

SECTION 2. Management in firms and organizations

Lars Silver (Sweden), Martin Johanson (Sweden), Björn Berggren (Sweden)

Entrepreneurial orientation, control aversion and performance in SMEs: the contribution of equity investors

Abstract

Entrepreneurial orientation is a concept that captures the importance of how and why certain individuals decide to take higher risks than the average small business owner so as to increase their return on assets deployed. Entrepreneurial orientation is linked to the concept of control aversion, which is used to explain why certain individuals refrain from using external financing to expand their firms. Control aversion suggests that most small business owners prefer to maintain total control rather than invite in the potentially disruptive influence of an external owner/investor. This study combines these two concepts in an attempt to introduce financing and investors into the discussion of entrepreneurial orientation and performance. Equity investors are shown to have a major influence on entrepreneurial performance, because business owners with an entrepreneurial orientation gain substantially from interaction with investors through the transfer of knowledge. The model was tested with a Linear Structural RELations (LISREL) analysis on a sample of 459 Swedish small and medium-sized enterprises.

Keywords: entrepreneurial orientation, control aversion, SME finance, SME performance, SME advice.

JEL Classification: G31, L26, L25.

Introduction

The view that small firms and entrepreneurs are becoming increasingly important in the modern economy is firmly established (Acs and Audretsch, 2003; Gohmann, 2012; Reynolds et al., 2000). Two major challenges in supporting small firms and entrepreneurship are the lack of coherence within the small business population and the lack of understanding of the motives of small business owners and entrepreneurs (Mole, 2004). Cross-country analyses have revealed that small firms use less external financing than larger organizations, yet, these firms benefit the most from such financing (Beck et al., 2008). The mind-set of small business owners is evidently important and has resulted in a discussion about the difference between entrepreneurship and small business. This debate is certainly not new, but the field is moving forward, as different variables influencing entrepreneurial orientation are developed (see Wiklund et al., 2009; Covin and Miller, 2014). The environment has been determined to be important, partly because an entrepreneurial orientation can develop over time. This study explicitly examines entrepreneurial orientation and external investors. The research on control aversion (Cressy and Olofsson, 1997, Berggren et al., 2000; González et al., 2013) is similar to that on entrepreneurial orientation in its

emphasis on how small business owners change their behavior according to experiences and exterior conditions. Together, the two sets of theories suggest that entrepreneurial orientation is related not only to performance and growth, but also to close investor relationships, as investors become more important in industries where entrepreneurial orientation is a necessity. This study supports the general theory that entrepreneurial orientation and performance are linked, but adds the vital concept that entrepreneurial orientation fosters closer relationships with investors and, thereby, knowledge transfer.

1. Theoretical points of departure

1.1. The entrepreneurial perspective. The differentiation between entrepreneurial orientation and small business orientation has gained wide recognition in entrepreneurship research (Lumpkin and Dess, 2001; McGrath, 2001; Madsen, 2007; Miles et al., 2000; Runyan et al., 2008; Stewart et al., 2003; Stewart and Roth, 2001; Wiklund et al., 2009; Wiklund and Shepherd, 2005; Zellweger et al., 2012). Current research focuses on finding the variables influencing entrepreneurial orientation. Researchers have found that most small business owners have a small business orientation (Smart and Conant, 2011) and that entrepreneurial orientation is a strategic choice (Covin and Miller, 2014), as is small business orientation (Runyan et al., 2008). Fuller and Moran (2001) put forward the notion of small businesses as part of a complex environment in which they adapt to different circumstances as they arise. This adaptation to the environment, especially in terms of a willingness to operate outside of expected behavior, could ostensibly be

© Lars Silver, Martin Johanson, Björn Berggren, 2016.
Lars Silver, Professor, Department of Business Administration, Umeå School of Business and Economics, Sweden.
Martin Johanson, Professor, Department of Business Studies, Uppsala University, Sweden.
Björn Berggren, Associate Professor, Department of Real Estate and Construction Management, KTH – The Royal Institute of Technology, Sweden.

called an entrepreneurial activity, but the definition of such an activity remains unclear (Davidsson et al., 2002). The complex environment presents not only unique possibilities for the entrepreneur, but also limitations in the sense that some industries require massive external financing for small businesses to survive (Baldwin and Gellatly, 2003).

1.2. The investor perspective. One of the most perennial issues on the financing of small business investments is the problem associated with information asymmetry and the resulting agency costs (Jensen and Meckling, 1976). The basis for information asymmetry is that small businesses are, in general, more opaque organizations than are larger firms (Hall et al., 2000; Hsu, 2004; Schmid, 2001). Informational opaqueness is a considerable obstacle when overcoming information asymmetry in the relationship between financiers and entrepreneurs (Berger et al., 2001; Ortiz-Molina and Penas, 2008). The simple solution to information asymmetry is to obtain more information, but this is where the interests of investors and investees clash. Investors need more information to overcome information asymmetry; however, investees are reluctant to relinquish control. Control aversion is a concept that is aligned with the discussion of information asymmetry to the extent that investors want to secure their investments by increasing control so as to handle information asymmetry and avoid problems with moral hazard. Small businesses generally want to avoid these external control mechanisms. One of the most obvious means of avoiding external control is dealing with investors and financiers who use less constraining means of control; this provides the basis of the pecking order theory. Evidence for such a theory is inconclusive, with studies alternately finding support for or insubstantial evidence of the pecking order hypothesis (Frank and Goyal, 2003; Leary and Roberts, 2005; Shyam-Sunder and Myers, 1999).

