

'Critical learning events' and growth: consequences on the relationship between Entrepreneurial Orientation and Organizational Learning

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Abstract: The paper explores the role of some critical events in the organization's life cycle model and, in particular, their impact on organizational learning (thus becoming 'critical learning events') and entrepreneurial orientation. Following a deductive approach, a conceptual framework with feedback mechanisms between entrepreneurial orientation and organizational learning is proposed and, then, tested through a single case study.

Introduction

Understanding growth patterns of SMEs in a systematic way is a very challenging issue in managerial literature. SMEs vary widely in size and capacity for growth. They are characterized by independence of action, differing organizational structures, and varied management styles. However, they experience common problems arising at similar stages in their development (Churchill & Lewis, 1983). The organization's life cycle model proposed by Churchill & Lewis (1983) is one of the most famous models in facing this issue. The framework delineates five stages: existence, survival, success (that can lead to disengagement or growth), take-off, resource maturity. Each stage is characterized by specific forms of organizing. The model is based on the concept of critical events that governed the shift from a stage to another.

Managerial literature has widely demonstrated that critical experiences (critical events) can act as 'triggers' for organizational growth, entrepreneurial development (Cope, 2003), organizational learning (Corradi, 2014). In this paper we focus on the role that critical events

play in influencing Entrepreneurial Orientation (EO), organizational learning, and the relationship between these two constructs. The literature analysis has convinced us of the idea that EO is something that can 'evolve' over time, and that this change is related to organizational learning processes. In the literature, organizational learning is commonly conceived as a variable that is influenced by EO, and which intervenes in the relationship between EO and performance (Brettel & Rottenberger, 2013). Therefore the majority of studies have suggested a unidirectional relationship between EO and organizational learning. Suggesting that the EO construct might vary over time, we aim to open up a debate about a more complex relationship between EO and organizational learning than the traditional unidirectional way. Therefore, we propose a framework in which we assume feedback mechanisms between EO and organizational learning. Following a deductive approach, the framework is tested through a single case study. The case study is analyzed through its critical events. These events (in particular, a spin-off) mark the shift from the survival to the growth phase and become crucial occasions of learning. Moreover, they seem related to changes in the EO.

Theoretical hints on EO construct

Although the characteristics of entrepreneurship as firm behavior have been conceptualized for some time (Miller 1983; Covin & Slevin, 1989), EO is receiving increased empirical attention among entrepreneurship scholars (Covin & Wales, 2012; Brettel & Rottenberger, 2013). EO has traditionally been considered '*as the processes, practices, and decision-making activities that lead to entrepreneurship*' (Lumpkin & Dess, 1996). This concept, similarly to Covin & Slevin's (1989) entrepreneurial strategic posture, is characterized by frequent and extensive innovation, aggressive competitive orientation, and a strong risk-taking propensity by management. Recently, other studies have adopted different perspectives on EO. Anderson et al. (2014), in a recent reconceptualization of EO, focus on two distinct levels and an explicit distinction between the behavioral component of EO, related to innovativeness and proactiveness, and the managerial attitude, related to risk-taking. Kreiser (2011) conceives EO as a dynamic organizational capability for firms, through its impact on the acquisition and combination of knowledge-based resources. This new perspective opens up debate as to whether EO itself might be something that 'evolves' over time. To our knowledge in the managerial literature only a few authors efficiently explored the possible evolution of EO over time. Wiklund & Shepherd (2011) offers a very interesting link to the issue of learning, at least as potential behavior, by both failure and success, through the adoption of the 'EO-as-experimentation' perspective. Wales et al. (2011) present

three models in relation to how EO can pervade organizations dynamically, though only one model explicitly sees EO as something more dynamic:

- EO can be spatially heterogeneous within the same organization (ambidextrous model);
- EO can facilitate learning and continuous renewal by fostering opportunities for organizational knowledge creation and use (continuous morphing model),
- organizations may change their EO — being less or more focused on EO — during various periods of development and change (cyclical wave model).

In summary, the literature analysis has convinced us of the idea that EO might be something that can 'evolve' over time, and that this change is related to organizational learning processes.

