0.22	.00	0.04	.970
Autonomy	0.31	0.20	.15	1.59	.114
Profit margin					<b>.004</b>
Services (ref: manufacturing)	-0.87	0.39	-.24	-2.25	.026
Retail (ref: manufacturing)	-1.62	0.48	-.36	-3.41	.001
Risk Taking	-0.05	0.17	-.03	-0.28	.781
Innovativeness	-0.11	0.15	-.07	-0.72	.475
Proactiveness	0.48	0.15	.33	3.29	.001
Competitiveness / Aggressiveness	-0.10	0.17	-.06	-0.60	.550
Autonomy	0.02	0.15	.01	0.12	.908

*Note.* For each dependent variable, overall ANOVA *p*-values are listed in bold.

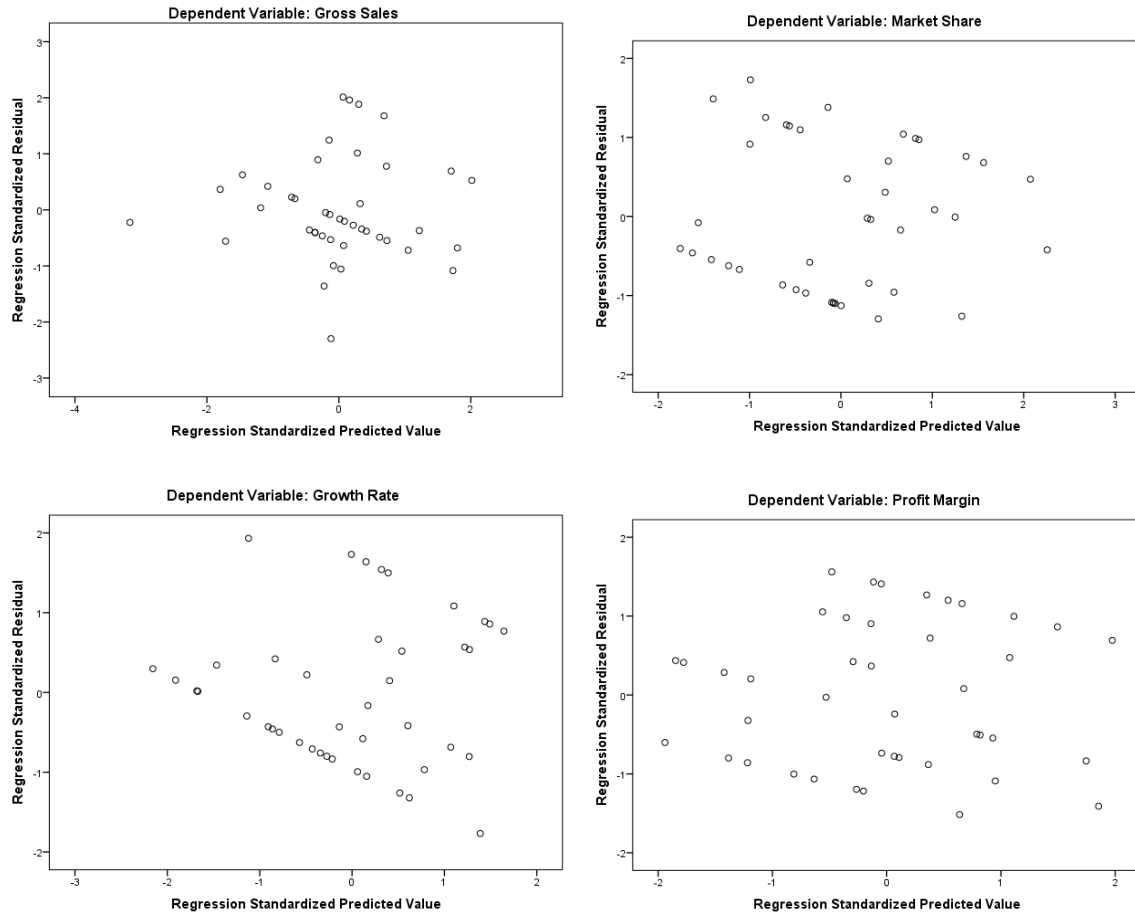
## Results for Research Question 2

How does entrepreneurial orientation impact the performance measures of majority SMEs? To answer Research Question 2, a second series of four multiple linear regressions were conducted using data for the group of majority SMEs. Prior to analysis, the assumption of normality in the residuals was assessed by viewing a series of P-P scatterplots, with one per regression. The P-P scatterplots showed the data closely followed the normality trend line for all four regressions (see Figure 3), indicating that the assumption was met for this series of analyses. The assumption of homoscedasticity was assessed using a scatterplot between the residuals and predicted values for each regression. These plots all showed approximate rectangular distributions (see Figure 4), meeting the homoscedasticity assumption for all four regressions. Finally, the absence of collinearity assumption was assessed using Variance Inflation Factors (VIFs). Any VIF values over 10 suggest the presence of multicollinearity and a violation of the

assumption (Stevens, 2009). Since all VIFs were under 10, this assumption was fulfilled as well and the analysis was conducted as proposed.



*Figure 3.* Normality P-P scatterplots of residuals for majority SME group



*Figure 4.* Homoscedasticity plots of residuals and predicted values for majority SME group

The multiple linear regression models were not statistically significant for any of the equations using the sample of majority SMEs. This suggests that the EO variables of risk taking, innovativeness, proactiveness, competitiveness/aggressiveness and autonomy are not significantly related to any of the performance scales among the sampled majority-owned SMEs. Because none of these regressions were significant, interpretation of the individual predictors in each equation was unnecessary. In addition, because there were no independent to dependent variable relationships, there was no need to assess the moderating influence of industry type. Results of each regression are presented in Table 7 below.

Table 7

*Regressions with Entrepreneurial Orientation Predicting Performance Scales in Majority SMEs*

Source	<i>B</i>	<i>SE</i>	$\beta$	<i>t</i>	<i>p</i>
Gross sales					<b>.147</b>
Services (ref: manufacturing)	-0.29	0.85	-.06	-0.34	.733
Retail (ref: manufacturing)	-1.62	1.15	-.24	-1.40	.170
Risk Taking	0.24	0.36	.12	0.67	.510
Innovativeness	-0.02	0.41	-.01	-0.06	.955
Proactiveness	0.10	0.29	.06	0.34	.738
Competiveness / Aggressiveness	0.43	0.41	.20	1.04	.308
Autonomy	0.71	0.43	.29	1.65	.108
Market Share					<b>.457</b>
Services (ref: manufacturing)	0.40	0.92	.08	0.44	.662
Retail (ref: manufacturing)	-0.87	1.25	-.13	-0.70	.488
Risk Taking	-0.49	0.39	-.24	-1.25	.221
Innovativeness	0.46	0.44	.18	1.05	.302
Proactiveness	0.53	0.31	.31	1.69	.100
Competiveness / Aggressiveness	0.07	0.44	.03	0.16	.877
Autonomy	0.00	0.46	.00	0.00	.997
Growth rate					<b>.085</b>
Services (ref: manufacturing)	0.14	0.84	.03	0.17	.869
Retail (ref: manufacturing)	-1.27	1.14	-.19	-1.12	.272
Risk Taking	0.49	0.36	.24	1.37	.180
Innovativeness	-0.46	0.40	-.18	-1.13	.266
Proactiveness	0.51	0.28	.31	1.81	.080
Competiveness / Aggressiveness	-0.52	0.40	-.25	-1.29	.207
Autonomy	0.83	0.42	.34	1.97	.057
Profit margin					<b>.644</b>
Services (ref: manufacturing)	-0.81	0.70	-.22	-1.15	.257
Retail (ref: manufacturing)	-1.17	0.95	-.23	-1.24	.225
Risk Taking	0.06	0.30	.04	0.19	.849
Innovativeness	-0.02	0.34	-.01	-0.06	.952
Proactiveness	0.30	0.24	.24	1.27	.213
Competiveness / Aggressiveness	-0.15	0.34	-.10	-0.45	.655
Autonomy	-0.23	0.35	-.12	-0.65	.523

*Note.* For each dependent variable, overall ANOVA *p*-values are listed in bold.

### Results for Research Question 3

How does the entrepreneurial orientation of Black SMEs and majority SMEs differ? To answer Research Question 3, a MANOVA was conducted. In this analysis, the EO variables were all entered as dependent variables, while the grouping variable was defined by whether an SME was Black or majority owned. Prior to analysis, the assumptions of the MANOVA were assessed. Normality of the dependent variables was assessed with Kolmogorov Smirnov (KS) tests, which indicated statistical significance for risk taking ( $p < .001$ ), innovativeness ( $p < .001$ ), proactiveness ( $p < .001$ ), competitiveness ( $p < .001$ ), and autonomy ( $p < .001$ ); thus, the assumption was not met for these variables. Although this assumption was violated, Stevens (2009) states that the MANOVA is robust for the assumption of normality when the sample size is large (i.e.,  $> 30$ ). Homogeneity of covariance was assessed with Box's M test. At the required  $\alpha$  of .001 as prescribed by Pallant (2010), results were not statistically significant ( $p = .274$ ) and the assumption was thus met. Levene's test was utilized in order to examine homogeneity of variance and the results were not statistically significant for risk taking ( $p = .567$ ), innovativeness ( $p = .179$ ), proactiveness ( $p = .312$ ), competitiveness ( $p = .726$ ), or autonomy ( $p = .496$ ). The assumption was thus met for these variables.

