Standing Out and Giving Back:

Entrepreneurial Orientation and Philanthropy

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**Abstract**

We argue that small and medium-sized enterprises (SMEs) that are more entrepreneurially oriented are also more likely to engage in philanthropy. Dynamic SMEs "stand out" and thus have a greater need to build legitimacy with external stakeholders by engaging in philanthropy. We find support for our propositions in a representative sample of Lithuanian SMEs applying structural equation modeling. We discuss how the transition context may affect our results and conclude with wider implications for entrepreneurship theory.

**Keywords:** Philanthropy, Entrepreneurial orientation, SME, internationalization, Lithuania

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The novelty of our paper is to link the entrepreneurial orientation (EO) of businesses with philanthropy. We develop a theoretical argument on the relationship of EO of small and medium size enterprises (SMEs) with their pro-social orientation, and specifically with their engagement in philanthropy. We argue that entrepreneurially oriented SMEs introduce novelty in the market and thus are in higher need of legitimization compared to less entrepreneurially oriented SMEs. One way to achieve legitimacy with local stakeholders is to give back to the community via philanthropy. Engaging in philanthropy ensures that these firms are seen as legitimate actors by local stakeholders. As an indicator of philanthropy we examine whether SMEs contribute financially to the needs of their local community via charitable giving. We test our predictions on data derived from interviews with owners-managers of a representative sample of SMEs in Lithuania.

The paper is organized as follows. After introducing the theme of dynamic SMEs and philanthropy, we discuss the links between the strategic entrepreneurial orientation (EO) with philanthropy and formulate our hypotheses. Next, we discuss to which extent the Soviet legacy could affect the entrepreneurship – philanthropy nexus in Lithuania. In the following sections of the paper we discuss our sample, methods, robustness checks and results. Our final conclusions point to both limitations and theoretical implications.

Intruduction

Philanthropy and Legitimacy

The original discussion on corporate social responsibility and the social orientation of enterprises saw it much as an ethical obligation. However, research to date concentrates on demonstrating performance benefits of adopting CSR for large corporations (Orlitzky et al. 2003; Campbell, 2007; Lee 2008).

Our research’s contribution is to explore the social orientation of small and medium-sized enterprises rather than large corporations and importantly, to shift the focus from the social orientation-performance debate to exploring whether a social orientation, in particular philanthropy, is compatible or conflicting with a strategic focus on entrepreneurship. We embed this research question in a wider argument, which is that the dynamism of smaller businesses (Pistrui et al., 2011), we are not aware of contributions that link entrepreneurial orientation (EO) to SMEs’ engagement in philanthropy. In the following we discuss in more detail why philanthropy is not in conflict with EO, drawing on legitimacy arguments and highlighting the role that the social milieu plays for SMEs.
We maintain that by engaging in philanthropy firms build their legitimacy vis-à-vis their immediate stakeholders (e.g., customers, suppliers, shareholders, financing institutions), the wider public, and the government (including the local government, which is particularly important for SMEs). Here, legitimacy refers to “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” (Suchman, 1995, p.574). Importantly, firms that are perceived as legitimate — i.e. firms which are morally approved of — find access to resources easier and can rely on greater cooperation with their various stakeholders including the wider public and government. All of which in turn allow the firm to run its operations more effectively (Campbell 2007; Orliketz et al. 2003; Lee 2008; Luo and Junkunc, 2008; Wang and Qian 2011). Giving back to the community is an act of goodwill instilling a socially responsible public image of a firm amongst its various stakeholders (e.g. Wang and Qian, 2011). Zimmerman and Zeitz (2002) and Luo and Jukcune (2008) argue that achieving legitimacy is particularly important for growth-oriented firms and new firms correspondingly. Although these studies do not discuss philanthropy in particular, they highlight the important role of legitimacy for firms with some entrepreneurial traits.

Entrepreneurial Orientation

Entrepreneurial Orientation (EO) is a firm’s strategic posture that corresponds to its propensity to act entrepreneurially and to introduce novelty in the market place (Miller 1983; Covin and Slevin 1989; Lumpkin and Dess 1996; Anderson, Covin and Slevin, 2009; Lumpkin, 2011; Covin and Wales, 2013). More specifically, entrepreneurially-oriented firms are characterized by the emphasis on innovation, risk-taking and pro-activity (Covin and Slevin 1989; Miller, 1983). First, the emphasis on innovation such as the development of new products, services and processes is in line with classical conceptualizations of entrepreneurship that see innovation at the core of entrepreneurial activity (e.g., Drucker 1985; Schumpeter 1934). Similarly, definitions of corporate entrepreneurship commonly emphasize innovation (e.g., Covin and Miles 1999; Kuratko, Ireland, Covin, and Hornsby, 2005; Lumpkin and Dess 1996). Second, the EO component of risk-taking refers to a firm pursuing opportunities with high but more uncertain chances of return. This had led Wiklund and Shepherd (2013) to argue that EO may essentially be seen as the ‘performance-variance-enhancing strategic orientation’. Third, pro-activity describes whether a firm is ahead of the market, i.e. it acts anticipating future market trends and competitors’ reactions. For the purpose of this research we treat EO as firm-level phenomenon — although we acknowledge that for large firms other conceptualizations of EO are also possible (e.g. at the business unit level, see: Covin and Lumpkin, 2011).