Theoretical hints on organizational learning

Organizational learning has traditionally been conceptualized as a process by which a firm acquires information, understanding, know-how, techniques, and practices to improve firm performance. Many studies have focused on the specific process of knowledge acquisition and on the different types of learning in terms of degree of change in the existing knowledge base or in terms of internal or external sources of learning: for example, adaptive versus generative learning (Slater & Narver, 1995), exploitative versus exploratory learning (March, 1991), experimental versus acquisitive learning (Zahra, et al., 1999). Different sources of, or occasions of, learning, both internal and external to the firm's boundaries have been explored in literature, such as learning from critical events and failures (Kreiser, 2011), and learning through 'trial and error' (Argyris & Schön, 1996). In particular, an interesting cause of learning is based on experience (Huber, 1991) and 'critical learning events', i.e. turning points in the evolution of a firm. Critical learning events explain the evolution of business start-ups, and thus be related to the firm life cycle (Corradi, 2014). They are discontinuous events in the start-up's evolution that may change the course of the business through the aggregation of new knowledge and changes in organizational routines (Nelson & Winter, 1982). The key elements of a critical learning episode are triggers, learning strategies, learning outcomes and organizational routines.

In the literature there is an increasing awareness regarding the need for firms to integrate different sources of knowledge, both internal and external (Weerawardena et al. 2007). In this regard, the literature on absorptive capacity (Cohen & Levinthal, 1990) can be useful. In fact, absorptive capacity focuses on the firm's ability to effectively acquire and assimilate external knowledge (potential absorptive capacity) and to transform and exploit this knowledge internally (realized absorptive capacity) (Zahra & George, 2002). Finally, as previously mentioned, Huber (1991) has argued that learning does not always increase the learner's

effectiveness, thus impacting a firm's performance. According to the author, learning can also be related to a change in potential rather than acted behaviors. If learning remains at a 'potential' level, it may or may not lead to a change in performance. Therefore, there is no agreement about how to measure the impact of learning on performance, mainly because learning can also be related to a change in potential rather than acted behaviors.

The relationship between EO, organizational learning and performance

In the literature, organizational learning is commonly conceived as a variable that is influenced by EO, and which intervenes (mediates/moderates) in the relationship between EO and performance (e.g. Brettel & Rottenberger, 2013). Kreiser (2011) has grouped previous research on the relationship between EO and organizational learning into three primary perspectives:

- The “capability/orientation” perspective, that examines the impact of EO in enhancing the capability of organizations to develop a learning orientation and a strategic learning orientation (e.g. Wang, 2008).
- The “process” perspective, that examines the specific processes through which EO impacts learning, especially facilitating knowledge creation and combination (e.g. Li et al., 2009).
- The “application” perspective, that concentrates primarily on how EO produces favourable knowledge-based outcomes for a firm (e.g. Hughes et al., 2007).

The majority of studies have suggested a one-directional relationship between EO and organizational learning, thus implicitly underestimating possible feedback and circularity. In our opinion, these authors implicitly conceived EO as something that is unlikely to change over time, whereas organizational learning is frequently conceived as a process with cyclical, feedback and feed-forward mechanisms. But what happens if we conceive EO as something that can change and evolve over time? The causal relationship between EO and organizational learning becomes less clear. In order to explore this 'black box', in the next paragraph we propose a conceptual framework, then tested through a case study.

The conceptual framework

We suggest that entrepreneurial strategies might generate knowledge that becomes the basis for further entrepreneurial initiatives. Therefore, we propose a conceptual framework with feedback mechanisms between EO and organizational learning (Figure 1). As we observed through the literature analysis in the previous paragraph, the majority of authors conceive learning as a mediating variable in the relationship EO-performance (Wang, 2008; Li et al., 2009; Kollmann &

Stöckmann 2014). Coherently, in our framework we speculate the relationship between EO and firm performance as mediated by learning.

