**Entrepreneurial Orientation of UK International Ventures in Turbulent Environments**

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1. **Introduction**

Over the last 30 years, entrepreneurial orientation (EO) and its relationship with firm performance has attracted significant academic attention (Lumpkin and Desk, 1996; Rauch et al., 2009; Wales at el., 2013; Covin and Miller, 2014; [Lechner](http://scholar.google.co.uk/citations?user=ZMRg3E0AAAAJ&hl=en&oi=sra) and [Gudmundsson](http://scholar.google.co.uk/citations?user=IJXS5cUAAAAJ&hl=en&oi=sra), 2014; Brouthers et al., 2015; Wales et al., [2011](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0122); Covin et al., 2014; Ferna´ndez-Mesa and Alegre, 2015; Jiang et al., 2016, Love et al., 2016). With the effect of globalisation, the concept of EO has spurred academic interests in the domain of international entrepreneurship (Joardar and Wu, [2011](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0056); Jones and Coviello, [2005](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0058); Weerawardena, Mort, Liesch, and Knight, [2007](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0124); McDougall, [1989](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0084); Oviatt and McDougall [1994](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0098); Autio, [2005](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0008); Keupp and Gassmann, [2009](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0060), Reuber et al., 2017). As commented by McGougall and Oviatt (2000, p. 903), the phenomenon of EO has been reflected in the literature of international entrepreneurship as “a combination of innovative, pro-active, and risk-seeking behaviour that crosses national borders and is intended to create value in organisations”. IE research has produced two main streams which either focus on exploring entrepreneurial activities and performance of young international ventures (i.e. firms younger than 8 years old); or established firms (firms older than 8 years) (Zahra and Garvis, 2000; Lu and Beamish, [2001](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0079); Dimitratos and Jones, 2005; William and Lee, 2009). For either type of firm, the research base often associates international performance with the firms’ degree of internationalisation, its scope, and speed of internationalisation (Zahra and George, [2002](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0132); Oviatt and McDougall, 2005; Acedo and Jones, 2007; Mathews and Zander, 2007; Bardají et al., 2014, Zander et al., 2015).

Environmental uncertainty is, however, considered as part of the internationalisation process that can negatively affect firm performance (Duncan, 1972; Milliken, 1987). Evidence suggests that the economic and political instability, and market turbulence, place increased the burdens on international ventures (Geoghegan, [2016](http://onlinelibrary.wiley.com/doi/10.1111/1467-8551.12192/full#bjom12192-bib-0012), Chalmers and Menon, [2016](http://onlinelibrary.wiley.com/doi/10.1111/1467-8551.12192/full#bjom12192-bib-0005); Cumming and Zara, 2016). Certainly, risks and uncertainty play a critical role in the strategic behaviour of exporters, particularly to SMEs (Liesch et al, 2011; Engelen et al., 2014; [Antonio Navarro-García](http://www.sciencedirect.com/science/article/pii/S0148296313004074) et al., 2014). However, research that investigates the nature of this relationship in turbulent environments is scarce, especially in relation to the firm’s internationalisation activities. Hence, drawing upon the theories of entrepreneurial orientation (EO), the literature on environmental uncertainty, and the resource based view (RBV), this paper aims to examine the EO of UK international ventures and their different drivers and reaction and performance in the turbulent environments. It focuses on both young international and established firms.

Specifically, this paper hence seeks to answer the following questions:

1. What are the driving forces behind the firm’s strategic decision making in internationalisation?
2. How is the relationship between EO and international performance determined in a turbulent environment?
3. What are the implications of the above for theory and practice?
4. **Literature review**

