A Study on Entrepreneurial Orientation and Startup Performance: The Moderating Effect of Social Responsibility Orientation

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ABSTRACT
This study aims at examining the effect of Entrepreneurial orientation on startup performance and analyzing the moderating effect of social responsibility orientation in the relationship. To confirm this, an empirical study was conducted on 99 startups residing in startup support organizations, etc., and the suitability of the research model was evaluated using PLS-SEM. As a result of confirming the moderate role of the Social responsibility orientation in the relationship between Entrepreneurial orientation and firm performance, it was confirmed that the Entrepreneurial orientation played a role of positive role. In addition, it was confirmed that the Social responsibility orientation does play a positive moderating role in the relationship between Entrepreneurial orientation and firm performance. The results of this study are expected to present the direction of management of enterprises in the future by confirming the moderating effect of social responsibility orientation, which is considered more important in the management of enterprises in modern society, and which cannot be excluded.

Keywords

1. INTRODUCTION
In the modern society demands not only economic benefits but also social responsibility from companies. Beyond the Corporate Social Responsibility (CSR) in which a company posthumously returns part of its profits to society, efforts are often required to pursue a strategy that can simultaneously generate profit-seeking and social value in advance (Poter & Kramer, 2011). In a situation where companies are required to make efforts to secure long-term competitive advantage by linking social problems with their businesses, it is necessary for Korean startups to conduct empirical research on what kind of management they are doing and how companies pursuing social values are affecting their performance. Start-ups have relatively high decision-making authority of entrepreneurs, so the direction of the enterprise is determined by what direction the entrepreneur has. Entrepreneurial Orientation (EO) is an entrepreneurial process method of how to manage for growth after the establishment of a company (Lumpkin & Dess, 1996).

In many studies, three key factors address entrepreneurial orientation as key factors: innovation, a means of exploring changes to opportunities for different businesses and services; initiative, a position of unrivaled competition as a competitive edge in the market; and risk-taking, which is willing to devote more resources even at the risk of failure, without competing with other companies in a superior position (Lumpkin & Dess, 1996; Miller, 1983; Morris et al., 2008).

Social responsibility orientation is the direction of value pursued by the entity, which is the policy or action of the entity beyond its various stakeholders and existing economic and legal obligations (Bowen, 1953; Carroll, 1979; Davis, 1960; McGuire, 1963). That is why it allows companies to operate with economic and ethical responsibilities to society, and this orientation will be an important factor in the value-creating activities of companies.

Therefore, the purpose of this study is to identify how entrepreneurial orientation affects startup performance, in line with the trend of increasing importance of social responsibility. In addition, the social responsibility orientation is about check how to moderate the relationship between two.

2. CONCEPTUAL FRAMEWORK
Entrepreneurial orientation is a decision-making process and implementation to develop innovative products or services that can be differentiated from competitors, and is a very important component of the firm's strategy and decision-making (Dess et al., 1997), an entrepreneurial strategic tendency for the CEO of the company to take
Entrepreneurial Orientation and performance

Entrepreneurial Orientation is the tendency of pursuing product and market innovation, taking a certain amount of risk and proactively responding, thereby overcoming competitors’ initiatives (Miller, 1983), and it is the strategic propensity of a company's decision-making process and execution to create innovative new value that can be differentiated from its competitors (Stevenson & Jarillo, 1990). In addition, Decision-making activities and processes to develop and provide innovative new services that differentiate themselves from competitors in the market (Lumpkin & Dess, 1996). Many studies have shown that entrepreneurial orientation improves performance (Rauch et al., 2009; Wiklund & Shepherd, 2005; Zahra & Covin, 1995).

Innovativeness is a firm's will and ability to act to achieve its goals, such as developing new products, new services, and new processes in order to procure a competitive advantage (Lumpkin & Dess, 1996). Proactiveness refers to an opportunity-seeking, future-oriented perspective with the propensity to make strategic decisions by predicting opportunities in the market and sensing environmental changes (Miller, 1983). Risk-taking refers to a company's willingness to take it and devote a lot of resources to R&D or projects, even if the performance is uncertain or entering an unknown new market (Lumpkin & Dess, 2001).