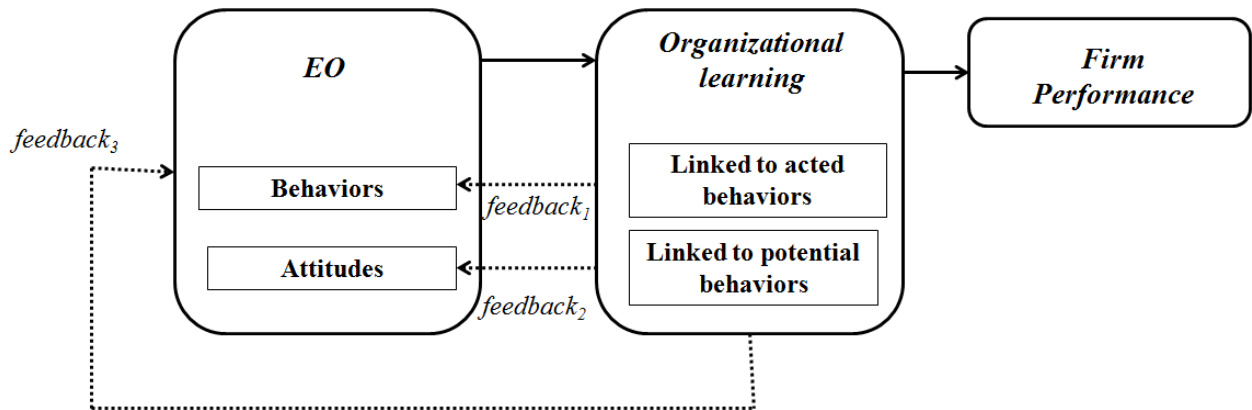


Figure 1. The proposed framework

Our EO conceptualization comes from a combination of the work of Huber (1991), Kreiser (2011) and Anderson et al. (2014).

According to Kreiser (2011), we conceive EO as a dynamic capability, in order to consider EO both as a construct that leads to a change within the firm and as a construct that might change over time. According to Anderson et al. (2014) reconceptualization of EO, firm-level EO construct comprises two lower-order dimensions: entrepreneurial behaviors (encompassing innovativeness and proactiveness), and managerial attitude towards risk (risk-taking). In this way, we suggest that entrepreneurial behaviors, managerial attitude towards risk and EO itself might have different antecedents and different degree of dynamism. This is consistent with Lumpkin and Dess (1996), who have argued that the dimensions of EO can vary independently.

Regarding organizational learning, our framework is consistent with Huber (1991), who has argued that learning occurs when at least the *potential* behaviors are changed. The distinction between different orders of EO allows us to suggest that organizational learning might impact EO through a change in entrepreneurial ‘acted’ behaviors or in the *potential* behaviors, the latter strictly related to entrepreneurial attitudes.

In our framework, feedback mechanisms between EO and learning are approached through a cyclical perspective. On the one hand, according to the mainstream literature, EO impacts organizational learning. On the other hand, we suggest that learning might generate feedback loops. These loops may impact only acted behaviors (*feedback₁*), only potential behaviors and attitudes (*feedback₂*), or both (*feedback₃*).

Empirical setting and method

As previously argued, there is a lack in literature in terms of practical applications that suppose a reciprocal causal relationship between EO and organizational learning. Therefore, we take a pragmatic approach and we adopt a single case-study methodology (Yin, 1994) which is proper for the explorative aims of this study. In particular, we have conducted a longitudinal analysis of Reputation Manager (RepMan).

The firm has originated from a spin-off of a service of online corporate reputation management of ActValue, an Italian consulting company since 2004. ActValue offered a package of both traditional consulting practices and a proprietary Online Corporate Reputation Management (ORMS). Simply put, the ORMS searches for data, information and pieces of knowledge within the entire Web, supporting a more systematic and informed decision-making for online CR management (Francesconi & Dossena, 2012).

According to our research purposes of understanding possible evolutions over time in EO and the role played by organizational learning in this evolution, a longitudinal perspective allows the identification and observation of dynamic elements and processes (Kimberly, 1976). Even if RepMan formally starts its activity in 2011, we believe a correct interpretation of this case study requires to take a look also before the spin-off, being the two firms strictly related. Firstly, the proprietary ORMS originally developed by ActValue and all the people involved in this service in ActValue are now committed in the spin-off. Secondly, the previous head of Online Reputation Business Unit, one of the shareholders in ActValue, is now the CEO and founder of RepMan. Therefore, we focus our attention from the pre spin-off phase until now. We have collected data through two semi-structured interviews with the CEO of RepMan (in June and July 2014).

