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THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION, TIME ORIENTATION AND SMALL BUSINESS PERFORMANCE: AN EVIDENCE FROM MEXICO

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Abstract
Some studies have found that firms with higher Entrepreneurial Orientation (EO) perform better, however, an important message from past research efforts is that this relationship is more complex. The notion that the relationship between an EO and performance is different for many types of businesses, especially small business, is not new. There are two explanations for these inconclusive results: the performance implication of EO is context-specific and the relationship between EO and performance is moderated by internal factors. The purpose of this exploratory study was to examine through a contingency model the influence of time orientation on the EO-performance relationship in small business. Results based on a sample of 164 small manufacturing businesses in Mexico suggest that performance is positively influenced by its EO, but the findings also indicate that time orientation moderates the relationship. The EO-performance link is stronger for long-term orientation than for short-term orientation.
Keywords: Entrepreneurial orientation; Time orientation; Performance; Small business.

1. INTRODUCTION

Several authors, who have evaluated research being done in the entrepreneurship field, have concluded that there is no generally accepted theory due to the lack of consensus on major issues (GRÉGOIRE *et al*., 2006). Although the entrepreneurship field is dealing with central conceptual issues, its development has been more promising in certain areas. Such is the case of those who have studied the concept of Entrepreneurial Orientation (EO). For the past three decades after its conceptualization, EO has become a central concept in research on entrepreneurship and strategy that has received considerable attention, both theoretically and empirically (COVIN, GREEN and SLEVIN, 2006). The original contributions of Miller (1983), Miller and Friesen (1982), Covin and Slevin (1991) and Lumpkin and Dess (1996) have motivated the research on EO, however, many questions still remain in studies revolving around this concept.

EO refers to the strategy-making process that provides organizations with a basis for decisions making and business actions (WIKLUND and SHEPHERD, 2003). Based on previous work on the strategy-making process and entrepreneurship, scales have been developed for measuring the EO. Recently, Rauch *et al*. (2009) and George and Marino (2011) analyzed studies on the relationship between EO and firm performance. They

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concluded that this relationship is largely moderate and that firms benefit from the EO. An analysis of the direct relationship between EO and firm performance is limited, making it necessary to consider contingent factors, whether internal or external to the EO-performance relationship (COVIN and LUMPKIN, 2011). This is the basic premise of contingency theory, which states that the relationship between two variables depends on the intervention of a third variable. Introducing variables that moderate bivariate relationships helps to reduce the inference problem and allows better understanding of the contingent relations (ROSENBERG, 1968).

A variable that has rarely been considered in the context of small businesses is Time Orientation (TO). The current competitive environment is complex, and complexity is derived from different dimensions, which makes short-term or long-term decisions crucial to maintaining the competitiveness of small businesses. For example, the introduction of new technologies or changes in consumer demand may require that the firm become more entrepreneurial to stay competitive (LUMPKIN, BRIGHAM and MOSS, 2010). Since these changes can be costly and risky, it can weaken the financial security or threaten the reputation of the firm. Moreover, some decisions must be short-term to be precedent in the long-term. For example, an investment opportunity may require a quick decision, without too much analysis of its long term consequences.

To explore the question of how TO can influence the behavior of a small business, this research used the concept of EO for two reasons. First, previous research suggests that EO is a construct that captures evidence of making business decisions and actions in a variety of organizational and geographical contexts (KREISER, MARINO and WEAVER, 2002). Second, EO has its roots in the literature on strategy and not being a homogeneous construct, it is possible to identify the organizational processes that are affected by a TO (WIKLUND and SHEPHERD, 2003). This exploratory work is intended to make two important contributions. The first, attempts to identify how a short-term orientation compared to a long-term orientation may facilitate or inhibit the efforts of a small business for being entrepreneurial. Second, TO is a construct that has been predominantly used in the field of family businesses, more particularly with a long-term orientation (LUMPKIN, BRIGHAM and MOSS, 2010). However, this construct is not limited to the context of the family business, so this work can inform small businesses to integrate a TO in their decision-making processes.

This article will be structured as follows. First, a review of the existing literature is made and the main definitions of this research are presented. Then the methodological proposal in the study and the techniques used to analyze the data are presented. In the next section, the principal results of the investigation are shown with limitations and future research lines. In the final section, the main conclusions of this research are presented.