The results of the MANOVA were not statistically significant. There were no significant differences on entrepreneurial orientation (i.e., risk taking, innovativeness, proactiveness, competitiveness and autonomy) by Black versus majority SME ( $F(5, 200) = 1.19, p = .317$ , partial  $\eta^2 = .029$ ). These findings suggest that none of the EO scales differed significantly between Black and majority-owned SMEs. Because the MANOVA indicated that there were no significant differences on any of the EO scores by SME type (i.e., majority versus Black), the

individual ANOVAs could not be assessed with any degree of certainty. The results of this MANOVA are presented in Table 8.

Table 8

*Results of MANOVA for EO Scales between Black and Majority SMEs*

Source	MANOVA	ANOVA $F(1, 204)$				
	$F(5, 200)$	Risk taking	Innovativeness	Proactiveness	Competitive aggressiveness	Autonomy
Black vs. majority	1.19	3.09	0.69	0.92	4.84*	0.45

*Note.* Significant findings are marked with an asterisk (\*).

#### Results for Research Question 4

Is “innovativeness” the most significant aspect of EO that explains the difference between Black SMEs and majority SMEs? To answer Research Question 4, the results of each of the previous three analyses were assessed. The results of Research Question 1 showed that innovativeness was not a significant predictor of performance among Black SMEs. Per a review of the predictor variables in this analysis, innovativeness also had the largest  $p$ -value ( $p = .288$ ), suggesting that innovativeness has the least significant influence on performance among black SMEs, particularly after controlling for each of the other aspects of EO. Furthermore, innovativeness ( $p = .641$ ) had a much larger  $p$ -value than risk taking ( $p = .340$ ), or proactiveness ( $p = .008$ ) among majority SMEs as well. This suggests that innovativeness is not the most significant EO to influence performance among either the majority or Black SMEs when the influence of the other EO scales are taken into account.

Finally, results of Research Question 3 indicated that all five of the EO variables (i.e., risk taking, innovativeness, proactiveness, competitiveness and autonomy) were statistically



similar between Black and majority SMEs ( $p = .317$ ). This suggests that there were little to no differences in proactiveness between Black and majority SMEs that could not be explained by chance alone. Based on these findings, the research failed to find that proactiveness was significantly higher or lower between Black SMEs and majority SMEs, and did not influence the performance of either group. Thus, performance could not be interpreted as the most significant aspect of EO explaining the difference between Black SMEs and majority SMEs.

## **Summary**

The purpose of this quantitative study was to measure the entrepreneurial orientation between Black and majority SMEs as it relates to business performance. This chapter presented results of several quantitative analyses conducted to address four research questions of this study. Results of Research Question 1 revealed that there is a relationship between the entrepreneurial orientation of Black SMEs and their performance in terms of gross sales, market share, and profit margins. For gross sales and market share, autonomy was the only predictive EO factor, though the analysis for Research Question 2 indicated that there is also a relationship between the entrepreneurial orientation of majority SMEs and performance measures. For both of these analyses, proactiveness was the most significantly variable in the prediction of performance. However, autonomy was a significant predictor among Black SMEs only, and did not provide any predictive ability to the majority SMEs' performance. Research Question 3 results indicated that there is no statistical difference between entrepreneurial orientation of Black SMEs and majority SMEs. A final post-hoc analysis with a focus on innovativeness indicated that this EO scale was not a significant contributor to the difference between the EO of Black SMEs and majority SMEs, nor to the prediction of either group's performance. Chapter 5 includes a

discussion of these results in relation to previous literature and the theoretical framework of the study. In addition to this synthesis, directions for future research will also be discussed.

## **CHAPTER 5: CONCLUSIONS, DISCUSSION AND SUGGESTIONS FOR FUTURE RESEARCH**

The purpose of this quantitative study was to examine Black businesses using the Entrepreneurial Orientation (EO) scale to determine the extent to which EO might explain the economic performance of Black small and medium-sized enterprises (SMEs), as well as the differences between Black and majority SMEs. The EO model includes factors designed to measure business dimensions of innovation, risk-taking, proactiveness, competitive aggressiveness, and autonomy, as well as these factors' impact on business performance. An investigation of factors that predict performance of Black and majority SMEs was necessary because of the disparities that exist between the success of Black and majority firms. Scholars, practitioners, and educators remain interested in firm-level entrepreneurship behavior and its link to firm performance because engaging in risk-taking, innovation, proactiveness, competitive aggressiveness, and autonomous behaviors can lead to favorable organizational outcomes (Chadwich, Barnett, & Dwyer, 2008; Covin & Miles, 1999; Parnell & Lester, 2007; Wiklund & Shepard, 2003).

Despite growth in many of these areas, Black SMEs continue to struggle in matching the successful rates of their majority counterparts. Wallick and Dodson (1972) suggested that voluntary modification of business behavior can improve economic conditions in the Black community. This examined the dynamics and tendencies of Black SMEs and gathered information on the development of Black SMEs to better understand how they can compete and succeed in today's competitive business environment. This chapter contains the following sections: Summary and Interpretation of Findings, Theoretical Considerations, Limitations, Implications and Recommendations for Further Research and ends with a Conclusion.

## Summary and Interpretation of Findings

The following section, summarized in Table 9, provides a brief summary and interpretation of empirical findings in relation to previous literature.

Table 9

### *Hypothesis Tests and Results from Chapter Four*

Hypothesis number	Hypothesis	Results
1 Null	EO does not impact the performance measures of Black SMEs.	Rejected
1 Alternative	EO impacts the performance measures of Black SMEs.	Accepted: EO predicts performance among Black SMEs
2 Null	EO does not impact the performance measures of majority SMEs.	Rejected
2 Alternative	EO impacts the performance measures of majority SMEs.	Accepted: EO predicts performance among majority SMEs
3 Null	EO of Black SMEs and majority SMEs are statistically similar.	Accepted: There is no statistically significant difference in EO between Black and majority owned SMEs
3 Alternative	EO of Black SMEs and majority SMEs are significantly different.	Rejected

Research Question 1 was how does entrepreneurial orientation impact the performance measures of Black SMEs? The present study indicated that there was a significant relationship between EO and performance measures of Black SMEs. Consequently, because the overall model was significant, individual predictors were examined. Results indicated that while risk taking ( $t = 1.39, p = .168$ ), innovativeness ( $t = 1.07, p = .288$ ), and competitiveness ( $t = 1.32, p = .190$ ) were not significant predictors within the model, proactiveness ( $t = 2.91, p = .004$ ) and autonomy ( $t = 2.06, p = .041$ ) were significant predictors of performance. The findings that

proactiveness and autonomy were significant predictors of Black SME business performance are novel because researchers have yet to focus on EO in Black SMEs.

These findings suggest that Black SMEs are proactive and autonomous in their decision-making and business behavior. Proactiveness, or taking initiative by anticipating and pursuing new opportunities and participating in emerging markets (Dimitratos et al., 2004), was associated with Black entrepreneurship. This may be because in marginalized and resource-limited environments, in which many Black SMEs find themselves operating, being proactive allows Black SME leaders to anticipate future opportunities and thus remain competitive. Black business owners relegated to a small market share may need to anticipate and pursue new opportunities to remain competitive. This important finding suggests that Black SMEs relate to marketplace opportunities by seizing advantages and opportunities to gain market share, to influence trends, and most likely to create demand for a particular commodity, good, or service.

The findings for Research Question 1 also suggest that Black SMEs have an independent spirit and express the freedom of action (i.e., autonomy; Burgelman, 2001) necessary to advance new venture development as a driving force in entrepreneurial value creation. While the finding is novel in relation to Black SMEs, it also reinforces that “the exercise of autonomy by strong leaders, unfettered teams, or creative individuals who are disengaged from organizational constraints “(Lumpkin, 1996, p. 140). It is, therefore, an important general component to business performance. However, autonomy may be important for Black entrepreneurs to thrive in many organizational contexts. For Black SMEs, autonomy may afford organizational members the freedom and flexibility to develop and enact entrepreneurial initiatives.

Research Question 2 was how does entrepreneurial orientation impact the performance measures of majority SMEs? There was a significant relationship between EO and performance

measures of majority SMEs, and, since the overall model was significant, individual predictors were examined. Results indicated that only proactiveness ( $t = 2.80, p = .008$ ) was a statistically significant predictor of performance among majority SMEs. Previous research has shown that proactiveness involves business leaders seeking to secure and protect market share with forward-looking perspectives reflected in actions taken in anticipation of future demand (Dimitratos et al., 2004; Lee & Penning, 2001; Naman & Slevin, 1993; Venkatraman, 1989a, 1989b). In addition, Vij and Bedi (2012) found proactiveness to be manifested in aggressive behavior directed at rival firms and at the organizational pursuit of favorable business opportunities.

The finding of the present study confirms that proactiveness is an important factor in the performance of majority SMEs. Lieberman and Montgomery (1988), for example, argued that first-mover advantage was the best strategy for capitalizing on a market opportunity. In addition, Venkatraman (1989a) argued that *proactiveness* defined as “seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle,” was crucial to business performance (p. 949). The findings of the present study suggest that proactiveness is an important factor to the business success of both Black and majority SMEs. In addition, being proactive and exploiting asymmetries in the marketplace may allow Black entrepreneurs to capture potential profits and garner brand recognition amongst their customer base.

Research Question 3 was how does the entrepreneurial orientation of Black SMEs and majority SMEs differ? The results of the MANOVA showed no significant differences in entrepreneurial orientation (risk taking, innovativeness, proactiveness, competitiveness and autonomy) between Black and majority SMEs ( $F(5, 200) = 1.19, p = .317, \text{partial } \eta^2 = .029$ ).

These findings suggest that none of the EO scales differed significantly between the two, but meant the individual ANOVAs could not be assessed with any degree of certainty. Thus, there is no significant difference between Black and White businesses on the EO scale and therefore, Hypothesis 4 was rejected.