We have chosen this case study because the firm operates in a dynamic sector and in constant growth. The CEO (Andrea Barchiesi) strongly believes in constant organizational and managerial changes not intended to follow the market but to influence it. Before ActValue as first mover in Italy and, now, RepMan, have significantly contributed in "creating" the firms' awareness regarding this issue. For example, since March 2013, the channel La3 hosts the program "Reputescion - How much you're worth on the web," the first TV program that measures the online reputation of prominent personalities from the world of entertainment, music and politics. The online reputation is analyzed by Observatory REDDS in partnership with Reputation Manager and 'Ventura Research Institute'.

The success of RepMan is confirmed by its relevant growth since the spin-off in terms of number of projects, number of employee, earnings (and variance compared to the previous year), and earnings per employee ratio (fig 2).

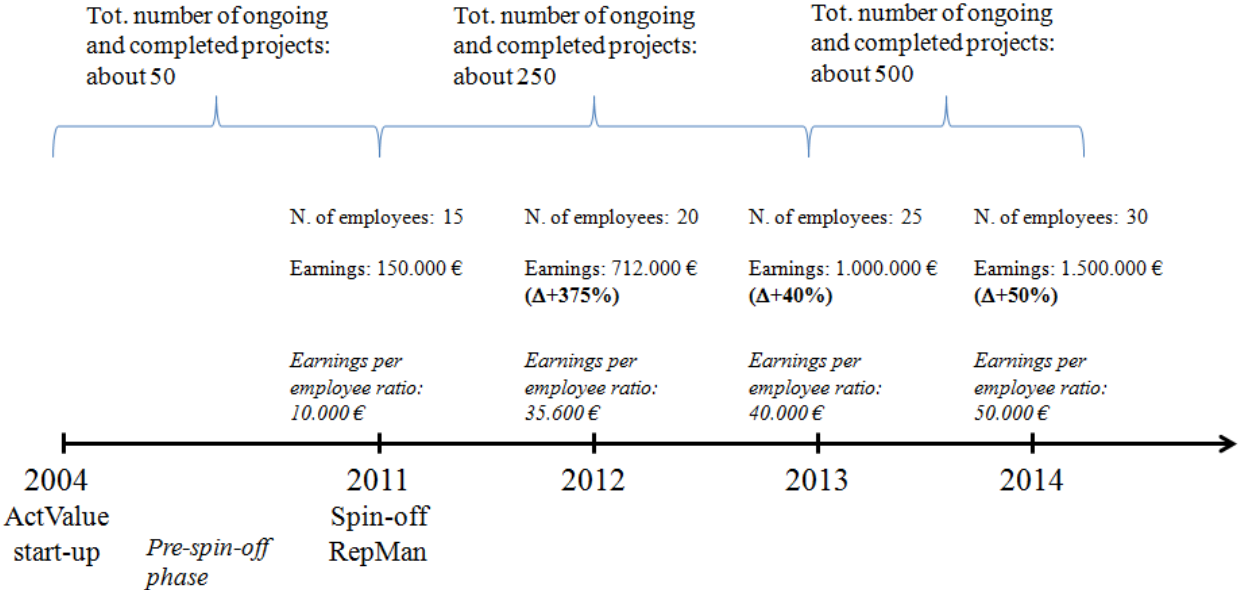


Fig. 2. The growth of RepMan

The figure shows how performance drastically changes after the spin-off: from the survival to the success/growth phase (Churchill & Lewis, 1983). How can we explain this growth? From a technological point of view, the investment in technological development accomplished by ActValue and by RepMan ORMS is almost the same. The employees previously involved in the service in ActValue have now been employed by RepMan. Also in terms of market the two firms are very similar: as for ActValue, also RepMan offers its high quality services to large enterprises, often multinationals, with prices 20-30% higher than competitors. However, the service of ActValue never gained the success experienced by RepMan.

We believe that RepMan CEO has efficiently exploited the previous learning experiences in ActValue through a strong sense of self-criticism, concreteness and learning orientation. Learning from critical learning events (Corradi 2014), learning by doing (Huber, 1991) and through 'trials and errors' (Argyris & Schön, 1996), learning from failures (Kreiser, 2011), learning by observing other firms (Huber, 1991), are crucial sources of (or occasions of) learning for the growth of RepMan. We believe these occasions of learning have also lead to a progressive change in the EO of RepMan over time. In the next paragraph we try to apply our conceptual framework to the RepMan experience in order to analyze the proposed feedback mechanisms between EO and organizational learning.