2. LITERATURE REVIEW

2.1 Time Orientation and Dominant Logic

The decision making and firm actions can be sensitive to time horizons, so that the company TO plays an important role in how this should be addressed. The literature shows that time consideration has been studied in several works, including the lack of long-term prospects as a result of information asymmetry (MYERS and MAJLUF, 1984), the role of time in taking business risks (DAS and TENG, 1997) as well as the cultural value

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(HOFSTEDE, 2005). In the field of business, the work of Mosakowski and Early (2000) and Spears, Lin and Mowen (2001) mentioned that the experience of managers, which can be transcendent, timely or continuous, influence the evaluation made of the time, and consequently influence decisions. One of the most common conceptual frameworks about TO is Laverty's TO (1996), which involves long-term orientation (LTO) versus short-term orientation (STO). The author mentions that a potential TO moderates long-term perceptions and reactions against short-term needs.

Mosakowski and Early (2000) mention that decisions are sensitive to time, depending on the frame of reference upon which their judgment is based. A LTO considers long time horizons and assigns greater importance to the future. Managers who make decisions with an LTO are aware that the results of many of their choices will come after a long period of time. Le Breton-Miller and Miller (2006) describe the priorities, goals, and especially specific investments that are successful over a long period of time, usually five years or more.

The LTO concept is common in literature pertaining to family businesses. Although not all family businesses have a LTO, there is widespread belief that these companies will be more long-term oriented than companies that are not familiar (ZELLWEGER, 2007). Moreover, LTO in an environment characterized by changing conditions caused by the change in technology could be a deterrent, as managers are able to change their long-term priorities (LUMPKIN, BRIGHAM and MOSS, 2010). A STO, however, reflects an interest in the decisions and actions that have immediate consequences. An STO may be favorable in volatile or uncertain situations because it allows strategic nimbleness and quick response to changing conditions (LUMPKIN and BRIGHAM, 2011). But short-termism referenced by Laverty (1996), is criticized if decision making is concentrated too much on current conditions and opportunities for short-term financial gains. Some managers only support projects with an immediate return on investment and high potential, because they may be unwilling to risk their property and/or put at risk the businesses future (ZAHRA, HAYTON and SALVATO, 2004).

In relation to decision making, Prahalad and Bettis (1986) introduced the concept of dominant logic, and describe it as the way in which the top management of a company conceptualized the business and administrative tools to achieve the company's objectives and make decisions. The authors state that the dominant logic depends largely on the experience of top management. This experience is stored via shared cognitive maps, which in turn, help interpret, evaluate and act on information they are receiving. The dominant logic has a strong heuristic component which means that it operates as a filter and simultaneously as a mental map that helps top management to make decisions without the need for a thorough and detailed analysis of each situation (BETTIS and PRAHALAD, 1995). In the particular case of a small business, the dominant logic lies with the firm founder-manager, since it has a dominant effect on the company and is capable of promoting a strong corporate culture that becomes a collective firm behavior (HOFSTEDE, 2001). In the same vein, the founder-manager will consider what is best for the business and will emphasize an orientation toward time in their decision making, which can be an LTO or a STO.

2.2 Entrepreneurial Orientation and Small Business

EO has positioned itself as an organizational phenomenon that captures patterns and business processes at the enterprise level (RAUCH *et al*., 2009). Generally, the EO refers to trends, processes and behaviors that lead a company to enter new or established markets with new or existing products (LUMPKIN and DESS, 1996). According to Miller (1983, p. 771),

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"an entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch". The previous ideas do not exclude the realities facing small businesses, which are challenged to recognize opportunities and therefore mobilize the necessary resources to exploit them. Moreover, small businesses can be innovative and favorable for stimulating economic development as their size and simple, flexible structure allows them to respond quickly to change in a competitive environment. To cope with fierce competition, small businesses must review their practices and constantly seek new ways to exercise flexibility, and improve their ability to become innovative and more competitive, that is, they acquire greater EO.