EO has become one of the most researched concepts in entrepreneurship with a multitude of studies investigating its impact on firm performance and testing its validity in different contexts (e.g. Baker and Sinkula 2000; Hughes and Morgan 2007; Kreiser et al., 2002; Moreno and Castillas, 2008; Short et al., 2009). In current research it eclipsed the related, broader (but less precise) concept of ‘corporate entrepreneurship’ (Covin and Lumpkin, 2011). A recent meta-analysis summarizes over 50 empirical studies drawing on a total sample of over 14,000 firms (Rauch et al., 2009) and finds that firms’ EO is significantly and positively related to firm performance. The EO-performance relationship is found to be similar using different operational definitions of EO such as the EO questionnaires by Covin and Slevin (1989) versus adaptations and extensions of it (Lumpkin, Cogliser and Schneider, 2009). It also holds across different operational definitions of firm performance (e.g. growth, profitability) and longitudinal research finds that this relationship becomes stronger over time (Wiklund 1999; Zahra and Covin, 1995).

Entrepreneurial Orientation and Philanthropy: Legitimacy and Synergy

We are not aware of any studies that would link SMEs’ EO with their social orientation more generally or specifically with philanthropy. In the following, we discuss in more detail why philanthropy and EO are not in conflict, but rather complementary and may even be mutually reinforcing strategies. To do so we draw on legitimacy and also synergy arguments. Legitimacy arguments suggest that philanthropy helps entrepreneurially-oriented SMEs to gain acceptance and approval. In particular, SMEs with a high EO emphasize innovation and introduce novelty in the market place such as new products, services and processes. Furthermore, their proactive and risk-embracing orientation emphasizes getting ahead of the competition and doing things differently. In other words, SMEs’ with a high EO pursue a strategy focused on being different and on first-mover advantages — all of which may lead to decreasing perceptions of legitimacy with their key stakeholders, including the general public and government. Legitimacy is typically conferred when firms abide by the dominant and typical way of doing business (Zimmerman and Zeitz, 2002) — which is precisely what highly entrepreneurially oriented firms do not do. Hence they find it more difficult to convince their stakeholders that their “venture is indeed competent, efficient, effective, worthy, appropriate and/or needed” (Zimmerman and Zeitz, 2002: 416).

At the same time, legitimacy is particularly important for entrepreneurially-oriented SMEs as EO is a resource-intensive strategy, and legitimacy is crucial in accessing resources. Resource providers including key stakeholders and government are more likely to allow access to resources if they believe that the SME is acting appropriately and competently — i.e. that it will put the resources to “good use”, including it is competent enough to generate a return on investment and able to service a line of credit.

In sum, entrepreneurially-oriented SMEs may use philanthropy to counterbalance their lack of legitimacy vis-à-vis external stakeholders. However, we suggest that philanthropic activities may help the entrepreneurial firm to include not only features of conformance but also creation in their strategies. Charitable activity indicates that a SME supports societal norms (conformity strategy). At the same time, philanthropy may support new social entrepreneurship ventures, which transform the environment in which the SME operates (creation strategy). The most direct example is a firm-sponsored charitable foundation. Thus philanthropy is also a way of connecting entrepreneurially SMEs to civic society, i.e. voluntary associations and community-based networks. Moreover, such connections would over time further strengthen the philanthropy-EO link as they provide access to novel information that could further stimulate innovation activities. From this perspective, philanthropy is not only a strategy element compensating for newness; it creates synergy with the core elements of entrepreneurial orientation via generating access to additional knowledge that entrepreneurially oriented firms are in the best position to take advantage of. This is also more generally consistent with research suggesting that EO is conducive to utilize knowledge-based resources more fully (Wiklund and Sheppard, 2003).

Taken together, we hypothesize based on legitimacy and synergy arguments that:

**Hypothesis 1:** Philanthropy (charitable giving) is positively associated with SMEs entrepreneurial orientation.

While the link between entrepreneurial orientation and philanthropy is central to our paper, we also investigate next if two related characteristics that make firms ‘stand out’—internationalization and past performance — could also be taken as predictors of ‘giving back’. Considering these is important, as it helps us to make sure, both on theoretical and on empirical grounds, that we do not confound the effects of entrepreneurial orientation with those resulting from related but distinctive phenomena.
Foreign Ownership and Philanthropy

We expect foreign ownership to link with philanthropy based on three distinctive arguments. First, we can motivate our expectation of the link between foreign ownership and philanthropy in parallel to the access to knowledge argument we developed with respect to EO, above. Foreign owners operate in an environment they know relatively less and therefore strategic access to local knowledge is particularly important for them. Engaging in philanthropy maybe an important channel for this.