Some studies have shown that the effect of entrepreneurial orientation on management performance is not necessarily positive, such as proactiveness has a positive effect on corporate performance, but innovation does not affect corporate performance (Park et al., 2011; Cho et al., 2011). On the other hand, innovativeness, proactiveness, and risk taking are organically combined to increase the firm performance of small and medium-sized venture companies (Yoon, 2014). In most studies, entrepreneurs tend to capture new opportunities and implement them, resulting in superior performance over those with lower entrepreneurial orientation (Rauch et al., 2009). As such, entrepreneurial orientation is an important factor for improving firm performance. In particular, since startups are determined by the orientation of their CEO or managers, the following hypothesis was established.

**Hypothesis 1:** There is a positive relationship between Entrepreneurial Orientation and performance of start-ups.

**H1-1:** There is a positive relationship between Innovativeness and firm performance.

**H1-2:** There is a positive relationship between Proactiveness Orientation and firm performance.

**H1-3:** There is a positive relationship between Risk taking and firm performance.

2.2 Moderating Effect of Social responsibility orientation

Firm's social responsibility is a source of opportunity, innovation and competitive advantage (Poter & Kramer, 2006), and it can be viewed as a policy, activity, or action of an entity that goes beyond its existing economic and legal obligations with various stakeholders inside and outside the firm (Carroll, 1979; McGuire, 1963; Davis, 1960; Bowen, 1953). Firms have economic, legal, ethical, and discretionary responsibilities or obligations to society (Carroll, 1979), and social responsibility oriented firms have management goals for social welfare and environmental protection, positive corporate images and public opinion (Fritz, 1996). Also, in many studies, from past studies to recent studies, such as improving corporate reputation and consequently improving performance, social responsibility appears to increase firm performance (Yoon & Jeong, 2014; Moshe et al, 2006; Landon & Smith, 1997; McGuire et al., 1988).

In modern society, firm are required to pursue social values beyond their own profit-seeking activities (de Villiers et al., 2011). In addition, since the attitudes and behaviors of the components of the company are influenced by what value or goal the company pursues (Brown & Yoshioka, 2003), this is ultimately linked to the firm’s performance. As such, in the modern society, the social responsibility orientation is an important factor to improve entrepreneurial orientation and firm performance, so the following hypothesis was established.

**Hypothesis 2:** Social responsibility orientation will moderate the relationship between Entrepreneurial Orientation and firm performance.

**H2-1:** Social responsibility orientation will moderate the relationship between Innovativeness and firm performance.

**H2-2:** Social responsibility orientation will moderate the relationship between Proactiveness and firm performance.

**H2-3:** Social responsibility orientation will moderate the relationship between Risk taking and firm performance.

2.3 Research Modeling

The summary of the above hypothesis shows that the research model is shown in Figure 1.
Entrepreneurial Orientation

Innovativeness

Proactiveness

Risk taking

Social Responsibility Orientation

Firm Performance

Fig 1: Conceptual model

3. RESEARCH DESIGN

3.1 Sample
A total of 746 information was obtained by matching the list of major entrepreneurial orientation support organizations in Korea with the data on the start-up portal sites. The survey was conducted by explaining and collecting the purpose and content of the study by e-mail or telephone, or by visiting in startups. Startups with more than seven years of experience and 99 final startups were selected as final analysis samples, with the exception of non-response or insincere responses.

Among the total 99 startups, the age of companies was 1-2 were 44.4%(44) respectively, and the size of the company was the highest with 2-4 employees at 36.4%(36). The growth stage of the firm was found to be the highest at 60.6%(60) during the initial growth period when sales were generated due to commercialization such as product launch.

Table 1. Characteristics of Sample Startups (N = 99)

<table>
<thead>
<tr>
<th>Construct</th>
<th>Classification</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Age</td>
<td>1-2</td>
<td>44</td>
<td>44.4</td>
</tr>
<tr>
<td></td>
<td>3-4</td>
<td>39</td>
<td>39.4</td>
</tr>
<tr>
<td></td>
<td>5-6</td>
<td>16</td>
<td>16.2</td>
</tr>
<tr>
<td>Firm Size</td>
<td>2-4</td>
<td>36</td>
<td>36.4</td>
</tr>
<tr>
<td></td>
<td>5-6</td>
<td>32</td>
<td>32.3</td>
</tr>
<tr>
<td></td>
<td>10-14</td>
<td>16</td>
<td>16.2</td>
</tr>
<tr>
<td></td>
<td>15-19</td>
<td>15</td>
<td>15.2</td>
</tr>
<tr>
<td>Development Stage</td>
<td>Founding</td>
<td>25</td>
<td>25.3</td>
</tr>
<tr>
<td></td>
<td>Commercialization</td>
<td>60</td>
<td>60.6</td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td>8</td>
<td>8.1</td>
</tr>
<tr>
<td></td>
<td>Mature</td>
<td>3</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>Decline</td>
<td>3</td>
<td>3.0</td>
</tr>
</tbody>
</table>