The findings for Research Question 3 indicate that there are other reasons than EO that explain the discrepancies between Black and majority SMEs and this offers opportunity for future research. The only factor of EO that showed significant difference for Black SMEs in relation to majority SMEs was autonomy. Autonomy, or affording organizational members the freedom and flexibility to develop and enact entrepreneurial initiatives, may be more important for Black entrepreneurs to thrive than for majority entrepreneurs. The differences between autonomy for Black SMEs and majority SMEs also represent an avenue for future study.

Research Question 4 was, is “innovativeness” the most significant aspect of EO that explains the difference between Black SMEs and majority SMEs? The results for Research Question 4 indicated that innovativeness was not a significant predictor of performance among Black SMEs. Per a review of the predictor variables in this analysis, innovativeness also had the largest  $p$ -value ( $p = .288$ ), suggesting that innovativeness has the least significant influence on performance among Black SMEs, particularly after controlling for each of the other aspects of EO. Further, innovativeness ( $p = .641$ ) had a much larger  $p$ -value than risk taking ( $p = .340$ ), or proactiveness ( $p = .008$ ) among majority SMEs. This suggests that innovativeness is not the most significant EO to influence performance among either the majority or Black SMEs when the influence of other EO scales are taken into account. These findings are significant because they show that Black SMEs are just as innovative as White SMEs and innovation has the least influence on performance measures between the two.

Innovativeness involves the ability to harness creative abilities and put those abilities to use in facing challenges while improving processes, procedures, and products (Bates, 1989). Innovation is a specific function of entrepreneurship that either creates new wealth resources or strategically incorporates obtainable resources that have the potential to establish wealth and jobs (Anderson, 1982). Consequently, many researchers believe that innovativeness may be the most important factor of EO, and differences in innovativeness might help to explain discrepancies between Black and majority SMEs (Alegre & Chiva, 2013; Panth, 2013; Parkman, 2012; Roy, 2012). The findings of the present study, however, suggest other reasons than innovativeness explain the discrepancies between Black and majority SMEs. These findings offer, yet again, avenues for future research.

### **Theoretical Considerations**

Cultural theory of entrepreneurship offers one of the oldest accounts of group difference in business enterprise, having its origins in Max Weber's classical writings (1930) on the Protestant ethic and capitalism (Light, 1979; Weber, 1930). The fundamental claim of the cultural theory of entrepreneurship is straightforward, highlighting group differences in business performance resulting from group differences in cultural norms and values required for successful entrepreneurship such as a predisposition toward risk-taking, hard work, and delayed gratification (Hunter & Boyd, 2004). The theory additionally holds that the pursuit of economic independence—to be “ones’ own boss”—and a drive for high achievement are primary motivations for the pursuit of self-employment in a small business (Light, 1979). This theory can be applied to the entrepreneurial orientation of Black businesses because of the more than 106,000 African American firms in Michigan, 90% are “sole entrepreneurs” or have only one employee.



Similar to cultural theory, disadvantage theory is rooted in the work of Weber (1930), especially his proposal that those excluded from the mainstream economy because of discrimination will turn to business ownership as an alternative to the labor market—in effect, choosing self-employment over unemployment (Berger, 1991; Light & Rosenstein, 1995). This theory has been employed to explain why, in a wide variety of societies, Black SMEs embrace entrepreneurship as an economic survival strategy and have high rates of small-business ownership (Cooper & Dunkelberg, 1987; Horton & DeJong, 1991; Light, 1979; Light & Rosenstein, 1995). Using this connection, the concept of “survivalist entrepreneurship” has been proposed referring to business ventures undertaken out of desperation by persons who have no options in the mainstream economy (Light & Rosenstein, 1995). Applying disadvantage theory to racial differences in Black entrepreneurship, we find Black entrepreneurs better fit the profiles of resource-disadvantage, survivalist entrepreneurs than that of their White counterparts. These theories can be applied to the entrepreneurial orientation of Black businesses because African American businesses arguably form out of necessity, i.e., job loss, joblessness, low income, or earnings.

Lastly, protected market theory is also relevant to minority business enterprise in the pre-civil rights era, when White entrepreneurs generally refused to cater to the personal service needs of minority customers (Hunter & Boyd, 2004). Light proposed the term “protected market” to refer to the special ethnic minority groups that only co-ethnic entrepreneurs can serve. During this time, many personal services—especially those requiring intimate contact between provider and consumer, such as mortuary services, hairdressing, and beauty culture, were left to minority business owners (Boyd, 1996a). The protected market theory also focuses on the importance of special skills or knowledge that business owners must have in order to serve their clientele, for

example, an intimate knowledge of the cosmetics and hair preparations demanded by minority consumers (Boyd, 1996b). This theory can be applied to the entrepreneurial orientation of Black businesses in the fact that African American firms have great access to sectors and industries within their communities with limited competition.

### **Limitations to the Study**

Limitations to this research occur in four different areas: sample population, participants, geography, and racial identity. First, the sample population was drawn from business organizations representing segments of businesses throughout the state of Michigan, and it was largely representative of publicly-traded firms. This study is, therefore, limited to the state and lacks national scope. In addition, findings may relate more heavily to publicly-traded firms than other small businesses. Consequently, empirical findings may not generalize to other regions or the national level. Secondly, this study relies heavily on perceptual data of managerial leadership from representatives of each SME, usually a company president, CEO, or an executive-level manager. This could lead to potential perceptual bias and cognitive limitations in observation of the firm, environment, or cultural conditions. Thirdly, one of the focuses of the study was SMEs; therefore, results cannot be generalized to explain phenomenon among larger industries. Lastly, another focus was Black SMEs specifically, not Minority Business Enterprises (MBEs), which also limits the scope of this study. Although other ethnic minority groups experience many of the same challenges and barriers to entrepreneurial success, this study was not designed to measure EO in relation to MBE performance. In conclusion, recognizing the inevitable limitations that exist further research can maximize what is learned here. However, despite limitations this research intentionally focused on a comparative assessment as it garnered a more equal sampling pool of business owners between Black and majority firms. The larger participation of majority

firms could have an impact on the results as it relates to a limited analysis not equal to that of Black businesses. This relegates the sampling of data to a segmented analysis.

### **Implications and Recommendations for Further Research**

This study on Black SMEs provides a framework, theoretical perspective, and conceptual design to further research opportunities, using entrepreneurial orientation and its relationship to firm performance as a tool for entrepreneurship growth.

First, the research supports the hypothesis that an entrepreneurial orientation has a positive relationship with a firm's performance and manager's entrepreneurial decision-making. Future research could make several contributions to the study of Black SMEs by: (a) focusing on "barriers to entry," as EO is an important way to measure how a business is organized and enters the marketplace; (b) exploring different industries and sectors of Black SMEs objectively and subjectively (financially and non-financially), resulting in a high variance of EO-performance relationship; (c) exploring other geographic locations throughout the U.S. and diasporic regions of the Caribbean and Africa; and (d) continuing to compare Black SMEs and majority SMEs both organizationally and individually, to find similarities and differences in behavioral and strategic decision-making that lead to better performance using the EO construct and its dimensions.

Secondly, literature suggests that the relationship between EO and performance is not completely straightforward, with regard to strategic decision-making. This offers an opportunity to explore the combination of the following theoretical frameworks: (a) subjectivist theory of entrepreneurship; (b) dynamic capabilities theory; (c) the theory of dominant logic; (d) learning theory, which links causally adjacent phenomena via learning-related processes and/or links EO to learning to various endogenous processes and contextual attributes; (e) cultural theory; (f)

disadvantaged theory; and (g) protected market theory (Anderson, Covin, & Slevin, 2009; Bierly, Damanpour, & Santoro, 2009; Hughes, Hughes, & Morgan, 2007; Lee & Sukoco, 2007; Wang, 2008). All of these are suggested theoretical frameworks and phenomenon-framing lenses that might be employed in advancing EO research on Black SMEs

Thirdly, findings indicate that the entrepreneurial orientation construct and scale can help determine existing or potential programs as a fundamental contribution of Black SMEs to the overall performance of the economy. This constitutes a crucial motive for researchers to investigate the key success factors behind their performance (Wickham, 2001; Wiklund et al., 2011), with special attention given to the factors of proactiveness and autonomy.

Additionally, the findings imply that if a company maintains its growth rate in a balanced way (i.e., focusing on all factors of EO), it can sustain development thus guaranteeing its survival. How black SMEs can develop and maintain a balanced approach should be a major focus of Black SME research. Small businesses face many challenges that hinder their growth or even cause permanent shutdown or failure. However, a few small businesses can overcome those challenges, survive and achieve a remarkable growth rate. Future research can help Black SMEs not only avoid shutdown or failure, but also contribute to the general understanding of the challenges that hinder sustainable growth and the ability to create jobs. Lastly, using future entrepreneurial research on Black SMEs can effectively address inadequate and inappropriate legislation and policy as common barriers to entrepreneurship. This would improve the chances of entrepreneurial success, especially in terms of entrepreneurial orientation.

## **Conclusion**

In conclusion, I set out to contribute to the general scholarship of entrepreneurship and growing body of literature relating to EO, performance and its impact on Black SMEs and

majority SMEs. Empirical results showed that EO was related to performance and its own individual dimensions. This research provides empirical support for the relationship between EO and performance, while contributing to the general understanding of its impact relative to Black and majority SMEs. By measuring the EO construct and its dimensions in Black and majority SMEs, empirical and theoretical development of future research about entrepreneurship becomes extremely important. The major goal of this study was to open a new path for entrepreneurial research and an unexplored assessment of a population critical to the development of African American communities and the overall economic fabric of society and the country. These results reinforce and extend prior studies through the empirical assessment of the EO construct and its dimensionality of the EO scale. By replicating and extending previous research, the EO conceptual model and construct can offer unique value to the academic and practical community, helping provoke ongoing concerns, debates and inconsistencies as it relates to the further development, challenges, and barriers experienced by Black businesses in the United States and beyond.