Second, we would expect that companies that have wider international contacts, as a result of having foreign investors (but also of exporting), are more exposed to business cultures in which pro-social attitudes are embedded. Therefore, they are likely to import these attitudes and strategies via the processes of organizational learning and adaptation (Acs and Dana, 2001).

Third, Goyal (2006) interprets social contribution of multinational companies to the host country community as a signaling device used by foreign investors to demonstrate that they have long-term intentions consistent with the local expectations. This in turn triggers positive, supportive responses from the host countries.

Financial Resources and Philanthropy

Firms which are financially successful are also more visible to external stakeholders. That in turn may create expectations and social pressure for charitable giving (Wang and Qian, 2011). Responding positively to these expectations is another way to increase legitimacy and VLC (Wang and Qian, 2011) and, whilst interactions with central government are more likely to occur in case of large firms, SMEs may still be both visible and affected by local government and low-level administration, with respect to issues like planning and construction, licensing and environmental regulations. Thus, building legitimacy with local government is relevant for SMEs, and for those with foreign ownership in particular. Coming from the outside, foreign investors are in an even greater need of building their reputation towards local stakeholders, compared with local owners. In addition, size and resource limitations imply that philanthropy, unlike more institutionalized forms of pro-social activities, may be the most typical form of pro-social activities of SMEs. Accordingly, we hypothesize:

**Hypothesis 2:**
Philanthropy (charitable giving) is positively associated with a degree of firm’s internationalization as captured by (a) presence of foreign investors and (b) export share.

Financial Resources and Philanthropy

Resources are accumulated as a result of good performance (Orlitzky et al. 2003) and, consistent with Wang and Qian (2011), we posit that past performance contributes to a firm’s philanthropic orientation. However, we introduce an additional dimension alongside past performance. Namely, spending away ‘free’ cash resources comes at higher opportunity cost, in a case when access to external finance is more difficult. With no security of drawing additional finance, running low cash balances comes at greater risk of temporary external shocks to revenues creating threats to the firm.

Accordingly, parallel to legitimacy considerations, we enhance the slack resources’ view, augmenting it with the issue of access to external financing, which may be more difficult for small companies, and posit:

**Hypothesis 3:**
Philanthropy (charitable contributions) is positively associated with firm’s (a) past performance and (b) access to finance.

Context: Soviet legacy

Past research suggests that EO can be replicated in different countries (Kreiser et al. 2002; Hansen et al. 2009; Rauch et al., 2009). This has important implications for our research, as it suggests that using a single-country sample may not be such a limiting circumstance as it seems. Moreover, by focusing on SMEs in a single small open economy we respond to Miller’s (2011) call for analysing EO in a well-defined institutional context to generate more empirically valid knowledge. We conduct our research in a small-scale dynamic post-Soviet economy with a relatively weak institutional environment (weak rule of law): Lithuania.

Similar to other countries in Central Europe, entrepreneurship re-emerged in Lithuania as one of the key drivers of economic recovery in the early 1990s that followed the implosion of the old economic system. New enterprises and SMEs in Lithuania could quickly fill domestic market gaps inherited from the command economy system of supply and identify exporting opportunities (Aidis and Mickiewicz, 2006). Yet despite the initial wave of entrepreneurship in Central Europe, the Soviet system left a legacy of social attitudes that were not conducive to entrepreneurship and the rates of entrepreneurial entry remained relatively lower compared with other countries at a similar level of development in Far East Asia and Latin America (Estrin and Mickiewicz, 2011). Some of those inherited attitudes are not only detrimental to entrepreneurship (Ibid.) but also to any private sector self-organization, including philanthropy-based non-profit activities (Roettke and Rathbone, 2002).

However, there are reasons to believe that the impact of the Soviet past is by now limited and lessons we learn from this economy generalize to other economies, particularly those with weak institutional environments. First, the period of Communism was shorter in Lithuania, compared with most of the other former Soviet republics. Therefore some cultural traits were better preserved from an earlier pre-Second World War period. Second, economic policies in Lithuania are more pro-market than elsewhere, including a flat income tax and a small organizing role of the government. Thirdly, while the Soviet economic system was detrimental both to entrepreneurial and to non-profit private self-organization, the entrepreneurial talent of those who were least risk averse was channeled into illegal entrepreneurship. Apart from a narrow licensed craft sector, all entrepreneurship was illegal: under the command economy system. Yet the entrepreneurship was thriving as enforcement became weak, and the experience of illegal entrepreneurship helped kick-start positive attitudes towards entrepreneurship in the emerging market economy (Aidis and van Praag, 2007).
Sample

The study draws on 270 phone interviews with randomly sampled owner-managers of small and medium-sized enterprises (SMEs), i.e. firms with less than 250 employees according to the SME definition adopted by the European Union. Interviews were conducted in Lithuania representing January-March, 2008. The firm contact information was obtained from the official statistics compiled by the Lithuanian State Enterprise Centre of Registers.