Based on the conceptualization of Miller (1983), there are three dimensions of EO that have been used consistently in the literature: innovativeness, risk taking and proactiveness. Innovativeness indicates the firm trend to support new ideas and foster creative processes that aim to develop new products and services. Risk taking is the firm tendency to support projects in which profits are uncertain. Proactiveness means taking initiative and pursuing new business opportunities in emerging markets. Lumpkin and Dess (1996) distinguish two new variables, competitive aggressiveness and autonomy. Competitive aggressiveness refers to taking more initiative towards customers, so that competition leads to the challenges encountered in seeking a new market or to improve their competitive position. Autonomy is the degree to which organizational actors (people and equipment) remain free to act independently, make decisions and pursue opportunities.

The behavior of a business can be classified along a continuum from highly conservative to highly entrepreneurial and the firm position in this continuum describes its EO (LUMPKIN and DESS, 1996). The relationship between EO and performance has shown that companies that adopt an EO perform better than firms that adopt a conservative orientation (RAUCH *et al*., 2009). EO studies differ using the combined five variables mentioned previously, but the majority still focused on the three original variables. Today, there are many studies that develop the aspects that determine the EO and its implications for the firm performance. In particular, in the field of small businesses, there are studies that examine the precursors of the EO, for example, some of them explore the psychology of the founder-manager (BECHERER and MAURER, 1999; POON, AINUDDIN and JUNIT, 2006), others analyze the influence of environment (BECHERER and MAURER, 1997; MILES, COVIN and HEELEY, 2000; MARINO *et al*., 2002), and other studies analyze the strategic process effects on the EO (COVIN, SLEVIN and SCHULTZ, 1994; COVIN, GREEN and SLEVIN, 2006).

The vast majority of researchers study the EO on firm performance effects. In the case of small companies, this relationship has been studied directly (WIKLUND and SHEPHERD, 2005; TAN *et al*., 2008; RUNYAN, DROGE and SWINNEY, 2008; SU, XIE and LI, 2011), in combination with other variables (KEH, NGUYEN and NG, 2007; WALTER, AUER and RITTER, 2006; PARIDA *et al*., 2010), under different environments and strategies (KEMELGOR, 2002; WIKLUND and SHEPHERD, 2003; SWIERCZEK and HA, 2003; DIMITRATOS, LIOUKAS and CARTER, 2004), or that the relationship is moderated by other variables or conditions (LUMPKIN and DESS, 2001; LI *et al*., 2008).

The interest in studying the effect of EO in the field of small business has become more popular over the last years. However, the results appear not to be conclusive, and although differences in results can be attributed to different research designs and methodologies, the differences reflect the fact that the EO sometimes, not always, helps

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improve the firm performance. Lumpkin and Dess (1996) mentioned that the complexity of the EO-performance relationship is context specific. That is, the strength of this relationship depends on the characteristics of the external environment and internal organizational characteristics. Therefore, the ratio of EO and performance can apparently be more complex than a simple direct relation. That is why, the EO can create conditions conducive to a company in a better scenario compared with the small business case where the decision making made by the founder-manager is crucial because of the dominant effect it has on performance.

The previous ideas leads to consider the recommendations made by Rauch *et al*. (2009) and Covin and Lumpkin (2011) in considering variables that moderate the relationship between EO and performance, and the context in which enterprises operate. In this sense, the need for research to identify the moderating effect of the TO in the EO-performance relationship of a small business in a middle income country, such as Mexico, is useful because it helps to prevent transfers of theoretical models designed from the large enterprise (ALOULOU and FAYOLLE, 2005). Based on these arguments, this study makes the following hypothesis:

The relationship between entrepreneurial orientation of a small business and its performance is moderated by the time orientation.

3. METHOD

3.1 Sample and Data Collection

Information was collected through a questionnaire that was specifically designed for this study. Four exploratory interviews with founder-managers of small business were conducted prior to the completion of the design of the questionnaire. The purpose of these interviews was to incorporate feedback and suggestions regarding the general understanding of the questions. The initial sample for this study consisted of 826 companies that were identified in Mexico through the Mexican Business Information System. Companies had to meet the following criteria: (a) Have between 11 and 50 employees with annual sales ranging from U.S. $303,001 to $7.5 million to be considered as a small business, according to the Ministry of Economy in Mexico. (b) Be a firm in the manufacturing sector. (c) Must have over five years in the business.