It is also important to discuss that Black SMEs have recently made tremendous strides. From 2002 to 2007, the number of Black-owned businesses increased by 60.5% to 1.9 million, more than triple the national rate of 18.0%, according to the U.S. Census Bureau's Survey of Business Owners. Over the same period, receipts generated by Black-owned businesses increased 55.1% to \$137.5 billion. "Black-owned businesses continued to be one of the fastest growing segments of our economy, showing rapid growth in both the number of businesses and total sales during this time period," said Census Bureau Deputy Director Thomas Mesenbourg. The Survey of Business Owners: Black-Owned Businesses: 2007 provides detailed information in five-year segments for Black-owned businesses, including the number of firms, sales and

receipts, number of paid employees and annual payroll. These data are presented by geographic area (nation, state, county, city and metro area), industry and size of business. Preliminary national and state data were released in July 2010. In 2007, nearly 4 in 10 Black-owned businesses operated in health care and social assistance as well as repair, maintenance, personal and laundry services sectors. The retail trade and health care and social assistance sectors accounted for 27.4% of Black-owned business revenue. Among states, New York had 204,032 Black-owned businesses and accounted for 10.6% of the nation's Black-owned businesses, followed by Georgia, with 183,874 Black-owned businesses (9.6%) and Florida, with 181,437 (9.4%). Among counties, Cook, Illinois, had the most Black-owned businesses, with 83,733, accounting for 4.4% of all the nation's Black-owned businesses. Los Angeles followed with 59,680 (3.1%) and Kings, N.Y., with 52,705 businesses (2.7%). Among cities, New York had the most Black-owned businesses, with 154,929 (8.1% of all the nation's Black-owned businesses), followed by Chicago, with 58,631 (3.1%), Houston, with 33,062 (1.7%) and Detroit, with 32,490 (1.7%). Of the 1.9 million Black-owned businesses in 2007, 106,824 increased employee wages 13.0% from 2002. These businesses employed 921,032 people, an increase of 22.2%. Their payrolls totaled \$23.9 billion, an increase of 36.3%. Receipts from Black-owned employer businesses totaled \$98.9 billion, an increase of 50.2% from 2002. In 2007, 1.8 million Black-owned businesses had no paid employees, an increase of 64.5% from 2002. These non-employer businesses' receipts totaled \$38.6 billion, an increase of 69.0%. Between 2002 and 2007 the number of Black-owned businesses with receipts of \$1 million or more increased by 35.4% to 14,507. This important data denotes the need for future research, specifically to better understand the fascinating dynamics of Black businesses, but also to help encourage growth, sustainability and performance, as a contributor to the overall economy.

In contrast, the average outcomes of businesses owned by African Americans are at the low end of all groups. Although a sizeable body of research has focused on why there are few Black-owned businesses, very little research focuses on the causes of their relative underperformance (Fairly & Robb, 2008). These statistics are important to discuss as they relate to EO because in signifying a growing Black economy with limitations that give access to capital, market share, and resources. This analysis indicates that the number of Black-owned businesses in diverse industries are increasing and increased, which provide for a greater contribution to the socio-economic progress of African Americans and the larger society. The significant growth rate amongst the total number of Black businesses consistently outpaced other minority groups and all U.S. businesses. Despite these increases in the number of Black businesses, African American entrepreneurs tend to participate in industries and sectors with less capital and resource requirements for start-up and expansion, and therefore, depended heavily on the companies' entrepreneurial orientation to compete. There is a need for a much broader scope of implementation and much greater follow-through. The essential contributions of this study suggest several areas of further research and analysis. Understanding and mitigating barriers to success and sustainability for Black-owned businesses has a direct economic impact to the economic competitiveness of Michigan and the U.S. economy as a whole, especially in light of the systemic economic barriers that still exist between Black and majority businesses.

## APPENDICES



## APPENDIX A

### IRB Application for Initial Review

**APPLICATION FOR INITIAL REVIEW****APPROVAL OF A PROJECT INVOLVING HUMAN SUBJECTS**

Biomedical, Health Sciences Institutional Review Board (BIRB)  
 Social Science, Behavioral, Education Institutional Review Board (SIRB)  
 207 Olds Hall, Michigan State University  
 East Lansing, MI 48824-1047  
 Phone: (517) 355-2180  
 Fax: (517) 432-4503  
 E-mail: irb@msu.edu

Office Hours: M-F (8:00 A.M.-5:00 P.M.)

**IRB#:**

ID# i049195

<b>1a.</b>	<b>Responsible Project Investigator:</b>  Name: <b>Forrest Carter</b> ID#: <b>XXX-XX-5395</b> Department: <b>Chain Supply Management</b> College: <b>ELI BROAD COLLEGE OF BUSINESS</b> Academic Rank: Mailing Address: <b>320 N. Business Complex</b> <b>Eli Broad Business School</b> Phone: <b>3-6381</b> Fax: <b>2-1112</b> Email: <b>carterf@msu.edu</b>
<b>1b.</b>	<b>Secondary Investigator:</b>  Name: <b>Kenneth Harris</b> ID#: <b>XXX-XX-0321</b> Department: <b>AFRICAN AMERICAN AND AFRICAN STUDIES</b> College: <b>ARTS &amp; LETTERS</b> Academic Rank: <b>Graduate Student</b> Mailing Address: <b>878 Lothrop</b> <b>Detroit, MI 48202</b> <b>878 Lothrop</b> Phone: <b>3139716511</b> Fax: Email: <b>kharris1911@gmail.com</b>
<b>1c.</b>	<b>Additional Investigators:</b>

<b>1d.</b>	<b>Other Personnel:</b>		
<b>1e.</b>	<b>Study Coordinator:</b>  Name: ID#: Department: College: Academic Rank: Mailing Address:  Phone: Fax: Email:		
<b>2.</b>	<b>Title of Project:</b> INNOVATION AND PERFORMANCE-DRIVEN ENTREPRENEURSHIP: A COMPARATIVE ANALYSIS OF THE ENTREPRENEURIAL ORIENTATION OF BLACK SMEs VS. MAJORITY SMEs		
<b>3.</b>	<table border="1"> <tr> <td><b>Have you ever received preliminary approval or a 45 CFR 46.118 designation for this project?</b></td> <td>NO</td> </tr> </table>	<b>Have you ever received preliminary approval or a 45 CFR 46.118 designation for this project?</b>	NO
<b>Have you ever received preliminary approval or a 45 CFR 46.118 designation for this project?</b>	NO		
<b>4a.</b>	<p><b>Please describe why your project is minimal risk. For example, "My research includes an anonymous survey about...explain what your survey is about" or "my subjects are identifiable, but the questions are not in any way harmful."</b></p> <p>My research will utilize an anonymous survey about entrepreneurial orientation to examine differences in this trait between Black and majority SMEs. This research presents minimal risk to subjects as the topic matter of the survey does not cover any sensitive material, and all responses will be anonymous to ensure participant confidentiality.</p>		
<b>4b.</b>	<b>Indicate Exempt sub-category(ies). NOTE: Appendix 1 (exempt categories) must be submitted with the Exempt Application. An application cannot be reviewed without Appendix 1.</b>		

	<input type="checkbox"/> 45 CFR 46.101(b)(1) <input checked="" type="checkbox"/> 45 CFR 46.101(b)(2) <input type="checkbox"/> 45 CFR 46.101(b)(3) <input type="checkbox"/> 45 CFR 46.101(b)(4) <input type="checkbox"/> 45 CFR 46.101(b)(5) <input type="checkbox"/> 45 CFR 46.101(b)(6) <input type="checkbox"/> Demonstration Project Category 7	
5.	Is this project being conducted to fulfill the requirements of an education/training program?	Ph.D. Dissertation
6a.	Funding:	NO
6b.	<p>The protection of human subjects often requires resources be dedicated for things such as the consent process (space, personnel), the performance of the research (trained personnel interacting with subjects, time, access to subjects, access to facilities) care of subject issues or injuries (counseling, medical care), confidentiality of data (space, equipment) and other monetary and non-monetary resources. Describe the resources that are available for this project for the protection of human subjects.</p> <p>All available measures will be taken to ensure the safety of human subjects. The research has been formally trained on the proper manner in which to interact with human subjects, and will follow all IRB policies during the research process. All participants will be informed of their rights and will provide informed consent prior to taking part in any research activities. Additionally, all data will be collected anonymously in order to ensure that participant confidentiality is maintained.</p>	
7a.	<p>List all sites where this research will be conducted.</p> <p>All aspects of the current study will be conducted online.</p>	
7b.	Do any of these sites have their own IRB?	NO
7c.	Have you or will you submit this to any non-MSU IRBs?	NO
8a.	<p>Describe the purpose, hypotheses and objectives of the research project.</p> <p>The researcher will use a survey-based, quantitative design to examine the impact that differences in entrepreneurial orientation, innovativeness, and performance have on the existing gap between Black SMEs and Majority SMEs, with the hypothesis that these factors significantly contribute to this gap. The current study will specifically aim to answer the following research questions: 1) How does entrepreneurial orientation impact the performance measures of Black SMEs? 2) How does entrepreneurial orientation impact the performance measures of SMEs? 3) How do the entrepreneurial orientations of Black SMEs and Majority SMEs differ? 4) Is "Innovativeness" the most significant aspect of EO that explains the difference between Black SMEs and Majority SMEs?</p>	
8b.	<p>Describe all procedures, measures and analyses you will use in collecting data from human subjects. This pertains to both prospective and retrospective (i.e. pre-existing) research procedures.</p> <p>After participants have provided informed consent, they will be asked to complete a series of anonymous surveys which will consist of a well validated EO survey (Lumpkin, Miller, &amp; Covin, 1989) and a brief demographic survey. The researcher will email a link to the surveys to participants, who will then be able to complete the survey and submit their responses electronically. Once all responses have been collected, the researcher will analyze the data utilizing regression and MANOVA analyses to examine the impact of EO on differences between Black and Majority SMEs.</p>	
8c.	Are any procedures done for non-research purposes?	NO