The sampling frame was 800 randomly selected companies from the official register. Out of the list of 800 firms, 258 companies could not be contacted (either moved to another office and the new tenants could not provide the correct contact information, or the phone line was not in use anymore). Additionally, 42 phone numbers appeared to be non-existent, which can be explained either by the probability that those companies have gone out of business or by errors in the company registry. During the initial contact phase, the company representatives (usually administrators or secretaries) were informed about the study, and were asked for direct contact with the owner or owner-manager.

Out of 520 companies that we established contact with, 162 refused to connect us to the top person(s), which was typically motivated by time constraints, winter holidays or other reasons. Talking directly to the owners/owner-managers of the firm, in 83 cases the respondents declared that they had no willingness to participate in the survey. Finally, 275 owners or owner-managers of SMEs agreed to be interviewed, and the corresponding number of questionnaires was filled in, which gives an overall response rate of 34.4%. Five of those 275 were excluded from the present analyses due to missing data. On average, interviews lasted 15 minutes. Interviews were focused and length was kept to a minimum to avoid interview fatigue and thus unreliable data.

The final sample represented 270 enterprises from the five largest Lithuanian cities as well as 27 other smaller towns. The enterprises were on average six years old (Mean: 6.96, Standard Deviation: 2.032) and had a mean of 18 employees (M: 18.47; SD: 21.68). The enterprises were active in retail trade (20.0% of sample), wholesale trade (16.3%), construction (14.4%), manufacturing (17.4%) and other services (41.5%). The mean number of employees in the Orbis database is 20 employees, and closely similar to the median of 18 employees in our sample. A sector comparison shows that for our sample the 25th percentile corresponds to 2 full-time permanent employees, whilst the corresponding number is 7 for the Orbis database. The mean number of employees, however it is known to oversample large firms. The mean number of employees of Registers.

Philanthropy.

Our dependent variable is based on the survey instrument capturing the charitable contributions of SMEs. We asked the following question: “In the past 12 months, has your business contributed to the sponsorship for social needs (donations for hospitals, social organizations, sports, etc.)?” The answers were recorded on a 5-point Likert scale: 1 – ‘no’, 2 – ‘yes, but very little’, 3 – ‘yes, partly’, 4 – ‘yes to a large extent’ and 5 – ‘yes to a very large extent’. We also conduct a robustness check in which we use dummy-coded philanthropic orientation (0 – no charitable giving, 1 – charitable giving). This variable reduces the available variance captured in the 5-point scale but is a more robust measure, in the sense that it eliminates possible response-bias due to different interpretations of the scale points ‘very little’, ‘partly’, ‘to a large extent’ and ‘to a very large extent’.

Entrepreneurial Orientation (EO). EO was measured with a questionnaire widely used and validated in prior research (e.g., Covin and Slevin 1989; Miller and Friesen 1983; Rauch et al. 2009) evaluating the firm’s emphasis on innovation, risk-taking and pro-activity.

More specifically we used items suggested by Covin and Slevin (1989) supplemented by two additional items regarding innovation, and one item each for risk-taking and pro-activity as suggested by Lumpkin (1998), Lumpkin et al. (2009) and by Moreno and Canillas (2008). Lumpkin and Dess (1996) suggested two further components of EO: autonomy and competitive aggressiveness. Autonomy is understood to be more an enabler or a precondition of EO (e.g. Kuratko et al. 2005; Morris et al. 2007). Competitive aggressiveness shows conceptual overlap with pro-activity, i.e. being the first in a market and ahead of competition. However, the theoretical foundation for an aggressive stance towards competitors as a defining feature of an entrepreneurial firm orientation is less clear. Research on organizational networking and open innovation suggests that collaboration with competitors can also be considered to be entrepreneurial (e.g. Chiaramonte, 2006).

There has been some debate in the literature whether EO should be conceptualized as three separate dimensions or whether they form an integrated whole (e.g., Covin and Slevin 1989; Lumpkin and Dess 1996; Covin and Lumpkin, 2011). Most studies treat EO as one dimension (e.g. Rauch et al. 2009). Given the theoretical background which defines innovation, pro-activity and risk-taking as components of EO and given the fact that prior research finds these components to co-vary, we conceptualize EO as a second-order factor consisting of three distinguishable, yet related first-order factors (Covin and Wales, 2011). In line with Covin and Wales’s (2011) review of the measurement of EO, we specify a hierarchical factor model (Figure 1) with both reflective first- and second-order constructs. This is a model with innovativeness, pro-activeness and risk-taking modelled as first-order factors loading on the second-order factor of entrepreneurial orientation. We employed confirmatory factor analysis to test this model, using AMOS 18 (Arbuckle 2009). The specified model fitted the data reasonably well with Chi² = 130.55 (df=51) and CFI =.93, TLI =.91, and GFI =.96 all exceeding the .90 cut-off criterion (Hu and Bentler, 1995; 1999). RMSEA was .076, and as such did not meet the suggested upper threshold of .06 (Hu and Bentler, 1999).