*Theory of Entrepreneurial Orientation*

EO is regarded as a typical phenomenon in corporate entrepreneurship, involving “a set of firm activities that includes new business and venturing activity, innovativeness and strategic renewal” (Covin and Miller, 2013). EO can be defined as a concept constituted of three key factors namely *risk-taking*, *pro-activeness* and *innovative* behaviour (Covin and Slevin, [1989](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0021); Miller, [1983](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full#etap12027-bib-0087)), or a multi-dimentions of five different components including i) *autonomy* (i.e. propensity to act independently), ii) *innovativeness* (i.e. tendency to engage into innovation), iii) *risk taking* ("the degree to which managers are willing to make large and risky resource commitments” (Miller and Friesen, 1978, p. 923), iv) *pro-activeness* (i.e. the ability to anticipate and act to be pioneer in the market), and v) *competitive aggressiveness* (i.e. the firm's propensity to outperform its competitors in the marketplace) (Lumpkin and Dess, 1996). Nevertheless, the majority of studies follow the uni-dimentional approach rather than the 5 dimension- framework of EO (Covin and Lumpkin, 2011). More importantly, Rauch et al., (2009, p. 779) suggest that it may be “…more appropriate to study antecedences and consequences of entrepreneurial orientation at the level of the dimensions”.

The literature shows inconsistent findings about the relationship between EO and firm performance, much of this attributed to being context specific (Zahra and Covin, 1995; Naman and Slevin, 1993; Boso et al., 2012). Most studies examine the effect of EO on internationalisation speed, scope and intensity (Oviatt and McDougall, 2005; Sapienza et al., 2006; Autio et al., 2000). Following the three dimension framework suggested by Covin and Slevin (1989), the owner-manager’s risk-taking, pro-activeness and innovative behaviour were found either simulate or hinder the firm’s international orientation and performance. Ferna´ndez-Mesa and Joaquı´n Alegre (2015) found that the relationship between EO and export intensity to be mediated by innovation performance. Other studies find that export performance is positively associated with innovativeness and risk-taking but not with the firm’s pro-activeness ([Filser](https://journals.co.za/search?value1=M.+Filser&option1=author&option912=resultCategory&value912=ResearchPublicationContent)  and [Eggers](https://journals.co.za/search?value1=F.+Eggers&option1=author&option912=resultCategory&value912=ResearchPublicationContent) (2014).

Thus, innovative behaviour is regarded as one of the main accelerators that boost the firm’s export intensity (Nassimbeni, 2001; Rogers, 2004; Pla-Barber and Alegre, 2007; Rauch et al., 2009; Love and Roper, 2015), as it enhances technology and improves the quality of products and services to tailor target (Cassiman and Golovko, 2011). Even though innovation is often associated with higher levels of internationalisation (Golovko and Valentini, 2011; Nieto et al., Santamaria, 2015), some studies suggest that firms with low levels of innovativeness can still expand their markets internationally providing that they apply cost-minimising strategies for standardisation and exploitation with competitive price (Choi et al., 2008; Ripollés-Meliá et al., 2007).

Proactiveness reflects the firm’s willingness in identifying and exploring opportunities in new markets to attain a greater international scope (Keh et al., 2007; Pérez-Luño et al., 2011). Prior research suggests that highly proactive firms are more sensitive to foreign market needs and can better utilise their resources and capabilities to exploit the opportunities (Morris et al., 2011). By contrast, moderately low levels of proactiveness is seen as the barrier to new market entry as it restricts the firm’s capability and readiness to go internationally (Leonidou et al., 2007).

Another EO component, risk-taking, determines the entrepreneurial behaviour and decision-making toward internationalisation (Vermeulen and Barkema, 2002). It is also regarded as the motive for firm to go international because of the challenges and fierce competition in the global marketplace (Pérez-Luño et al., 2011; Moen et al., 2016). Firms with a high risk-taking orientation tend to be more optimistic (Neck and Manz, 1996), which in some cases may erode the profitability needed to enter more new markets (Vermeulen and Barkema, 2002). Hence, risk-taking should be undertaken but not to the extreme which might threaten the sustainability of the firm (Zahra et al., 2001). On the other hand, a risk-averse firm can seek opportunities with a similar country context (Johanson and Vahlne, 1977) which restricts its ability to expand its international market.