The 826 questionnaires were sent electronically to the founder-manager during the months of July to November 2011 with a letter explaining the purpose of the study. Two weeks after the first shipment, a thank letter was sent to those who had already solved the questionnaire and a reminder to those who had not yet answered. Four weeks after the first shipment, a reminder was sent including a web address to provide the option of answering the questionnaire online. Finally a total of 172 questionnaires (20.8 percent response rate) were received. After incomplete questionnaires were eliminated, 164 were used for further analysis. With respect to the variables used in the study, no significant differences among respondents at the beginning or end, or between those who responded electronically or online were observed (ARMSTRONG and OVERTON, 1977).

3.2 Measures

Independent Variables. This study utilized the measurement of the EO that is identified as the scale of Miller/Covin and Slevin (BROWN, DAVIDSSON and WIKLUND, 2001). This scale contains constructs that measure the firm tendency towards innovativeness,

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risk taking, proactiveness, competitive aggressiveness and autonomy. Rauch *et al*. (2009) suggest that this scale represent a useful and valid method for measuring business decisions and actions at the organizational level. In total 14 items were generated to measure the scale of the EO. Likert's scale of seven points was used to assess the constructs that measure the tendency of companies towards the EO. The average of the 14 items assessed the intensity of the EO, so that the higher the average was, the more entrepreneurial strategic posture the company had. The coefficient alpha of the scale was 0.87.

A confirmatory factor analysis was conducted to estimate the model dimension. Initial results suggested that it was not necessary to remove any item from the scale to improve the model fit. The model fit was assessed using χ^2/df, Goodness-of-Fit Index (GFI) (JÖRESKOG and SÖRBOM, 1996), and the Comparative Fit Index (CFI) (BENTLER, 1992). The threshold for χ^2/df should be less than three or less than two in a more restrictive sense (PREMKUMAR and KING, 1994). The values of GFI and CFI should be above 0.90 (JÖRESKOG and SÖRBOM, 1996). The measurement of the model resulted in a good fit: χ^2/df = 2.75, GFI = .910, CFI = 0.922. All the factor loadings are in acceptable ranges and significant at p = 0.001, ranging from 0.51 to 0.81 indicating convergent validity (ANDERSON and GERBIN, 1988). The average variance obtained for the measurement of EO was 0.59, which is slightly higher than the threshold suggested by Bagozzi and Yi (1988).

With respect to measurement of the firm TO, this work followed Laverty (1996) and Hitt *et al*. (1996) proposals to identify measurement through the election of their control systems. When organizations have a STO, it is more likely to favor financial controls, rather than strategic controls. Financial controls are based on stated objectives, targets and performance indicators. Therefore, the success or failure of the business depends on compliance with preset parameters. Financial controls strengthen an STO, which reduces the willingness of the organization to assume the risks associated with entrepreneurial behavior (ZAHRA, 1996). In contrast, strategic controls reflect a LTO and require an understanding of the task at hand, the risks involved and any compensation that may be generated (HITT *et al*., 1996).

To measurement was the average of four items for financial controls and three items for strategic controls. These measurements have been used in previous studies (HITT *et al*., 1996; ZAHRA, NEUBAUM and HUSE, 2000; ZAHRA, HAYTON and SALVATO, 2004). Founder-managers were asked to indicate in a Likert's scale of seven points, the controls they used most frequently to evaluate the firm performance. With respect to financial controls, the coefficient alpha was 0.78. The model proved a good fit: χ^2/df = 2.75, GFI = 0.91, CFI = 0.96 and the loading of each indicator were significant at p = 0.001 with a range between 0.56 and 0.84. The analysis of strategic controls yielded a coefficient alpha of 0.85 and the model generated a good fit: χ^2/df = 2.13, GFI = 0.96, CFI = 0.93 and the loading of each indicator were significant at p = 0.001 with a range between 0.61 and 0.87.