3.2 Measures

3.2.1 Entrepreneurial orientation
Entrepreneurial orientation was used in many prior studies (Lee & Park, 2016; Yoon, 2014; Rauch et al., 2009) and applied three factors of innovativeness, proactiveness, and risk-taking (Miller, 1983) and measured in a total of nine categories, referring to the study by Covin & Slevin (1989).

3.2.2 Social Responsibility orientation
The Social Responsibility Orientation was measured in a total of six categories, referring to studies by Moshe & Lemer (2006), Kim (2012) and Lee & Lee (2012): the will to contribute to the community, the belief that social problems can be solved in a corporate way, the frequency of participation in volunteer work compared to others, the pursuit of desirable social values, whether public interests other than profitability are valued, and whether community interests are more important than individual freedom.

3.2.3 Performance of start-up
The performance of startups is difficult to measure and grasp (Stam & Elfring, 2008; Kim et al., 2017), and the perceived measurement method is used considering the possibility of low reliability of financial data (Moon, 2013). This study consisted of questions of market share, sale growth, Improving profitability in terms of investment, and productivity improvement within 3 years compared to competitors, referring to the study by Hult & Ketchen(2001), and measured the performance of the startup by mixing perceived financial performance with perceived non-financial performance (Cembrero and Sáenz 2018).

3.2.4 Control Variable
Three items were used as control variables to control the impact of the firm size, firm age, and stage of growth phase on the startup's performance.

4. ANALYSIS AND RESULT

4.1 Assessing Structural Model
For the evaluation of the measurement model of PLS-SEM, the internal consistency reliability, convergent validity, and discriminant validity were evaluated (Shin, 2018), of which results are summarized in Table 2. The Cronbach's α, which measures the internal consistency reliability, was found to be 0.6 or higher from 0.704 to 0.906. In addition, rho_A(ρ_A) was found to be 0.747 to 0.917, which is more than 0.7, which is the conformance standard. Composite Reliability was 0.832 to 0.927, so it was found to meet all of the compliance criteria because it was 0.6 or higher. Therefore, it was found that all the criteria were satisfied (Hair et al., 2011).

Table 2. Construct reliability and validity

<table>
<thead>
<tr>
<th>Construct</th>
<th>Outer loading</th>
<th>Cronbach’s α</th>
<th>ρ_A</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation</td>
<td>0.704</td>
<td>0.706</td>
<td>0.747</td>
<td>0.832</td>
<td>0.62</td>
</tr>
<tr>
<td></td>
<td>0.814</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.844</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In addition, discriminant validity is acceptable based on the rule that the correlation between any two distinct constructs is lower than the square root of the AVE from these constructs (Fornell & Larcker, 1981). As shown in Table 3, comparing the correlation between the AVE square root of the variable displayed on the diagonal and other variables, it can be seen that the AVE square root value of the diagonal line is the largest, thus ensuring both reliability and validity of the measurement model.

### Table 3. Discriminant validity (Fornell-Larcker Criterion)

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation</td>
<td>0.790</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Responsibility Orientation</td>
<td>0.574</td>
<td>0.824</td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>0.437</td>
<td>0.786</td>
<td>0.874</td>
</tr>
</tbody>
</table>

#### 4.2 Assessing Structure Model

The structure model is analyzed using structural equation modeling conducted in SmartPLS 3.0. The bootstrapping procedure was performed to confirm the importance of the coefficients. Iterative regression analysis can be used to reconstruct and extract a large number of bootstrap samples to assess the importance and suitability of the path coefficients (Tenenhaus et al., 2005). After setting the Bootstrap Resampling sample to 5,000 with 99 raw data and calculating the t value, the result of verifying the statistical significance of the hypothesis is presented in Table 4.

As a result of the hypothesis test, Hypothesis 1 that Entrepreneurial orientation will have a positive effect on firm performance was supported at the p-value of 0.040, 0.011, and 0.000. All hypotheses 2 that social responsibility orientation will control the relationship between Entrepreneurial orientation and startup performance were rejected.