<b>8d.</b>	<b>Summarize the project in one paragraph in completely lay terms.</b>	
	The researcher will utilize a survey-based, quantitative methodology to examine how entrepreneurial orientation traits are related to differences between Black SMEs and Majority SMEs. To achieve this goal the researcher will recruit participants from both Black and Majority SMEs in the state of Michigan. These participants will complete a series of surveys regarding EO traits and demographic information, which the researcher will then use to examine how these constructs relate to observed differences between these two groups of companies.	
<b>8e.</b>	<b>Are you obtaining consent (telling subjects ahead of time that they are in a research study)?</b>	YES
<b>9a.</b>	<b>Describe your subject population (e.g., high school athletes, small business owners, children with ADHD).</b>	
	Subjects will be employees of Black and Majority SMEs in the state of Michigan.	
<b>9b.</b>	<b>Age range of subjects</b>	18 to 65
<b>9c.</b>	<b>The study populations includes:</b>  <b>Purposeful Inclusion</b> <input type="checkbox"/> Children <input type="checkbox"/> Women of Childbearing Age <input type="checkbox"/> College Students <input type="checkbox"/> Minorities <input type="checkbox"/> Psychiatric patients <input type="checkbox"/> Wards of State <input type="checkbox"/> Pregnant Women <input type="checkbox"/> Institutionalized Persons <input type="checkbox"/> Low Income Persons <input type="checkbox"/> Prisoners <input type="checkbox"/> Persons with diminished capacity <input checked="" type="checkbox"/> None of These	
<b>9d.</b>	<b>Total expected number of subjects (including controls) for the entire project period</b>	180
<b>9e(1).</b>	<b>will the subjects be identified and recruited? Include who will make initial contact with the subjects.</b>  The researcher will contact businesses who are members of the Michigan Black Chamber of Commerce, Inc.; Michigan Minority Business Development Council, Inc.; Michigan Chamber of Commerce, Inc.; and/or the Small Business Administration of Michigan. After potential businesses have been contacted, the researcher will request participant from these businesses who may be interested in participating in the current study.	
<b>9e(2).</b>	<b>Will subjects be recruited using a student research pool?</b>	NO
<b>9f.</b>	<b>Will subjects be compensated?</b>	NO
<b>9g.</b>	<b>Will the subjects incur additional financial costs as a result of their participation in this study?</b>	NO
<b>9h.</b>	<b>Are you associated with the subjects (e.g., your students, employees, colleagues, patients)?</b>	NO
<b>9i.</b>	<b>Will this research be conducted with subjects in another country?</b>	NO

9j.	Will this research be conducted with subjects in the U.S. from an ethnic group of sub-group or other non-mainstream minorities (including non-English speakers)?	NO
10a.	<p><b>Describe and assess any potential risks (physical, psychological, social, legal, economic) and assess the likelihood and seriousness of such risks.</b></p> <p>The risks to participants in the current study are minimal. No research activities present more than minimal risk to participants, and the topic of the surveys utilized in the current study is not sensitive in nature. There is a small possibility that participants could feel pressured to take part in the current study, however the researcher will assure all potential participants that their involvement in the current study is completely voluntary and that they have the right to withdraw at any time.</p>	
10b.	<p><b>Describe the procedures for protecting against or minimizing potential risks and an assessment of their likely effectiveness.</b></p> <p>All data will be collected anonymously in order to ensure participant confidentiality is protected. Additionally, the research will ensure that no study materials discuss sensitive topics to minimize any risk of psychological harm to participants.</p>	
11a.	<p><b>How will subjects' privacy be protected?</b></p> <p>All data will be collected anonymously.</p>	
11b.	<p><b>Explain how you will ensure the confidentiality and/or anonymity of the raw research data (e.g. completed survey, interview notes, signed consent). Include in your description where the data will be stored (e.g., locked filing cabinet), who will have access to the data, and how long the data will be stored. If this is question is not applicable, please explain. Please note per the universities best practices the responsible project investigator must maintain the data for a minimum of three years after closing the project.</b></p> <p>Data will be collected anonymously in order to ensure that it cannot be traced back to the participant. Additionally, all data will be kept on a password protected computer in a locked room to ensure that only research personnel have access to it. Data will be stored for a minimum of 3 years, after which all data will be destroyed to ensure participant confidentiality.</p>	
11c.	<p><b>Explain how you will ensure the confidentiality and/or anonymity of the electronic research data (e.g. data entered into database, spreadsheet, stored on a computer, data collected via the web). Include in your description where the data will be stored (e.g. password protected computer), who will have access to the data, and how long the data will be stored. If this is question is not applicable, please explain. Include electronic security measures (e.g., password protected files, data encryption, and other protective measures for computer and/or network storage devices such as jump drives and CDs).</b></p> <p>Data will be collected anonymously in order to ensure that it cannot be traced back to the participant. Additionally, all data will be kept on a password protected computer in a locked room to ensure that only research personnel have access to it. Data will be stored for a minimum of 3 years, after which all data will be destroyed to ensure participant confidentiality.</p>	
12.	Does this project involve protected health information as defined by HIPAA?	NO
13a.	Does any person responsible for the design, conduct, or reporting of findings of this protocol have a Significant Financial Interest (as defined for the MSU Faculty Conflict of Interest Policy) or other opportunity for tangible personal benefit related to the conduct of the research that might compromise, or reasonably appear to compromise, the independence of judgment with which their responsibilities would be completed under this research protocol? A reportable financial interest includes, but is not limited to, a financial	NO



	interest in the sponsor, product, or service being tested, or in a competitor of the sponsor or product or service being tested.	
13b.	Has any financial arrangement, including compensation, ownership interest, stock options, or other ownership interest, (e.g., compensation that is: explicitly greater for a favorable result; in the form of an equity interest in the sponsor of a covered study; or in the form of compensation tied to sales of the product, such as a royalty interest) been established whereby the value of compensation or ownership interest to investigators conducting the study could be influenced by the outcome of the study?	NO
13c.	Is this a clinical study where the results may be used to support marketing applications for new human drugs and biological products and marketing applications and reclassification petitions for medical devices to the FDA, as required by law?	NO
13d.	Have you or will you submit an FDA form 3454 or 3455 (Conflict of Interest)?	NO
14a.	When would you prefer to begin this project?	8/1/2015
14b.	Estimated end date of project:	8/31/2015

ADDITIONAL DOCUMENTS/ATTACHMENTS

COMMENTS	COMMENT AFTER REVIEW / EDIT BY IRB STAFF (Viewable by PI)	PI RESPONSE
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## APPENDIX B

### IRB Initial Application Signature Form



Please sign and date this form and mail or fax it to the IRB office along with any documents listed below that cannot be sent electronically.

### APPLICATION FOR INITIAL REVIEW

#### APPROVAL OF A PROJECT INVOLVING HUMAN SUBJECTS

Biomedical, Health Sciences Institutional Review Board (BIRB)  
 Social Science, Behavioral, Education Institutional Review Board (SIRB)  
 207 Olds Hall, Michigan State University  
 East Lansing, MI 48824-1047  
 Phone: (517) 355-2180  
 Fax: (517) 432-4503  
 E-mail: irb@msu.edu

Office Hours: M-F (8:00 A.M.-5:00 P.M.)

**IRB#:**  
**APPLICATION ID#: i049195**

Title of Project: INNOVATION AND PERFORMANCE-DRIVEN ENTREPRENEURSHIP: A COMPARATIVE ANALYSIS OF THE ENTREPRENEURIAL ORIENTATION OF BLACK SMEs VS. MAJORITY SMEs

Responsible Project Investigator:	<b>Forrest Carter</b>	Mailing Address:	<b>320 N. Business Complex Eli Broad Business School</b>
Identification Number:	<b>XXX-XX-5395</b>	Phone:	<b>3-6381</b>
Department:	<b>Chain Supply Management</b>	Fax:	<b>2-1112</b>
College:	<b>ELI BROAD COLLEGE OF BUSINESS</b>	Email:	<b>carterf@msu.edu</b>
Academic Rank:			

The Human Research Protection Program (HRPP) has deemed this project as exempt, in accord with federal regulations for projects exempt from Institutional Review Board (IRB) review. As an exempt protocol, the appropriate IRB will not be further involved with the review or continued review of the project, as long as the project maintains the properties that make it exempt.

- Since the HRPP is no longer involved in the review and continued review of this project, it is the Principal Investigator who assumes the responsibilities for protection of human subjects in this project and ensures that the project is performed with integrity and within accepted ethical standards, particularly as outlined by the Belmont

Report (see exempt educational materials).