Findings and discussion

In order to test our conceptual framework we identify three main critical events that have been occasions of learning for RepMan (i.e. critical learning events):

1. The spin-off.
2. The failure of an internationalization project.
3. The success of competitors in some contests.

The three critical learning events cover both internal and external sources of learning. For each event, we highlight if learning influences behaviors, potential behaviors, or both (Huber, 1991). Moreover, we investigate their possible consequences on EO (as first-order construct) or its two lower-order dimensions: entrepreneurial behaviors and managerial attitude towards risk.

Critical learning event₁: spin-off

At the spin-off phase, the most important changes, that have also been the reasons for the spin-off, were:

- The change in the CEO and, thus, in EO.
- The increasing awareness that for being perceived as leader from the market and for supporting growth, the service of ActValue needed an own legal identity. Specialization is perceived as fundamental factors in this industry.

From the spin-off, RepMan has learned this business requires an 'ad hoc' business model: the business model applied in the ICT consulting company (ActValue) didn't fit the needs of the market. The lesson learned has led to a change in both firm's behaviors (for example, increasing service customization, developing the direct distribution channel, and so forth) and in potential behaviors (for example, even if RepMan believes in the importance of entering also in poorer market with an offer with lower prices, at present no concrete actions have been undertaken).

With the spin-off, RepMan had to overhaul the business model and to adopt a more entrepreneurial and less "engineering" approach. In particular, from interviews a significant change in the EO emerges. According to the RepMan CEO experience, through the spin-off there was a significant change (increase) in both entrepreneurial behaviors (especially in proactiveness), and in managerial attitude towards risk (risk-taking).

Therefore, the spin-off, as critical learning event, appears to generate a feedback mechanism from organizational learning to EO (see Feedback₃ in Figure 1). We might speculate this feedback requires disruptive events, as in the case of a spin-off. However, this hypothesis requires further analyses.

Critical learning event₂: The failure of an internationalization project

Before the spin-off (in 2009) there was an attempted entry into the UK market. The internationalization project was entrusted to a new local partner, with managerial and commercial tasks, while the analyses were carried out in Italy. However, the process of internationalization has been developed in a "chaotic", unstructured, way, without an adequate managerial preparation. After 14 months the project has failed, creating a loss of about 100,000 pounds. The failure of the project in England has persuaded RepMan for a more structured process of internationalization, with the adequate financial resources and, above all, a more careful selection of partners. As a result of this failure, there has been a significant reduction in the managerial attitude towards risk. Only potential behaviors have been influenced. Since then, there are not been other internationalization initiatives (see Feedback₂ in Figure 1).

Critical learning event₃: The success of competitors in some contests.

Sometimes competitors that offer poorer services in online Corporate Reputation Management (for example, manual web analyses) have been chosen as service provider by very big and structured client-firms instead of RepMan. By observing other firms, RepMan has learned an important lesson: technological development is important for gaining a competitive advantage, but not sufficient.

In that relies one of the most important differences in the EO of ActValue and RepMan: ActValue focused mainly on technological development (innovativeness) through a 'engineering' approach to the business. ActValue believed that technological leadership would be rewarded by the market and would have led to competitive advantage. Instead, by observing competitors, RepMan has learned that in order to gain a competitive advantage firm needs to be perceived and recognized as technological leader. This perspective requires both high levels of proactiveness and innovativeness (see Feedback₁ in Figure 1). High proactiveness has led RepMan to significantly invest in the development of relational capabilities and in the creation of a new organizational figure: the alliance manager. In the last 4 years, RepMan has developed many partnerships, such as the already mentioned 'Ventura Research Institute'.

Conclusions

The majority of studies have suggested a unidirectional relationship between EO and organizational learning. Suggesting that the EO construct might vary over time, we aim to open up a debate about a more complex relationship between EO and organizational learning than the

traditional unidirectional way. Therefore we have proposed a framework in which we have assumed feedback mechanisms between EO and organizational learning. These mechanisms have been linked to critical events in the organization's life cycle. Then, the proposed conceptual framework has been tested through a single case study. We are aware of the main limitations of this work, primarily linked to the single case study (Yin, 1994). However, we hope this work might make a preliminary contribution in analyzing the 'black box' between EO and organizational learning, still unexplored.

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