After eliminating items which showed cross-loadings, a more parsimonious model (see Figure 1) based on 9 items, showed an excellent model fit with Chi²= 45.72 (df=24) and CFI =.97, TLI =.96, and GFI =.96 all exceeding the .90 and even the stricter .95 cut-off criterion (Hu and Bentler, 1995; 1999). RMSEA was .058 and as such lower than the recommended maximum of .06.
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Sample and Methods

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Sample and Methods

Figure 1 Hierarchical Factor Structure Entrepreneurial Orientation

The Appendix contains the list of retained items. In contrast to the original Covin and Slevin’s (1989) scale, the retained items for innovation include not only aspects of product/service innovation but also process innovations. The risk-taking scale consists of the three items suggested by Covin and Slevin (1989). The proactivity scale also closely resembles the original Covin and Slevin (1989) scale while for one item, this item emphasizes following the leader or being ahead of competition in introducing new products or ideas. It is conceptually consistent with the theoretical background of the scale. Thus the EO scale employed in this research diverges slightly from the Covin and Slevin scale which may limit the comparability of our findings with past research somewhat. At the same time, increasing ‘variety of operationalizations’ may help to ‘establish the convergent validity of measures’ of the underlying theoretical concept of EO (Miller, 2011). Moreover, Rauch et al. (2009) showed that the association of EO with firm performance is relatively unaffected by the specific measurement scale used. Thus, although not all items of the Covin and Slevin (1989) scale are contained in our measure, it contains validated items of closely related EO measures. Thus, we use a content valid scale to measure EO.

Internationalization. Firm internationalization was evaluated by two questions. The first question asked about the extent to which the firm has attracted investments from abroad over the past 12 months (FDI). The owner-managers answered using a 5-point scale from 1 – ‘no’, 2 – ‘yes, but very little’, 3 – ‘yes, partly’, 4 – ‘yes to a big extent’ and 5 – ‘yes, to a very big extent’. The second measure of internationalization captured the long-term change in export share. Owner-managers rated on a 5-point scale how their export share developed over the past three years with 1 meaning ‘decrease a lot (more than -40%)’ to 5 ‘increase a lot (more than 40%)’.

Financial resources and a firm’s performance.

In line with prior research we use a subjective measure of ‘satisfaction with capital availability’ as it is difficult to obtain objective measures of whether or not available capital is sufficient for SMEs (Wiklund 1999). Owner-managers were rated their company’s access to financial capital on a 7-point scale from 1 – ‘Insufficient and a great impediment for our development’, to 7 – ‘Fully satisfactory for the firm’s development’. Wiklund and Shepherd (2005) provide convergent and discriminant validation of this measure.

We measure past firm performance using an index of two items, one measuring the change in sales turnover over the past 12 months (‘turnover’ hereafter) and the second capturing change in net sales profit over the past 12 months (‘profit’ hereafter). Respondents rated both on a 5-point scale ranging from 1 – ‘decrease a lot (more than -40%)’ to 5 – ‘increase a lot (more than 40%)’. The Cronbach’s Alpha for this two item index was 0.73.1

Control variables. EO has been found to be a more ‘effective’ strategy for smaller businesses (Rauch et al. 2009) hence we control for firm size using the natural log of the number of permanent full-time employees. Similarly, we control for firm age (using the natural log of firm age in years) since younger firms are often considered to be more entrepreneurial. Both firm size and age showed a skewed distribution, thus adhering to protocols outlined by Tabachnick and Fidell (2007), we log-transformed both variables to avoid biased results. Moreover, industry dummies were controlled for by using dummy variables for retail trade, wholesale trade, construction and manufacturing.

Test for common method bias. Concerns over common method bias (CMB) arise when all variables in a study are collected through self-report as reports may be biased by respondents’ feelings or desirability bias rather than reflect the true nature of things (Podsakoff, MacKenzie, Lee and Podsakoff, 2003; Podsakoff and Organ, 1986). CMB is of particular concern when feelings or attitudes are reported. This is not the case in our study where all variables refer to the firm and not to the reporting person him/herself. In addition, most variables in our model are reports of past behaviors (including philanthropy) or reflect objective firm performance information. Nevertheless, we conducted the widely used Harman’s common factor test via exploratory factor analysis to assess the extent to which our result may be biased by common method variance. As a rule of thumb, if the common factor explains more than half of the variance amongst all items, then common method variance is said to be a problem. We found that less than a quarter, 22.9% of the variance was shared among all items. Thus CMB is unlikely to be an alternative explanation for our findings.