Control aversion may be seen as a primarily attitudinal reaction, but it is also clearly dependent on the available resources (Davidsson and Honig, 2003; González et al., 2013). The utilization of scarce resources is a primary determinant of entrepreneurial orientation (Zahra et al., 2006), and financing is a basic resource needed by most growing firms (Hartarska and Gonzalez-Vega, 2006). The attitudinal aspect of control aversion makes it similar to the concept of entrepreneurial orientation in that there is a choice to be control averse. On the basis of earlier research, it can be presumed that most firms have a small business orientation and are control averse. Given a choice, small business owners will choose to remain in full

control. Madsen (2007) made the connection that small businesses need to acquire an entrepreneurial orientation to compete and, thereby, to achieve high growth. This finding implies that, in industries characterized by high growth, there is a substantial cost to remaining control averse, and, ultimately, the survivability of such enterprises will decrease in industries where rapid growth is necessary. Abandoning control aversion can also be seen as an indication of an entrepreneurial orientation in the sense that there are risks associated with losing control (McGrath, 2001).

1.3. Entrepreneurial orientation. The relationship between entrepreneurial orientation and performance has been established (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005), as has the relationship between entrepreneurial orientation and growth (Wiklund et al., 2009; Wiklund and Shepherd, 2003). So far, research has focused more on the characteristics of the entrepreneur than on the environment. Entrepreneurial orientation is largely a matter of preparedness to adapt to market conditions, that is, being proactive and innovative. Market orientation is a concept that is closely connected to entrepreneurial orientation in that both concepts advocate being proactive and flexible to reach given targets. A firm showing an entrepreneurial orientation in adapting to changing market conditions is seen as more proficient in attracting customers and long-term business (Agarwal et al., 2003; Lukas and Ferrell, 2000; Vázquez et al., 2001). As is the case with entrepreneurial orientation, market orientation is viewed as being dependent on organizational capabilities (Harris, 2000, 2002). Entrepreneurial orientation is, furthermore, dependent on the managerial qualities of the small and medium-sized enterprise (SME) (Koeller and Lechler, 2006). Because management of human capital is considered a prognosticator of success for small firms (Cressy, 2006), it can be deduced that entrepreneurial orientation is correlated with performance. However, entrepreneurial orientation is not necessarily correlated with the ability to obtain financial resources. Banks, in particular, are not necessarily more eager to provide capital on the basis of entrepreneurial orientation and innovativeness. In fact, entrepreneurial orientation may hinder the ability of a small firm to generate credit, instead, forcing the small firm to seek new investors (Freel, 2007). Private equity investors, by contrast, are attracted by entrepreneurial orientation and innovativeness. In particular, informal investors, such as business angels, are likely to emphasize “soft” factors in evaluating prospects and are more closely linked to the entrepreneur than venture capitalists and commercial banks (Paul et al., 2007). On the basis of

these findings, we hypothesize that entrepreneurial orientation is correlated with higher profits and with the likelihood of informal investors committing to a relationship with the firm.

H1: The stronger the entrepreneurial orientation of a small business owner, the more likely investors will be committed to a relationship with the SME.

H2: The stronger the entrepreneurial orientation of a small business owner, the more profitable the firm will be.

1.4. Investor commitment. The commitment of financiers is largely dependent on the economics of finance. In recent years, the financial landscape has changed such that financiers – particularly commercial banks – increasingly use hard quantitative information to evaluate small businesses, resulting in a decreased exchange of information and, ostensibly, a decreased level of exchanged information (Akhavain et al., 2005; DeYoung et al., 2004; Petersen and Rajan, 2002). Commercial banks increasingly view small business as customers to be handled without much human intervention. The opaqueness of small businesses – particularly service firms – is a detriment in the process of evaluation. This opaqueness can be handled in different ways, most commonly through the use of close relationships to obtain more information or the reliance on statistical databases to help to predict the relationship outcome. The same phenomenon can be seen in the venture capital industry, where there is a clear link between the ownership structure and governance of venture capital firms and the level of advice provided to portfolio firms (Cumming et al., 2008). Banks and venture capitalists rely on contracts to resolve these problems, whereas business angels usually increase their presence at the site of operations (Fili et al., 2013; Shane and Stuart, 2002; Sjögren and Zackrisson, 2005; Mason and Harrison, 2000). The proximity strategy of equity investors allows the exchange of soft information (DeYoung et al., 2008; Scott, 2004) and reduces the need for strict covenants (Degryse and Van Cayseele, 2000). Here, we hypothesize that financial competence is among the most important contributions to small businesses; earlier research has cited the need for small businesses to understand financiers, the role of financing in small business development, and the use of different financial solutions to maximize existing resources (Ben-Ari and Vonortas, 2007; Heydebreck et al., 2000; Ortiz-Molina and Penas, 2008). We, thus, hypothesize the following:

H3: The greater the investor commitment, the greater the influx of financial expertise development from the new investor will be.