Dependent Variable. The validity of assessing the firm performance through perceptual measurements due to the lack of having hard data, has been well received and according to several authors, when evaluating the firm performance compared to its main competitors leads to a higher level of reliability and validity (CHANDLER and HANKS, 1993; WIKLUND and SHEPHERD, 2005). The performance measurement was the average of three indicators that have been used in previous studies (WALTER, AUER and RITTER, 2006; PARIDA *et al*., 2010) that relate to cash flow from operations, return on capital employed, and sales growth. Founder-managers were asked to indicate in a Likert's scale of seven points, the firm performance compared to their main competitors over the past three

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years. The alpha coefficient for the scale of the firm performance was 0.82. The model proved a good fit: χ^2/df = 2.87, GFI = 0.92, CFI = 0.941 and the load of each indicator were significant at $p = 0.001$ with a range between 0.59 and 0.80.

Control Variables. The literature shows that different environmental conditions, such as hostility and dynamism influence the EO-firm performance relationship (WIKLUND and SHEPHERD, 2003; PARIDA *et al*., 2010), which is why these factors were controlled during analysis. The average of three items in a seven point semantic differential scale developed by Covin and Covin (1990) was used to measure the hostility. The larger the index, the more hostile the firm's environment appeared. The coefficient alpha was 0.77. Environmental dynamism was measured by the average of the three items that make up the seven point semantic differential scale of Miller and Friesen (1982). The higher the average of the three items, the greater of the dynamic business environment. The coefficient alpha was 0.84.

Firms of different industries, size and age may have different organizational arrangements, which in turn may influence their performance (WIKLUND and SHEPHERD, 2005). The industry and size variables have been considered in the design of the sample, when small manufacturing companies are studied. With respect to age, the year the company was founded was used to calculate the number of years in business.

4. RESULTS

The means, standard deviations and correlations of the variables are shown in Table 1. In general, correlations between the independent variables are relatively low. However, to ensure that multicollinearity was not a problem a diagnosis of multicollinearity focusing on first-order variables was applied (AIKEN and WEST, 1991). The calculation of Variance Inflations Factors of the first order variables is below four, which is a critical value, suggesting that multicollinearity is not a problem in the analysis (HAIR *et al*., 1998). In regard to firm performance, both the EO as well as the financial and strategic controls showed a positive and significant relationship.

A moderate hierarchical regression analysis (COHEN and COHEN, 1983) was used to test the hypothesis, with a mean-centering procedure of the independent and control variables to minimize multicollinearity (AIKEN and WEST, 1991). Table 2 provides the regression results for different models. Model one includes control variables. Model two is added with the EO effect and Model three adds the TO effect, together with the financial and strategic controls. Finally, Model four adds the interaction effects between EO and TO on the firm performance.

The control variables of environmental hostility, environmental dynamism and the firm age explained the nine percent of the variation of the firm performance ($p < 0.01$). The result obtained in model two is consistent with results of previous research, finding a positive effect of EO on the small business performance ($\beta = 0.27$, $p < 0.01$). The same model shows that adding the EO to the three control variables explains the additional variance in the firm performance ($\Delta R^2 = 0.12$, $p < 0.01$). In Model three, when adding the financial and strategic control variables the increased variance is explained ($\Delta R^2 = 0.07$, $p < 0.01$). This means that these factors also affect the performance of small firms. The EO and the strategic controls have a statistically significant positive relationship with the performance of small businesses. That is, the better performance of a small company is associated with higher strategic controls ($p < 0.05$) and greater EO ($p < 0.01$). There is a statistically marginal contribution of financial controls ($p < 0.05$).

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Table 1. Means, Standard Deviations, and Correlations for Quantitative Variables

Variable	Mean	SD	1	2	3	4	5	6	7
1 Firm performance	4.74	1.18	1						
2 Entrepreneurial orientation	4.16	1.44	0.37***	1					
3 Financial controls	4.23	1.23	0.27**	0.19**	1				
4 Strategic controls	3.89	0.58	0.31**	0.29*	0.06***	1			
5 Environmental hostility	3.71	1.54	0.14**	0.12***	0.12**	0.13***	1		
6 Environmental dynamism	3.09	0.98	0.20**	0.19***	0.15**	0.15***	0.05**	1	
7 Firm age	21.5	9.7	-0.16**	-0.21***	0.03**	-0.02*	-0.03***	0.10**	1

N = 164. *S.D.*, Standard Deviation
* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Table 2. Regression results