Analysis strategy. We present results of structural equation modelling which combines factor analytics with the regression approach and has the advantage of explicitly taking measurement errors and inter-correlations among predictors into account (e.g. Kline 2005). As a robustness check, we repeated all analysis using ordered probit regression estimations. The results are highly similar and lead to no different conclusions from the ones presented here. These analyses are available upon request from the authors.

Internationalization.

Financial resources and a firm’s performance.

Control variables.

Analysis strategy.
Results

Hypotheses and control variables

Simple correlations for all the variables are displayed in Table 1 and provide initial support for Hypothesis 1: entrepreneurial and philanthropic orientation are positively correlated, for Hypothesis 2: philanthropic orientation is also positively correlated with indicators of internationalization (foreign direct investment and increasing export share) and for Hypotheses 3a and 3b (philanthropy and past performance and access to capital).

Table 1. Correlations and Descriptive Statistics

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<th>Variables</th>
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<td>1 EO</td>
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<td>2 Philantropy (giving to charity)</td>
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<td>3 Philantropy (giving to charity) – dummy</td>
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<td>4 Manufacturing</td>
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<td>5 Wholesale trade</td>
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<td>6 Retail trade</td>
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<td>7 Construction</td>
<td>0.14</td>
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<td>-0.19**</td>
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<td>8 Size (ln number employees)</td>
<td>2.40</td>
<td>1.00</td>
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<tr>
<td>9 Age (ln firm age)</td>
<td>1.73</td>
<td>0.33</td>
<td>-0.02</td>
<td>0.09</td>
<td>0.09</td>
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<td></td>
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<tr>
<td>10 Past performance (sales turnover)</td>
<td>3.99</td>
<td>1.08</td>
<td></td>
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<tr>
<td>11 Access to finance</td>
<td>4.56</td>
<td>1.76</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>12 Foreign direct investment</td>
<td>0.20</td>
<td>0.41</td>
<td>0.15*</td>
<td>0.19**</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>13 Export share</td>
<td>3.19</td>
<td>0.74</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

*p<.10, **p<.05, ***p<.01

While correlation results are consistent with our assumptions, in formal testing of hypotheses we rely on structural equation modelling. Figure 2 and Table 2 display the results of regressing philanthropic orientation on the predictor variables, EO, internationalization measures (export share and FDI), access to finance as well as past firm performance while controlling for potential covariates (firm size, firm age and industry sector). Overall 25% of the variance of a firm’s philanthropic orientation was explained by this set of predictor and control variables. The model fitted the data well with Chi²= 193.39 (df=130) and CFI = .95, TLI = .92, and GFI = .94 all exceeding the .90 and partly the stricter .95 cut-off criterion (Hu and Bentler, 1995; 1999). RMSEA was .043 and as such lower than the recommended maximum of .06 (Hu and Bentler, 1999), indicating good model fit.
Standing out and Giving back: Entrepreneurial Orientation and Philanthropy

Results

Table 2
Predictors of Philanthropy: Standardized and Unstandardized Estimates including Factor Loadings of Items on Entrepreneurial Orientation (EO) Construct

<table>
<thead>
<tr>
<th>Hypotheses testing (philanthropy is regressed on all indicators below, as shown in lower part of Figure 2)</th>
<th>Standardized estimate (regression weight, β)</th>
<th>Unstandardized estimate (B)*</th>
<th>S.E.*</th>
<th>p *</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO</td>
<td>.267</td>
<td>.353</td>
<td>.089</td>
<td>.004</td>
</tr>
<tr>
<td>Access to finance</td>
<td>.035</td>
<td>.018</td>
<td>.030</td>
<td>.562</td>
</tr>
<tr>
<td>Past performance</td>
<td>.063</td>
<td>.064</td>
<td>.055</td>
<td>.248</td>
</tr>
<tr>
<td>FDI</td>
<td>.108</td>
<td>.322</td>
<td>.120</td>
<td>.054</td>
</tr>
<tr>
<td>Export</td>
<td>.098</td>
<td>.116</td>
<td>.068</td>
<td>.088</td>
</tr>
</tbody>
</table>

Control variables (Philanthropy as regressand)

| Size (ln employees) | .196 | .172 | .057 | .002 |
| Firm age (ln) | .087 | .228 | .150 | .129 |
| Retail trade | .019 | .056 | .169 | .743 |
| Construction | -.005 | -.011 | .157 | .943 |
| Manufacturing | -.042 | -.096 | .143 | .501 |
| Wholesale | .076 | .179 | .142 | .208 |