*Theory of environmental uncertainty*

Uncertainty is reported to be one of the greatest challenges that international ventures have to cope with, particularly considering the limited resources of smaller enterprises. Risk-taking can be reflected by the way how the uncertainty is perceived (Duncan, 1972; Ramaswami and Yang, 1990). Environmental uncertainty refers to the “inability to assign probabilities to the likelihood of future events” (Milliken, 1987, p. 136).

The literature has categorised three main types of uncertainty: *state* (i.e. “inability to understand the state as well as the components of the environment”); *effect* (i.e. “inability to predict what the impact of environmental changes on the organisation”); and *response* uncertainty (i.e. “lack of knowledge of response options or the inability to predict the consequences of the response choice”) (Milliken, 1987). In the global market, international ventures can expect substantial levels of turbulence from market, finance and political perspectives. Turbulent environments can be described as those having high levels of change that create uncertainty and unpredictability (Westhead et al., 2004). The effect of turbulent environments on SME internationalization performance has been investigated in a number studies (Westhead et al., 2004; Hilmersson, 2014; Hilmersson and Johanson 2016). However, there remains a lack of qualitative studies that investigate, in-depth, how international ventures perceive uncertainty, and how they respond to such turbulence and the expected outcomes of their strategic response.

*Resource-based view*

The relative intense volatile environment context of the international market enables the firm to acquire additional knowledge to sustain its activities and thus enhances value for the firm (Zahra et al., 2000). The export literature also reveals that the relationship between a firm’s size and levels of export intensity (Sui and Baum, 2014; Ngoma, 2016; Wang and Sengupta, 2016). However, research has reported mixed results. While some studies found a positive relationship, others confirmed no significant influence, or negative effect, of firm size on export performance (Wolff and Pett, 2000; Brouthers and Nakos, 2005, Balboni et al., 2013). One possible explanation is the higher flexibility of small firms, compared with larger firms, in developing a set of capabilities in the internationalisation process (Bonaccorssi, 1992; Ruzzier et al., 2006).

The RBV helps to explain the firm’s ability in creating and sustaining competitive advantages to outperform other competitors in the industry both domestically and internationally (Fahy, 2002). From the organisational perspective, capabilities and resources are seen as the key antecedents to born-globals’ internationalisation patterns (Mudambi and Zahra, 2007). Research suggests a significant relationship between firm competences, firm characteristics, and export behaviour (Wagner, 1995; Chetty and Hamilton, 1993; Sternad et al., 2013). Larger firms are considered to have better access to financial and human resources as well as taking advantage of economies of scale (Wagner, 1995), which collectively enhances internationalisation (Leonidou, 1998). Similarly, larger firms tend to have more capacity to absorb and cope with the changes and uncertainty of turbulent environments compared to smaller firms.

The RBV also posits that a firm’s superior performance originates from its ability to acquire and exploit unique resources. Some studies have suggested that there may be “inherent advantages” to being small when venturing abroad. Dhanaraj and Beamish (2003) identified the resource domain including organisational (i.e. firm size), entrepreneurial (i.e. managers’ risks and drive), and technological resources (i.e. R&D intensity, tangible and intangible assets). These resource groups were found to have significant impact on a firm’s internationalization, as explained in international business theories (McGuinness and Little, 1981; Dhanaraj and Beamish, 2003; Rodriguez and Padrón-Robaina, 2006).

Furthermore, Hannan and Freeman (1984) and Nunes et al, (2013) argue that the degree of inertia increases as the firm ages. Furthermore, younger firms are found to have stronger flexibility in the learning process possess less constraints and are more likely to have an informal structure (Autio et al., 2000; Carr et al., 2010; Sapienza et al., 2006). Hence, younger firms may be assumed to be more likely to pursue internationalisation because of their higher flexibility in acquiring new knowledge, which is consistent with past studies in different countries (Lu and Beamish, 2001; Zahra et al.,2000).