- The Principal Investigator assumes responsibility for ensuring that the research subjects be informed of the research through a documented or undocumented consent process, if appropriate.
- The Principal Investigator assumes the responsibility to maintain confidentiality of the subjects and the data, and maintain the privacy of the subjects and protection of the data through appropriate means. If data is anonymous, the investigators will make no attempt to identify any individuals.
- The Principal Investigator assumes the responsibility that co-investigators and other members of the research team adhere to the appropriate policies to protect human subjects, maintain confidentiality and privacy, and adhere to accepted ethical standards.
- If the Principal Investigator adds additional investigators to an exempt protocol, he/she may inform the HRPP of the additions. This may be of particular importance to graduate students if the Graduate School requires proof of IRB approval.
- Any complaints from participants regarding the risk and benefits of the project must be reported to the HRPP.
- Since the Principal Investigator and co-investigators are charged with human subject protection and adhering to ethical principles in exempt research, it is appropriate that investigators be trained in human subject principles. The Principal Investigator and all members of the research team are required to complete MSU IRB educational requirements or equivalent.
- Any change in the protocol which may raise the project from exempt to an expedited or full review category must be presented to the HRPP. If there is any question about a change in protocol the Principal Investigator should consult the Director of the HRPP. Failure to submit changes which raise the protocol out of the exempt category will be considered non-compliance and will be subject to investigation and action by the HRPP.
- I accept responsibility for conducting the proposed research in accordance with the protections of human subjects as specified by the IRB, including the supervision of faculty and student co-investigators. There will be adequate resources and facilities to carry out the research.

By signing below, the Principal Investigator assures that he/she will abide by the terms of this assurance and the HRPP exempt policy.

SIGN HERE: \_\_\_\_\_

Date: \_\_\_\_\_

Thank you for submitting your IRB application online. You can access your full application and view its status from the [main IRB application page](http://35.8.104.116:591/ucrihs/ucrihs_main/pi_search.htm) ([http://35.8.104.116:591/ucrihs/ucrihs\\_main/pi\\_search.htm](http://35.8.104.116:591/ucrihs/ucrihs_main/pi_search.htm)). Please remember that you cannot begin your research until you have received an approval letter from the IRB.

[View full application](#)

## APPENDIX C

### MSU IRB Approval

**MICHIGAN STATE  
UNIVERSITY**

July 15, 2015

To: Forrest Carter  
320 N. Business Complex  
Eli Broad Business School

Re: **IRB# x15-738e** Category: Exempt 2  
**Approval Date:** July 15, 2015

Title: INNOVATION AND PERFORMANCE-DRIVEN ENTREPRENEURSHIP: A  
COMPARATIVE ANALYSIS OF THE ENTREPRENEURIAL ORIENTATION OF BLACK SMEs  
VS. MAJORITY SMEs

The Institutional Review Board has completed their review of your project. I am pleased to advise you that **your project has been deemed as exempt** in accordance with federal regulations.

The IRB has found that your research project meets the criteria for exempt status and the criteria for the protection of human subjects in exempt research. **Under our exempt policy the Principal Investigator assumes the responsibilities for the protection of human subjects** in this project as outlined in the assurance letter and exempt educational material. The IRB office has received your signed assurance for exempt research. A copy of this signed agreement is appended for your information and records.

**Renewals:** Exempt protocols do not need to be renewed. If the project is completed, please submit an *Application for Permanent Closure*.

**Revisions:** Exempt protocols do not require revisions. However, if changes are made to a protocol that may no longer meet the exempt criteria, a new initial application will be required.

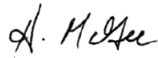
**Problems:** If issues should arise during the conduct of the research, such as unanticipated problems, adverse events, or any problem that may increase the risk to the human subjects and change the category of review, notify the IRB office promptly. Any complaints from participants regarding the risk and benefits of the project must be reported to the IRB.

**Follow-up:** If your exempt project is not completed and closed after three years, the IRB office will contact you regarding the status of the project and to verify that no changes have occurred that may affect exempt status.

Please use the IRB number listed above on any forms submitted which relate to this project, or on any correspondence with the IRB office.

Good luck in your research. If we can be of further assistance, please contact us at 517-355-2180 or via email at [IRB@msu.edu](mailto:IRB@msu.edu). Thank you for your cooperation.

Sincerely,



Harry McGee, MPH  
SIRB Chair

c: Kenneth Harris



**Office of Regulatory Affairs  
Human Research  
Protection Programs**

**Biomedical & Health  
Institutional Review Board  
(BIRB)**

**Community Research  
Institutional Review Board  
(CRIRB)**

**Social Science  
Behavioral/Education  
Institutional Review Board  
(SIRB)**

Olds Hall  
408 West Circle Drive, #207  
East Lansing, MI 48824  
(517) 355-2180  
Fax: (517) 432-4503  
Email: [irb@msu.edu](mailto:irb@msu.edu)  
[www.humanresearch.msu.edu](http://www.humanresearch.msu.edu)

ISU is an affirmative-action,  
equal-opportunity employer.

**Initial IRB  
Application  
Determination  
\*Exempt\***

## APPENDIX D

### Participant Information Letter



## PARTICIPANT INFORMATION LETTER

Monday, August 3, 2015

Dear Michigan Small and Medium Size Enterprise (SME) Participant:

I invite you to participate in a ground-breaking research study entitled: *Innovation and Performance-driven Entrepreneurship: A Comparative Analysis of the Entrepreneurial Orientation of Black SMEs vs. Majority SMEs*. Currently, I am enrolled in the African American and African Studies Ph.D. Program with a specialization in Economics and Entrepreneurship in the Eli Broad School of Business at Michigan State University in Lansing, Michigan, and I am in the final process of completing my Doctoral Dissertation. Your participation is greatly appreciated.

The purpose of the research study is to examine the effects of Black SMEs on the Entrepreneurial Orientation (EO) scale and to determine the extent to which EO might explain their economic performance. Specifically, the study will focus on three primary objectives: (1) the relationship between the EO of Black SMEs and their market performance measures as well as the difference in the EO of Black SMEs, (2) the EO of a comparable majority of SMEs, and (3) whether or not Black SMEs are equally deficient of each underlying factor of EO as compared to a comparable majority of SMEs. The success of this survey could help with determining how to improve the performance measures of SMEs in the state of Michigan.

An electronic survey has been engineered and designed to identify the collective management style of your firm's key decision makers and leadership through an exploratory research approach under a quantitative research design. The survey will be used to assess the opinions and views of respondents from SMEs through quantitative means, with numerical values assigned to the responses of the participants.

The research study will be sampled through the membership of Michigan's leading economic agencies, including:

The Michigan Chamber of Commerce, Inc.  
The Michigan Black Chamber of Commerce, Inc.  
The Small Business Administration of Michigan, Inc.  
The Michigan Minority Supplier Development Council, Inc.

Your participation in this research project is completely voluntary. You may decline altogether. There are no known risks to participation beyond those encountered in everyday life and the business setting. Your responses will remain completely confidential and anonymous. Data from this research will be kept under lock and key and reported only as a collective combined total. No one other than the researchers will know your individual answers to this survey. Your privacy and confidentiality will be maintained throughout the entire research process.

If you agree to participate in this research study, please answer the following questions on the electronic survey as best you can. It should take approximately 10 minutes to

complete. Once you have completed the electronic survey, please click the submit button, and a confirmation will be forwarded to your attention.

If you have any questions about this research study, feel free to contact Ken L. Harris, Ph.D. Candidate, Michigan State University at (313) 971-6511 or [kharris@msu.edu](mailto:kharris@msu.edu). Information on the rights of human subjects in research is available through the MSU's Institutional Review Board at Michigan State University, Olds Hall, 408 West Circle Drive, Room 207, East Lansing, MI 48824; website: [www.hrpp.msu.edu](http://www.hrpp.msu.edu). You may also contact Dr. Forrest S. Carter, Associate Professor, Eli Broad School of Business, Chair, Dissertation anytime at (517) 432-6396 or [carterf@broad.msu.edu](mailto:carterf@broad.msu.edu).

Thank you for your assistance, efforts, and time in this important endeavor.

Entrepreneurially yours,

Mr. Ken L. Harris, Ph.D. Candidate  
Principal Investigator  
Michigan State University

Dr. Forrest S. Carter, Dissertation Chair  
Associate Professor of Marketing  
Executive Director of the Institute of Entrepreneurship  
Michigan State University

## APPENDIX E

### Demographic Survey



## Demographic Survey

Finally, we would like to ask a few questions about your firm.

Background information: Please circle your response or fill in the appropriate answer blanks.

- 1.) Generally classify your industry:
 

a.) Service	e.) Wholesale trade
b.) Manufacturing	f.) Retail trade
c.) Distribution	g.) Mining
d.) Construction	h.) Agriculture
	i.) Other _____
  
- 2.) What is your firm's specific industry? \_\_\_\_\_
- 3.) How many years has your firm been in business? \_\_\_\_\_
- 4.) How many employees does your firm have?
  - a.) 1-10
  - b.) 11-20
  - c.) 21-50
  - d.) 51-80
  - e.) 80+
- 5.) What are your net sales?
 

a.) Below \$500,000	c.) \$2,000,000-\$4,999,999
b.) \$500,000-\$1,999,999	d.) \$5,000,000-\$9,999,999
e.) \$10,000,000 +	
- 6.) Which best describes your industry within the last three years?
  - a.) Growing
  - b.) Stable
  - c.) Declining
- 7.) Which best describes your firm within the past three years?
  - a.) Growing
  - b.) Stable
  - c.) Declining

### For Respondent Only:

- |                                |             |              |                   |                 |                 |
|--------------------------------|-------------|--------------|-------------------|-----------------|-----------------|
| 1.) Number of years with firm? | <1 year     | 2-4 years    | 5-7 years         | 8-10 years      | >10 years       |
| 2.) Hired from within firm?    | yes         | no           |                   |                 |                 |
| 3.) Gender                     | male        | female       |                   |                 |                 |
| 4.) Black                      | yes         | no           |                   |                 |                 |
| 5.) Formal education level     | High School | Some College | Bachelor's Degree | Master's Degree | Doctoral Degree |

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## APPENDIX F

### Michigan Business Performance Survey

# Michigan Business Performance Research Study

## Policy & Procedures Introduction

### Survey Introduction

Welcome! Thank you for taking the time to complete this survey.