EO factor loadings (hierarchical factor analysis)

| EO on proactiveness | .888 | 1.367 | .182 | .001 |
| EO on innovativeness | .747 | 1 | – | – |
| EO on risk-taking | .600 | .869 | .133 | .001 |
| P1 on proactiveness | .816 | .789 | .062 | .001 |
| P3 on proactiveness | .829 | 1 | – | – |
| F1 on proactiveness | .783 | .887 | .058 | .001 |
| F3 on proactiveness | .790 | 1.127 | .121 | .001 |
| I1 on innovativeness | .741 | 1 | – | – |
| I3 on innovativeness | .437 | .566 | .091 | .001 |
| R1 on risk-taking | .562 | .652 | .088 | .001 |
| R2 on risk-taking | .561 | .682 | .092 | .001 |
| R3 on risk-taking | .871 | 1 | – | – |

Variance explained in Philanthropy 25%

Model fit: X² = 193.39 (df=130), CFI = .95, TLI = .92, GFI = .94, RMSEA = .043

* due to the model estimation process within the confirmatory factor analysis part of the model (bottom half of this table) one item factor loading per latent factor is fixed to 1. SE and p are not estimated for those items (e.g., Kline, 2005).

Hypothesis 1

Entrepreneurial orientation (EO) was significantly related to the SMEs’ philanthropic orientation (β = .27, p<.01, see figure 2 and table 2). As a robustness check we substituted the dummy-coded philanthropic orientation variable for the continuous philanthropic orientation measure. The relationship of philanthropic orientation and EO remains significant albeit somewhat reduced (β = .17, p<.05), which is to be expected as dummy-coding reduces the variance of the philanthropic orientation measure.

Hypothesis 2

Both measures of internationalization – the attraction of foreign direct investment and export share – were significantly and positively associated with the SMEs’ philanthropic orientation at p<.10 with β = .11 and β = .10.

Hypothesis 3

Unlike the simple correlations results, neither access to capital nor past performance was significantly related to SMEs’ philanthropic orientation in the structural equation models (see figure 2 and table 2). As a result of this, the results are not in line with H3.

Further findings

Firm size (natural log of the number of employees) was consistently positively related to SMEs’ philanthropic orientation (as well as to their EO). Thus, bigger firms seem to be more inclined to give back to society. Both access to capital and past performance were significantly positively related to SMEs EO. This is in line with prior findings that EO is a resource consuming strategy and dependent on sufficient access to capital (Moreno and Casillas 2008; Wiklund 1999).

Robustness Check: Post-Soviet Heritage

We presented arguments suggesting that the Communist past may be affecting Lithuanian business environment only little today. We conducted additional empirical tests to support these arguments. Estrin and Mickiewicz (2011) take age profiles as indicative of persistence of norms and values. Older generations are more affected by the Soviet heritage (see also Guriev and Zhuravskaya, 2009). This is consistent with findings that cultural values are stable except for generational changes (e.g., Inglehart, 2008). Thus, we introduced age into our models in the form of two variables: we use a continuous age effect and a threshold effect represented by a dummy, where the owners-managers born before 1970 (35% of the total sample) are given a value of one. The latter variable roughly separates respondents that spent part of their life after completing their secondary education under communism from those who did not have such experience. We introduced alternatively either both or one of those age variables into our models, but found no significant effects. This suggests that norms and values inherited from Communism no longer significantly affect attitudes of business owners in Lithuania towards philanthropy. Results are available from the authors.
We argued and confirmed empirically that the most entrepreneurially oriented small and medium-sized enterprises (SMEs) are also those that are most likely to engage in philanthropy. The importance of this positive link between private profit and private non-profit activities is that they are mutually reinforcing – rather than being mutually exclusive as is commonly assumed (Acs and Phillips, 2002). Entrepreneurial firms are likely to benefit from the legitimacy gained through their philanthropic activities. They may also benefit from the distinct knowledge that non-profit organizations hold (Acs and Braunerhjelm 2004). Moreover, there may be a strong synergy between the access to additional knowledge and the capacity to utilize this knowledge effectively by those SMEs that are most entrepreneurial. That makes seeking additional knowledge via strengthening links with the local community an attractive strategy for entrepreneurially oriented firms. Conversely, non-profit initiatives may benefit from knowledge transfers that accompany the financial transfers (Acs and Braunerhjelm 2004). Finally, voluntary associations also create a social milieu where entrepreneurial networks are formed, further supporting for-profit initiatives (Estrin, Stephan and Mickiewicz, 2011).

Our results on the significant relationship between EO and philanthropy are made sharper by the fact we did not find support for an alternative hypothesis (H3) on the link between availability of resources and philanthropy. Access to resources and EO are correlated due to the positive impact of the latter on performance. Thus, by specifying our models so that we include both dimensions, we offer a strong control for the EO effect. And it holds.

For Lithuania, our findings imply that the country is moving in a direction which is arguably consistent with an entrepreneurial-based economic development trajectory as described by Acs and Phillips (2002). This is further corroborated by our findings that philanthropy is most supported where firms are most internationally, by having foreign investors in particular. Although the positive effect of internationalization on SMEs’ philanthropic engagement is somewhat weaker than the effect of EO.