**Method**

*Sampling*

The purposeful sample includes 14 SMEs who are based in the UK. A SME is defined as a firm which has fewer than 250 employees and less than €50 ml in their turnover (European Union, 2010). These firms span manufacturing, services, construction and trade sectors and are highly engaged internationally but in different ways, including: export, import, subcontracting, technical cooperation, joint-venture, FDI, and active in at least two foreign markets. These firms were recruited from the list of top 100 UK exporting SMEs, as listed by the Sunday Times in 2015-2016. In addition, all of these firms are highly innovative in terms of offering products/ services and actively engage into R&D. The UK case is particularly appropriate in this analysis because of the environmental uncertainty for businesses emerging from the Brexit process.

*Approach*

Despite a number of studies on EO, the majority are quantitative and variable centred. Whilst acknowledging their contribution, in order to explore how international ventures perceive and respond to the turbulent environments and the factors behind their decision making, it is essential to utilize qualitative methods, particularly if we are to examine from an EO perspective. This allows an in-depth exploration into the complexity and context-specific phenomena of the experience of internationalisation in these firms (Ghauri and Gronhaugh,2010; Zaefarian, Eng, and Tasavori, 2016).

The main data collection involved face-to-face, semi structured interviews with the CEO, founder, or owner-managers of these firms. This allowed for a discussion and follow-up probing questions such as “how” and “why” to specific answers (Ghauri, 2004; Yin, 2013). The questionnaires were developed on the three-dimension framework of EO which investigates the risk-taking, pro-activeness and innovative behaviour of firms (Covin and Slevin,[1989](http://onlinelibrary.wiley.com/doi/10.1111/etap.12027/full%22%20%5Cl%20%22etap12027-bib-0021%22%20%5Co%20%22Link%20to%20bibliographic%20citation)). This framework was also found to be more popular in EO research in the literature rather than the five-dimension of the EO construct (Covin and Lumpkin, 2011). In this case, innovative behaviour refers to the level of a firm’s commitment to R&D and the number of innovative products/ services. The questions on risk-taking behaviour clarifies the owner-managers’ perception of the turbulent environment in terms of the fluctuations in the market, foreign currency conversion and political instability; and the level of resources committed to foreign and domestic markets, the perceived effects on their businesses, and the intended response to turbulence (based on Milliken, 1987). Pro-activeness is investigated via the owner-managers’ willingness to engage and to commit to the international market. The innovation key dimensions to identify the entrepreneurial intention and behaviour are related to the following: 1) the owner-managers’ perceived risks before and during Brexit; 2) the owner-managers’ resource commitment to international markets before and during Brexit; 3) their international orientation during Brexit; 4) and their strategies and long/short term planning to deal with the uncertainty; and reasons behind their decision making.

Each interview took about one hour, was audio-recorded and the content was coded in N-vivo for analysis. The study utilises thematic analysis in explaining the key factors behind the firm’s EO and its effects on firm international performance.

**Results/Findings**

Our analysis indicates that the heterogeneity of ventures, such as size, age and international experience, contributes to differentiate owner-managers’ risk perception and pro-activeness regarding their market orientation in the internationalisation process. The innovative behaviour was also explained by the owner-managers’ perceived risks in turbulent environments. Those firms who have high risk propensity were found to engage more in R&D despite the fluctuations of the market and finance. In addition, political instability is also seen as a barrier for those firms’ proactiveness (i.e. regarding firms investing in emerging countries such as Asia and Africa). The nature of the sector and the level of competitiveness were also found to play a critical role in the firms’ strategic decision making in internationalisation. The different level of a firm’s innovativeness, pro-activeness and risk-taking amongst these SMEs (i.e their EO) also significantly drives their orientation and planning in internationalisation, which in turn influences their performance.