### 2 Goals and Objectives

Business owners and/or top managers at firms will complete the questionnaire so that important information can be gathered with the following two critical goals and objectives in mind:

- 1) Providing validation of recommendations for academic, public, and private sector stakeholders on how to make Michigan a better place to do business; and
- 2) Providing insights to small- and medium-size enterprises (SMEs), such as yourself, on how to help Michigan-based businesses become more innovative and competitive through performance.

### INSTRUCTIONS

- 1) Questions about the entrepreneurial orientation (EO) of small- and medium-size enterprises (SMEs) should be answered with regard to the state of Michigan rather than the federal or local government.
- 2) Questions about performance should be answered with the knowledge that there are NO “good” or “bad” responses.

**EXAMPLE:** Do you prefer hamburgers or hot dogs? This question implies nothing positive or negative about the responder. (**NOTE:** Answers to these questions imply nothing positive or negative about the firm or its management; they only allow them to be categorized.)

### CONFIDENTIALITY

Your answers will be kept confidential, as described in the next section.

We thank you for your willingness to share your insights and experiences to help Michigan's businesses.

# **Informed Consent Form**

## **Explanation of the Research**

As a respondent, you are being asked to participate in the Michigan Business Performance Research Study, which measures the entrepreneurial orientation of business owners in the state of Michigan.

## **Procedures**

As a respondent, you will be asked 35 questions about small- and medium-size enterprise (SME) businesses. There are no (RIGHT) or (WRONG) answers. Completion of the survey will take approximately 10 minutes. We encourage the respondent to complete the survey in one take. If you (SAVE) the incomplete survey, you must return to complete the survey by the deadline of Friday, October 2, 2015 at 5:00 pm.

## **Risks/Discomforts**

There are minimal risks involved in this research study. If you feel any discomfort, please feel free to discontinue or postpone completion at any time.

## **Benefits**

By participating in the Michigan Business Performance Research Study, researchers will learn empirically about the policies, programs, and resources that could help SMEs innovate and perform in the Michigan landscape. One benefit of this is that the research will help to create a more competitive environment for entrepreneurs seeking to make their Michigan-based companies succeed.

## **Confidentiality**

All data obtained from each participant in the survey will be kept completely confidential and will only be reported in an aggregate format (i.e., reporting only combined results and keeping individual responses private). All questionnaires will be concealed and only the two principal investigators listed below and their research assistants will be able to access the responses. The data will be collected using Qualtrics, the world's leading insight technology provider for academic research. The data will be stored in a secure, HIPPA-compliant database system.

## **Compensation and Costs for Being in the Study**

There is no compensation.

## **Participation and Your Rights**

Participation is completely voluntary. You have the right to withdraw at any time or refuse to participate. If you desire to withdraw, please close your Internet browser.

## **Questions about the Research**

If there are any questions regarding this study, you may email the researchers at [kharris@msu.edu](mailto:kharris@msu.edu).

**THANK YOU FOR HELPING MICHIGAN-BASED BUSINESSES COMPETE!**

### **STEP 1: SME CONTACT INFORMATION**

P15.1.1      What is your company's (firm's) name?

P15.1.2      What is your company's (firm's) zip code?

P15.1.3      What is your company's (firm's) primary industry sector?

- 21 - Mining, quarrying, and oil and gas extraction
- 22 - Utilities
- 23 - Construction
- 31-33 - Manufacturing
- 42 - Wholesale trade
- 44-45 - Retail trade
- 48-49 - Transportation and warehousing
- 51 - Information
- 52 - Finance and insurance
- 53 - Real estate and rental and leasing
- 54 - Professional, scientific, and technical services
- 55 - Management of companies and enterprises
- 56 - Administrative and support and waste management and remediation services
- 61 - Educational services
- 62 - Health care and social assistance
- 71 - Arts, entertainment, and recreation
- 72 - Accommodation and food services

81 - Other services (except public administration)  
Other (.....)

P15.1.4 What is your leadership role within the company (firm)?

- President/CEO/Owner/Partner/Investor
- Senior Level Management Team
- Other

P15.1.5 What is your company's (firm's) contact?

- Name
- Email
- Office Phone

---

## STEP 2: CHALLENGES

Business owners encounter many problems while managing their businesses. All entrepreneurs must be prepared to solve problems that come their way. However, creating a startup is not an easy task. New entrepreneurs are usually not prepared for the problems that come their way. The first thing to do is to understand that problems are an everyday part of every business and that each problem needs to be faced with determination and a proper solution.

Here are some common problems faced by new businesses along with their solutions.

### Challenge | Not a Challenge

Access to Capital (Money)  
Brand Marketing and Advertisement  
Capacity Building  
Finance, Budget and Accounting  
Government Programs and Resources  
Information Technology (IT) and Innovation  
Knowledge and Educational Attainment  
Leadership Training and Professional Development  
Online Marketing and Social Networking  
Public Relations and Communications  
Research and Development  
Strategic Planning and Development  
Succession Planning and Transition  
Talent Placement and Acquisition  
Human Resources and Hiring

P15.1.6      What obstacles does your company (firm) encounter with regard to 1) market share 2) job creation/employment and 3) sales and revenue?

(Obstacle 1 Description)

(Obstacle 2 Description) (Optional)

(Obstacle 3 Description) (Optional)

P15.1.7      What is holding your company (firm) back from being innovative and competitive and from performing highly in Michigan?

(1 Description)

---

### STEP 3: MANAGEMENT PHILOSOPHY

The following questions ask you to describe how decisions are made within your organization. Most of the questions present two options and ask you to respond on a seven-point scale. In these instances, selecting a '1' (the far left end of the scale) indicates that this option occurs over 90% of the time. In these instances, selecting a '7' (the far right end of the scale) indicates that this option occurs over 90% of the time. Accordingly, selecting '4' indicates that two actions occur approximately equally. Remember that there are no correct or incorrect answers, only answers that correctly describe your business.

IN1      Based on the marketing efforts within your firm over the last year, to what extent did they.....?

Have a strong emphasis on proven and validated products or services

1 2 3 4 5 6 7

Have a stronger emphasis on R&D, leading products, or services

IN2      Based on changes made to your firm's products or service lines over the last three years, to what extent were those changes....?

Of a minor nature (color, taste, size, etc.)

1 2 3 4 5 6 7

Of a quite dramatic nature (almost making the original product obsolete)

IN3 Based on the product development and design decisions made within your firm over the last three years, to what extent were they based on....?

Your firm's own unique processes and methods of operation or manufacturing

1 2 3 4 5 6 7

Your firm's adaptation of its own proven methods of operation or of manufacturing developed by others

IN4 Based on the strategic and tactical problem solving your firm has engaged in over the last three years, to what extent have they involved....?

Experimental and original approaches or methods

1 2 3 4 5 6 7

Well-established approaches or methods widely used by others

RT1 Based on the actions your firm has taken to deal with competitors over the past three years, to what extent did they...?

Place a strong emphasis on low-risk projects (with normal and certain rates of return)

1 2 3 4 5 6 7

Place a strong emphasis on high-risk projects (with chances of very high returns)

RT2 Based on the actions taken to deal with competitors over the past three years, your firm believes that...?

Owing to the nature of the environment, it is best to explore it gradually via careful, incremental behavior

1 2 3 4 5 6 7

Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives

RT3 Based on the actions taken by your firm when confronted with decision-making situations involving uncertainty over the past 3 years, your firm.... ?



Typically adopts a cautious, 'wait-and-see' posture in order to minimize the probability of making costly decisions

1 2 3 4 5 6 7

Typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities

RT4 Based on the actions of your firm over the past 3 years, to what extent did your firm....?

Prefer to study a problem thoroughly before deploying resources to solve it

1 2 3 4 5 6 7

Act quickly to spend money on potential solutions, if problems were holding it back

PR1 Based on the actions taken by your firm to deal with competitors over the past 3 years, to what extent did your firm...?

Typically respond to actions initiated by competitors

1 2 3 4 5 6 7

Typically initiate actions that competitors then responded to

PR2 Based on the actions taken to deal with competitors over the past 3 years, to what extent was your firm...?

Very seldom the first business to introduce new products/services, administrative techniques, or operating technologies, etc.

1 2 3 4 5 6 7

Very often the first business to introduce new products/services, administrative techniques, or operating technologies, etc.

PR3 Based on the actions taken to deal with competitors over the past 3 years, to what extent did your firm have...?

A strong tendency to 'follow the leader' when introducing new products or ideas

1 2 3 4 5 6 7

A strong tendency to be ahead of other competitors in introducing novel ideas or products

CA1 Based on the actions taken to deal with competitors over the past 3 years, to what extent did your firm...?

Typically seek to avoid competitive clashes, preferring a 'live-and-let-live' posture

1 2 3 4 5 6 7

Typically adopts a very competitive 'undo-the-competitors' posture

CA2 Based on the actions taken to deal with competitors over the past 3 years, your firm.....?

Is very aggressive and intensely competitive

1 2 3 4 5 6 7

Makes no special effort to take business from the competition

AU1 Considering the decision-making strategies of your firm, top managers have generally.....?

Supported the efforts of individuals and/or teams that work autonomously

1 2 3 4 5 6 7

Required individuals or teams to rely on senior managers to guide the work

AU2 Considering the decision-making strategies of my firm, top managers have generally.....?

Understood that the best results occur when individuals and/or teams decide for themselves what business opportunities to pursue

1 2 3 4 5 6 7

Understood that the best results occur when the CEO and top managers provide the impetus for pursuing business opportunities

AU3 Considering the decision-making strategies of my firm, top managers have generally.....?