Independent variable	Model 1	Model 2	Model 3	Model 4
Control variables:				
Environmental hostility	0.19***	0.14**	0.18**	0.21**
Environmental dynamism	0.23**	0.19**	0.24**	0.23**
Firm age	-0.11**	-0.10**	-0.15**	-0.18**
Main effects:				
Entrepreneurial orientation		0.27***	0.32***	0.39***
Financial controls			0.17**	0.25**
Strategic controls			0.23**	0.28**
Interaction effect:				
Entrepreneurial orientation x financial controls				-0.30**
Entrepreneurial orientation x strategic controls				-0.34**
Financial controls x strategic controls				-0.22**
R-square	0.09***	0.21***	0.28***	0.34***
Adjusted *R*-square	0.07***	0.18***	0.25***	0.33***
ΔR-square	0.09***	0.12***	0.07***	0.06***

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

The hypothesis of this paper predicts a moderating effect of TO on the relationship between EO and performance of small business. To test this hypothesis, we added the interaction effect between EO and financial and strategic controls as well as the interaction effect between the two controls. Model four reveals a positive interaction effect and significance between EO and TO explaining 34 percent of the variation in the firm

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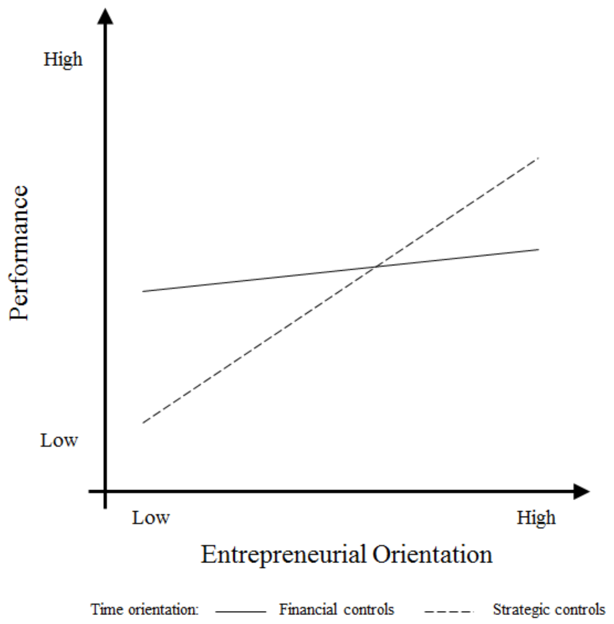
performance ($p < 0.01$). Likewise, adding the interaction effect causes a significant increase in the explained variance ($\Delta R^2 = 0.06$, $p < 0.01$), supporting the research hypothesis.

Based on the regression coefficients obtained by the analysis, the effect of EO on the firm performance for specific financial and strategic control values was plotted. The values of financial and strategic controls settled on one standard deviation above and below the mean, and there was given a range of values for EO, as suggested by Cohen and Cohen (1983). This gives a total of two graphs, as shown in Figure 1. The nature of the interaction indicates that in low EO levels, companies with greater financial controls have a relatively high performance. Firms with greater strategic controls are the worst performers. The two lines are upward sloping, indicating that regardless of the strategic and financial controls, performance does improve with the EO increase. This validates previous results regarding the positive influence of the EO. It is important to identify that while the firm's performance improves with the increase of the EO for both configurations, it does so at a faster rate for companies with strategic controls compared to firms with financial controls.

Figure 1. Moderating effect of time orientation on the entrepreneurial orientation-performance relationship



4.1. DISCUSSION

The results of this study suggest that EO has a positive impact on small business performance, as shown in previous works (RAUCH *et al*., 2009). The results also support the general idea that the EO-performance relationship depends on the context in which enterprises operate (WALTER, AUER and RITTER, 2006). This is illustrated by the influence of the control variables hostility and dynamism. An interesting result of this research is the effect of a dynamic character in the competitive context, which is consistent with previous results indicating that this aspect improves firm performance (CHANDLER and HANKS, 1994; ZAHRA, 1993). With respect to a hostile environment, this is not so significant, however, when combined with a dynamic environment, it exerts an influence on firm performance, as

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estimated in model two of Table 2. The company age effect must not be rejected, since the results indicate that the older the company is, the less the entrepreneurial behavior is shown. According to some researchers, this may be associated with greater caution and more conservative decision-making which can mitigate entrepreneurial behavior (SCHULZE, LUBATKIN and DINO, 2002).