Whilst international markets are regarded as potentially riskier than domestic markets by some traditional companies, risk was related to the nature of international business regardless of their age and size. Compared with established firms, young international ventures revealed mixed perception of risks. Turbulent environments were not perceived as the main constraint to prevent these young international ventures from exporting. On the other hand, it is a matter of strategic focus and short term planning which have led these firms to try to diversify their markets and identify trustful partners to build long term relationships for outsourcing, supplying and distributing. While some young international ventures in the Manufacturing and Construction sector aimed to expand their sales into emerging markets and the US, rather than EU markets. However, in services and health-care sectors a different pattern emerged. These firms showed a more risk-adverse attitude to internationalisation by narrowing down their markets to their main destinations, rather than distributing to wider geographical areas.

Perceived risk was also found to be a main reason that drives the owner-managers’ decision making on their international strategies and orientation. For example, the depreciation of the sterling has imposed a barrier to international ventures to commit their resources into a number of overseas markets during Brexit. Brexit is appeared to have a stronger impact on newer, younger international enterprises rather than established firms which have already built a strong network of partners and a more established position in the market.

Our findings also suggest that there was little difference between established and young firms in their international orientation. Rather foreign market orientation was driven by the owner-managers’ perceived risks, and the firm’s exploration of the potential demands in the target markets. For example, an established firm in the Construction sector, with more than 10 years of international experience in African market, perceived Brexit as an opportunity for his enterprise to build the UK brand image in those markets. For this particular company, Brexit brought more gains than loss because their markets and the nature of their business which involve subcontracting in emerging countries. Regardless of firm size and international experience, the majority of businesses in our study expressed massive concerns about their potential losses because of Brexit. Despite the different levels of effects on firm performance, born globals were found to be more pessimistic about Brexit rather than established firms. This could be attributed to their concerns about their resource constraint to cover the risks, compared to established firms which already had good network and long-term business relationships. Nevertherless, the turbulent environment did not prevent born globals from diversifying their foreign markets, whereas established firms keep committing to their existing markets but relying more on their long-term partners.

The analysis reveals differences between firms strategic responses according to their age and stage of internationalisation. Although established SMEs seem to be less concerned about market fluctuations and environmental uncertainty, young ventures tend to react faster, with short-term or no planning. Some firms perceive market turbulence as an opportunity for exploitation whereas others become more risk-averse and narrow down their target markets. These different strategic responses contribute to variations in their financial and market performance

Our analysis suggests that new young international ventures respond faster to a turbulent environment, compared with established firms because of their flexible structure and short-term planning (i.e. every six months). This enables them to adapt quicker to the change in the business environment; including the change in supply/demand, financial exchange risks and the potential changes of international trade and immigration regulations. On the other hand, established SMEs, that have more than 10 years of international experience, seem to be less concerned about turbulent environment and they appear to accept it as integral to the nature of their business environment. This difference may also be attributed to their established connection and long term relationship with suppliers, banks and clients. Some firms even changed their strategies by focusing less on the EU markets; or becoming more reserved by relying more on domestic market. Additionally, established firms which are highly export- intensive in the EU markets, they tend to react slowly and keep maintaining long term relationship with existing customers. Their concerns regarding a turbulent environment, for example Brexit, are more related to the uncertainty from the changes in the trading deal for the UK in the long term and immigration regulation that directly affects their employment, rather than the immediacy of a fluctuation in market demands and the financial effects related to the depreciation in sterling.

**Value and Implications**

This paper presents an in-depth analysis into the entrepreneurial orientation of UK international ventures in turbulent environments and its impact on their performance. The findings suggest that entrepreneur’s motivations and intentions to internationalise influence their strategic decision making and responses during turbulent market environments. Elements of the RBV help to contribute to explain this behaviour. Additionally, a firm’s intentionality and planning to deal with uncertainty are found to vary by firm size and sector. This different behaviour reflects how a firm perceives and responds to the external environmental risks. Our findings enhance the understanding of how firms respond to turbulent environment in their internationalisation process and affect their strategies. In addition, policy makers will benefit from having further analysis about the determinants of international performance amongst SMEs, and the driving forces behind their strategic decision making. The analysis may also help to develop initiatives for SME internationalisation policy support, particularly in uncertain times.

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