Allowed individuals and or/teams to pursue business opportunities and make decisions on their own without constantly referring to their supervisor(s)

1 2 3 4 5 6 7

Allowed individuals and/or teams to pursue business opportunities only when they expect to obtain approval from their supervisor(s) before making decisions

AU4 Considering the decision-making strategies of my firm, the CEO and top management team have generally.....?

Played a major role in identifying and selecting the entrepreneurial opportunities my firm pursues

1 2 3 4 5 6 7

Allowed employee initiatives and input to play a major role in identifying and selecting the entrepreneurial opportunities my firm pursues

---

#### **STEP 4: PERFORMANCE**

The performance of small firms varies considerably both in terms of growth and economic returns but our understanding of why this is the case is limited. Considering that many small firms die during their first years of operation or otherwise struggle to survive, understanding the factors that enhance or restrict their performance is essential for small business managers. If the performance of small firms could be improved, much would be gained for small firms themselves and for society as a whole.

What is your firm's total gross sales/revenue?

Under \$10,000

\$10,000 - \$99,999

\$100,000 - \$249,999

\$250,000 - \$499,999

\$500,000 - \$999,999

\$1 Million - \$5 Million

\$5 Million - \$10 Million

\$10 Million - \$20 Million

\$20 Million - \$30 Million

\$30 Million - \$50 Million

Over \$50 Million

How many employees does your firm have?

Under 10  
10-19  
20-49  
50-99  
100-249  
250-499  
500-999  
Over 1,000

What is your firm's market share?

0% - .5%  
.51% - 1%  
1.01% - 1.5%  
1.51% - 2%  
2.01% - 5%  
5.01% - 10%  
10.01% - 15%

What is your firm's growth rate?

0 - 2%  
2.1% - 4%  
4.1% - 6%  
6.1% - 8%  
8.1% - 10%  
10.1% - 12%  
Over 12%

What is your firm's profit margin?

0 - 1%  
1.1% - 3%  
3.1% - 5%  
5.1% - 7%  
7.1% - 9%  
Over 9%

P1      Based on changes made in your firm's products or service lines over the last three years, to what extent did those changes involve....?

No new lines of products or services

1 2 3 4 5 6 7

Very many lines of products and services

P1 Based on innovative strategies made in your firm over the last three years, to what extent were there....?

No new patents

1 2 3 4 5 6 7

Very many new patents

### **STEP 5: DEMOGRAPHICS**

How old is your company?

Less than 2 Years

3-4 Years

5-10 Years

11-25 Years

Over 26 Years

Is your company privately owned or publically traded?

Publicly-traded

Private

Is your company a Black or Majority-owned company?

Black

Majority

Has your company received support from the following? Yes or No

Business Organizations or Associations

Chambers of Commerce

Colleges/Universities

Entrepreneurship Training and Development Programs

Faith-Based Institutions

Financial or Banking Institutions

Federal Government Agencies

Incubators/Co-Working Spaces

Not for Profit/Nonprofit Organizations  
Philanthropic/Foundation Community  
Private Sector or Corporate Community  
Procurement Programs  
Professional Organizations and Associations  
Public Sector or Economic Development Corporations

## APPENDIX G

### Performance Scale

### Performance Scale

#### Importance

The following pertain to the important performance areas of your firm. Please review each of the following and select a number between 1 and 5 that best represents your views. Selecting a 1 indicates the performance area is of no importance, selecting a 5 indicates the performance area is ~~extremely~~ <sup>very</sup> important, and selecting a 3 indicates neutrality.

Identify your rating of importance with:

Importance	Of Little Importance			Extremely Important	
	1	2	3	4	5
Sales Growth Rate	1	2	3	4	5
Market Share	1	2	3	4	5
Operating Profits	1	2	3	4	5
Profit to Sales Ratio	1	2	3	4	5
Market Development	1	2	3	4	5
New Product Development	1	2	3	4	5

Source: Gupta and Govindarajan (1984).

#### Satisfaction

The following pertain to the satisfaction with performance areas of your firm. Please review each of the following and select a number between 1 and 5 that best represents your views. Selecting a 1 indicates that you are highly dissatisfied with the performance of your firm, selecting a 5 indicates that you are highly satisfied with the performance of your firm, and selecting a 3 indicates neutrality.

Identify your rating of satisfaction with:

Importance	Highly Dissatisfied			Extremely Satisfied	
		2	3	4	5
Sales Growth Rate		2	3	4	5
Market Share		2	3	4	5
Operating Profits		2	3	4	5
Profit to Sales Ratio		2	3	4	5
Market Development	1	2	3	4	5
New Product Development		2	3	4	5

Source: Gupta and Govindarajan (1984).

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## APPENDIX H

### Entrepreneurial Orientation Scale

## Entrepreneurial Orientation Scale

### INNOVATIVENESS

Covin and Slevin (1989) items:

*In general, the top managers of my firm favor . . .*

IN1	A strong emphasis on the marketing of tried and true products or services.	1 2 3 4 5 6 7	A strong emphasis on R&D, technological leadership, and innovation.
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*How many new lines of products or services has your firm marketed in the past 5 years?*

IN2	No new lines of products or services.	1 2 3 4 5 6 7	Very many new lines of products or services.
IN3	Changes in product or service lines have been mostly of a minor nature.	1 2 3 4 5 6 7	Changes in product or service lines have usually been quite dramatic.

New items:

IN4	My firm prefers to design its own unique new processes and methods of production.	1 2 3 4 5 6 7 (reversed)	My firm prefers to adapt for our own use methods and techniques that others have developed and proven.
-----	---	-----------------------------	--

*In general, the top managers of my firm favor . . .*

IN5	Experimentation and original approaches to problem solving.	1 2 3 4 5 6 7 (reversed)	Imitating methods other firms have used for solving their problems.
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### RISK TAKING

Covin and Slevin (1989) items:

*In general, the top managers of my firm have . . .*

RT1	A strong proclivity for low-risk projects (with normal and certain rates of return).	1 2 3 4 5 6 7	A strong proclivity for high risk projects (with chances of very high returns).
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*In general, the top managers of my firm believe that . . .*

RT2	Owing to the nature of the environment, it is best to explore it gradually via careful, incremental behavior.	1 2 3 4 5 6 7	Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.
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*When confronted with decision-making situations involving uncertainty, my firm . . .*

RT3	Typically adopts a cautious, 'wait-and-see' posture in order to minimize the probability of making costly decisions.	1 2 3 4 5 6 7	Typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities.
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New item:

*In general, the top managers of my firm . . .*

RT4	Prefer to study a problem thoroughly before deploying resources to solve it.	1 2 3 4 5 6 7	Are quick to spend money on potential solutions if problems are holding us back.
-----	--	---------------	--

#### PROACTIVENESS

Covin and Slevin (1989) items:

*In dealing with its competitors, my firm . . .*

PR1	Typically responds to action which competitors initiate.	1 2 3 4 5 6 7	Typically initiates actions which competitors then respond to.
PR2	Is very seldom the first business to introduce new products/services, administrative techniques, operating technologies, etc.	1 2 3 4 5 6 7	Is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc.

New item:

*In general, the top managers of my firm have . . .*

PR3	A strong tendency to 'follow the leader' in introducing new products or ideas.	1 2 3 4 5 6 7	A strong tendency to be ahead of other competitors in introducing novel ideas or products.
-----	--	---------------	--

#### COMPETITIVE AGGRESSIVENESS

*In dealing with its competitors, my firm . . .*

CA1	Typically seeks to avoid competitive clashes, preferring a 'live-and-let-live' posture.	1 2 3 4 5 6 7	Typically adopts a very competitive 'undo-the-competitors' posture.
-----	---	---------------	---

New item:

CA2	My firm is very aggressive and intensely competitive.	1 2 3 4 5 6 7 (reversed)	My firm makes no special effort to take business from the competition.
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#### AUTONOMY

*In general, the top managers of my firm have . . .*

AU1	Supported the efforts of individuals and/or teams that work autonomously.	1 2 3 4 5 6 7	Required individuals or teams to rely on senior managers to guide work.
AU2	The best results occur when individuals and/or teams decide for themselves what business opportunities to pursue.	1 2 3 4 5 6 7	The best results occur when the CEO and top managers provide the impetus for pursuing business opportunities.
AU3	Individuals and/or teams pursuing business opportunities make decisions on their own without constantly referring to their supervisor(s).	1 2 3 4 5 6 7	Individuals and/or teams pursuing business opportunities who are expected to obtain approval from supervisor(s) before making decisions.
AU4	The CEO and top management team play a major role in identifying and selecting the entrepreneurial opportunities my firm pursues.	1 2 3 4 5 6 7	Employee initiatives and input play a major role in identifying and selecting the entrepreneurial opportunities my firm pursues.

## APPENDIX I

### Lumpkin Autonomy Scale

*My firm:*

*Supports the efforts of individuals and/or teams that work autonomously*

1                      2                      3                      4

*Requires individuals or teams to rely on senior managers to guide their work.*

5                      6                      7

*In general, the top managers of my firm believe that:*

*The best results occur when individuals and/or teams decide for themselves what business opportunities to pursue.*

1                      2                      3                      4

*The best results occur when the CEO and top managers provide the primary impetus for pursuing business opportunities.*

5                      6                      7

*In my firm:*

*Individuals and/or teams pursuing business opportunities make decisions on their own without constantly referring to their supervisor(s).*

1                      2                      3                      4

*Individuals and/or teams pursuing business opportunities are expected to obtain approval from their supervisor(s) before making decisions.*

5                      6                      7

*In my firm:*

*The CEO and top management team play a major role in identifying and selecting the entrepreneurial opportunities my firm pursues.*

*Employee initiatives and input play a major role in identifying and selecting the entrepreneurial opportunities my firm pursues.*

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