The result of this study leads to the conclusion that the time horizon influences decisions and actions of a small business. In this sense, the evidence shows that the variable TO causes the relationship between EO and firm performance to increase or decrease. The results also suggest that a small business, despite having a low entrepreneurial behavior, can have a good performance if good financial controls are maintained. In other words, a STO which favor financial controls allows small businesses to perform well. The business behavior in a small company is associated with an increased emphasis on strategic controls, that is, LTO produces greater entrepreneurial behavior and improved performance. It is important to mention the context effect in this relationship. The EO can be used to overcome the disadvantages that a dynamic and hostile environment represents for small businesses. To do better in the short-term, emphasize financial controls, while in the long-term emphasize the strategic controls.

The results also contribute to the academic debate on the internal contingent factors that promote EO (COVIN, GREEN and SLEVIN, 2006). This work was supported by the dominant logic concept (PRAHALAD and BETTIS, 1986) and this concept helps to identify similar hostile and dynamic environments even if small firms show different entrepreneurial behaviors. This brings to mind the assumption of the resource-based theory, which emphasizes differentiation and suggests that the allocation of resources in a company explains the differences in performance through a competitive advantage (BARNEY, 1991). Therefore, the result of this work shows that the EO in combination with TO who signals the company's dominant logic leads to better performance. That is, EO can be under the restriction of the dominant logic, yet provide a differentiation mechanism that emphasizes financial or strategic controls.

4.2. LIMITATIONS AND FUTURE RESEARCH

Although the results of this paper are illustrative in many ways, they must be interpreted in the light of their limitations. First, the sample consisted of small manufacturing firms that operate in the context and reality of a middle income country like Mexico. There is no reason to believe that the results can be generalized to all sectors of the economy. Second, the study consulted the founder-managers, as the main assessment of firm reality, since it was assumed that this person is well informed regarding their organization. However, debate continues concerning the use of multiple responses from an organization to ensure receiving valid data. Third, information on the EO and firm performance was obtained at the same time.

EO is one of the few constructs in the entrepreneurship field that has been applied in different countries. However, more research is needed in other business cultures to achieve a generalization. Also, because the study sample included only small businesses, this study did not monitor a particular segment of industry. Future research should consider a more homogeneous sample, perhaps an industrial segment would be of particular interest. In this vein, more comparative studies are needed to strengthen the results so far obtained from new ventures and small established firms when adopting an EO (SU, XIE and LI, 2011). Moreover, it is possible that the risks involved in adopting an EO lead to greater chances of failure. Due to the high failure rates among new and small businesses, future research should

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identify the variables that allow the company to perform well, but at the same time, are associated with high probabilities of failure.

In the same vein, the transverse nature of the data requires caution when coming to causal inferences, because the relationships that are being analyzed may be susceptible to reverse causality. To avoid this possibility, future research should identify the internal and external aspects that detonate the TO when studying the EO and performance over time. In addition, the company's performance is measured based on subjective data, which have shown to generate similar results to those of the objective data (WALTER, AUER and RITTER, 2006). The addition of objective data in future studies could increase the validity of the results. Finally, this paper does not consider the different stages in the life cycles of business, so it might be valuable in the future to know whether or not there is more influence in the firm performance in certain stages of the EO.

5. CONCLUSIONS

Small businesses are a major player in the economy of a country. Therefore, the research carried out on these companies, is always of great interest for theory, practice and policy. Consistent with previous work, the results of this investigation show that the EO has a positive effect on small business performance. It also provides a better understanding when studying the EO-firm performance relationship and the potential effect of TO is considered. TO has a positive influence in this relationship, although it is expressed differently in the short and long term. It is necessary to continue the study of EO and its peculiarities in the small businesses context because these businesses acquire certain peculiarities that distinguish them from the large company. The internal contingent factors may be helpful to better understand the relationship between EO and firm performance. This work was supported by the concept of dominant logic, which in the context of a small business is essential. In the same vein, through the concept of dominant logic, future research can contribute to a greater understanding in regard to decision making within a company. This in turn could generate benefits for both theory and practice.

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