### Table 4. Path coefficients and t-value

<table>
<thead>
<tr>
<th>Hypothesis Path</th>
<th>β</th>
<th>T value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 EO → Firm Performance</td>
<td>0.279</td>
<td>3.925</td>
<td>0.000 **</td>
</tr>
<tr>
<td>H1-1 Innovativeness → FP</td>
<td>0.133</td>
<td>2.059</td>
<td>0.040 *</td>
</tr>
<tr>
<td>H1-2 Proactiveness → FP</td>
<td>0.204</td>
<td>2.545</td>
<td>0.011 *</td>
</tr>
<tr>
<td>H1-3 Risk taking → FP</td>
<td>0.398</td>
<td>6.971</td>
<td>0.000 **</td>
</tr>
<tr>
<td>H2 EO*SRO → FP</td>
<td>0.040</td>
<td>0.487</td>
<td>0.626</td>
</tr>
<tr>
<td>H2-1 Innovativeness*SRO → FP</td>
<td>0.101</td>
<td>1.549</td>
<td>0.121</td>
</tr>
<tr>
<td>H2-2 Proactiveness*SRO → FP</td>
<td>0.029</td>
<td>0.334</td>
<td>0.739</td>
</tr>
<tr>
<td>H2-3 Risk taking*SRO → FP</td>
<td>-0.028</td>
<td>0.444</td>
<td>0.657</td>
</tr>
</tbody>
</table>

**Control Variable**

<table>
<thead>
<tr>
<th>Hypothesis Path</th>
<th>β</th>
<th>T value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm age → Firm Performance</td>
<td>0.103</td>
<td>1.534</td>
<td>0.125</td>
</tr>
<tr>
<td>Firm size → Firm Performance</td>
<td>0.110</td>
<td>1.885</td>
<td>0.059</td>
</tr>
<tr>
<td>Firm growth stage → Firm Performance</td>
<td>0.059</td>
<td>1.010</td>
<td>0.313</td>
</tr>
</tbody>
</table>

*P<0.05, **P<0.01*

### 5. DISCUSSION AND CONCLUSIONS

In a rapidly changing business environment, various management methods have been required from firm managers and CEOs to win market competition beyond just survival. However, in modern society, more than just profit activities, desirable goals are set according to the goals and values of the society as a whole, and the importance of social responsibility as a constituent unit of society is additionally required through decision making. Therefore, companies must make desirable policies and decisions according to the goals and values of society (Bowen, 1953).

This study is empirical analysis on 99 Korean startups to reveal the impact of sub factors of the entrepreneurial orientation: innovativeness, proactiveness, risk taking on startup performance and the moderating effect of social responsibility orientation.

The results of the study, first, it was confirmed that entrepreneurial orientation of startups has a positive
impact on startup performance. Second, it was the social responsibility orientation in startups was found to have no moderating effect on entrepreneurial orientation and startup performance. Although there was no significant relationship, looking at the results of the impact relationship of each of the sub-factors of entrepreneurial orientation, it can be seen that among the three factors, risk taking has a rather negative moderating relationship with startup performance.

These results have the following implications: It supports the results of previous studies that show that entrepreneurial orientation has a positive effect on firm performance, and it has been confirmed that entrepreneurial orientation is an important factor in Korean startups as well. On the other hand, failure to confirm the moderating effect of social responsibility orientation on the relationship with firm performance did not yield expected results compared to studies that found a positive effect in previous studies. In addition, risk taking has shown a rather negative impact relationship with startup performance. This is believed to be because, unlike large enterprises and SMEs, in the case of startups that lack resources, when firm set goals and policies, the cost of social responsibility activities consequently reduced the firm's net profit. In addition, it can be interpreted that the activities for firm social responsibility are not solely the will of the firm manager or the CEO. Depending on the understanding and will of firm's social responsibility of the members of the firm, they are accepted differently depending on the level of firm's value, the quantity and quality of goals, and the degree of sustainability, which can slow growth, and it also requires cooperation with various stakeholders, not only within the entity but outside the entity.

This study has the following limitations. The number of startups producing concrete results was limited, and further research is needed in future studies, such as a survey of the attitude of social responsibility toward the entire organization, not the firm's manager or CEOs. In addition, since this study was limited to startups, comparative studies with SMEs and large enterprises in the future are also needed.

6. REFERENCE