Overall, finding these positive relationships of EO with philanthropy in the Lithuanian context is striking, given the norms and values, which Lithuania inherited from the command economy period, alien to both entrepreneurial and to self-organization that defines non-profit private activities. Yet, while the process of change in informal institutions is typically seen as slow (North 1990), our results indicate that this change is taking place. To combine entrepreneurial initiative with social orientation may be seen as both, a strategic choice of owners-managers seeking legitimacy and building synergies with local knowledge, and – on a more fundamental plane – as reflecting a norm, which is deeply rooted in culture or perhaps even human nature, and therefore may be less difficult to restore after Communism than one could think. We have no means to distinguish between these two interpretations and they do not need to be mutually exclusive: what is legitimate is shaped by the prevalent norms.

Such an explanation and our wider results of mutually reinforcing (rather than competing) relationships of social and entrepreneurial orientations are consistent with fundamental psychological theories of human motivation (e.g. Schwartz, 1992). Evidence is accumulating that people across most nations share important values and that the most strongly endorsed values across nations reflect prosociality and openness to change, i.e. the wish to self-direct one’s fortunes (Schwartz and Bardi, 2001). There is also evidence across 70 cultures that openness to change - i.e. a value orientation consistent with entrepreneurship, innovation, pro-activity, risk-taking and also internationalization- is not at odds, but rather positively related to prosocial, community-oriented behaviors (e.g. Schwartz, 1990; 2003; 2009).

Implications for entrepreneurship theory

With regard to the strategic management literature on the entrepreneurial orientation of firms (e.g. Covin and Slevin, 1999; Lumpkin and Dess 1996; Miller 1983), our findings indicate that a social orientation and philanthropy are compatible with a strategic focus on entrepreneurship, compensating for newness, and may even lead to synergies in the use of local knowledge. Perhaps, we should even think of them as components of an entrepreneurial orientation which allow the firm to embed in its local context – by building legitimacy and actively exploring additional sources of knowledge.

Future research is needed to test in more detail the proposed mechanisms linking EO with philanthropy. Studies should be conducted longitudinally to shed light on whether an entrepreneurial orientation indeed leads to more philanthropic engagement as we suggest, or whether the reverse is the case, or whether they emerge jointly.

Limitations

We see our study as an exploratory one. We believe that the questions we address are novel, yet face data limitations. Future studies could explore in more detail (e.g. by means of a qualitative interview or case study) why small business entrepreneurs engage in philanthropy. Future research should also work towards a better understanding of the tangible benefits that entrepreneurs obtain from contributing to civil society, such as legitimization in the eyes of the key stakeholders as well as access to information spill-overs and networking. Moreover, the present study includes one aspect of social firm performance that is giving to charity. Future studies can extend the present findings by analyzing the association with different aspects of corporate social performance in addition to philanthropy, such as business practices relating to environmental behavior, treatment of shareholders and co-owners, employees, customers and suppliers (e.g., Campbell 2007).
References


References


Appendix:  
Entrepreneurial Orientation Items

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Scoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How many new lines of products or services has your firm marketed in the past 3 years?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i1 – No new lines of products or services</td>
<td>1 2 3 4 5 6 7</td>
<td>Very many new lines of products and services</td>
</tr>
<tr>
<td>i2 – Changes in product or service lines have been mostly of a minor nature</td>
<td>1 2 3 4 5 6 7</td>
<td>Changes in product or service lines have usually been quite dramatic</td>
</tr>
<tr>
<td>i3 (reverse scored) – My firm prefers to design its own unique new processes and methods of production</td>
<td>1 2 3 4 5 6 7</td>
<td>My firm prefers to adopt for our own use methods and techniques that others have developed and proven</td>
</tr>
</tbody>
</table>

| In general, the top managers of my firm . . . | |  |
| r1 – Have a strong proclivity for low risk projects (with normal and certain rates of return) | 1 2 3 4 5 6 7 | Have a strong proclivity for high risk projects (with chances of very high returns) |
| r2 – Believe that owing to the nature of the environment, it is best to explore it gradually via careful, incremental behavior | 1 2 3 4 5 6 7 | Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm’s objectives |
| r3 – When confronted with decision-making situations involving uncertainty, my firm . . . | |  |
| Typically adopts a cautious, ‘wait-and-see’ posture in order to minimize the probability of making costly decisions | 1 2 3 4 5 6 7 | Typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities |

| In dealing with its competitors, my firm . . . | |  |
| p1 – Typically responds to action which competitors initiate | 1 2 3 4 5 6 7 | Typically initiates actions which competitors then respond to |
| p2 – Is very seldom the first business to introduce new products/services, administrative techniques, operating technologies, etc. | 1 2 3 4 5 6 7 | Is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc. |
| p3 – In general, the top managers of my firm have . . . | |  |
| A strong tendency to ‘follow the leader’ in introducing new products or ideas | 1 2 3 4 5 6 7 | A strong tendency to be ahead of other competitors in introducing novel ideas or products |
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