1.5. Financial expertise development. The need for small businesses to obtain advice has increased over time (Ramsden and Bennett, 2005). As is the case with entrepreneurial orientation and control aversion, acceptance of advice from external parties can be learned over time (Lybaert, 1998). Research on advice has found that “soft” advice is perceived to be more important than other kinds of advice (Turok and Raco, 2000). This finding implies that the relationship between the advisor and the advised needs to be close and personal to enable knowledge transfer. Accepting advice has been seen as a process of alignment and adjustment on the part of the advised party (Wyre et al., 2000). Obtaining advice from outsiders results in an increased formalization of plans, in part because the small business must articulate its situation to financiers. This, in turn, implies stronger strategic planning, which research has shown to influence performance positively (Chandler et al., 2005; Delmar and Shane, 2004; Honig et al., 2005). Financial expertise development, in the form of improved accounting techniques and improved corporate governance, has been shown to enhance profitability and growth for firms that depend on external financing (Benfratello et al., 2008; Rajan and Zingales, 1998). One of the most important effects of financial expertise development is the provision of knowledge regarding how small businesses can enhance liquidity through internal reorganization and the discovery of new sources of financing. In addition, the informed small business will be able to implement advice provided by external actors to a higher degree (Shin and Kolari, 2004). Investors focusing on deal origination as a means of differentiation will be more able to engage in information exchange with small businesses (Wright and Lockett, 2003). It can be hypothesized that these types of actors are, therefore, better able to support the implementation of financial expertise development. At the same time, research shows that early-stage financiers – whether banks (Carter et al., 2004) or private equity investors (Cumming, 2006) – engage in more relationships out of a portfolio strategy. On the basis of this research, our final hypothesis posits that the contribution of knowledge resulting in financial expertise development will lead to increased performance for the entrepreneurial firm.

H4: The higher the perceived financial expertise development of the investor, the more profitable the investee firm will be.

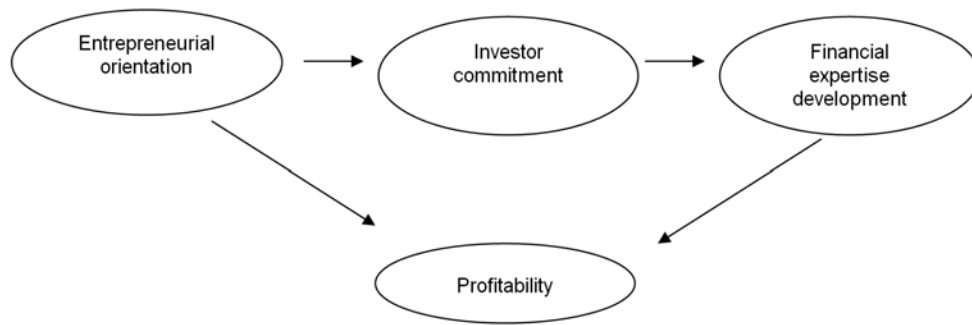


Fig. 1. The hypothesized relationships between the constructs

2. Methodology

2.1. Sample and response rate. There is no universal definition of small and medium-sized firms (Storey, 1994); hence, researchers seem to use a wide variety of definitions. In surveys, the definition used is generally some measure of size – usually turnover or number of employees. In this paper, we define SMEs as firms that have fewer than 200 employees and are not part of a corporate group. This definition is compatible with the quantitative definition put forward by Bolton (1971) and is also in line with earlier Swedish research (Cressy and Olofsson, 1997; Davidsson, 1989).

The survey was sent to the chief executive officers (CEOs) of 1024 firms. Of the 1024 surveys sent out, 459 were returned, giving a response rate of 44.8%. The questionnaire focused on the background characteristics of the firms in the sample, the entrepreneurs’ control aversion and attitude toward growth, the entrepreneurs’ attitude toward their most important financiers, and the contribution of these financiers to the development of the firm.

The survey was targeted toward two industries: manufacturing and business services. Manufacturing was chosen because of the historic importance of this industry in the Swedish economy in terms of employment and exports. Today, the manufacturing sector still constitutes the backbone of the Swedish economy. By contrast, business services have emerged as the fastest growing industry in recent decades. Outsourcing from more traditional industries is partly responsible for driving this growth. Table 1 presents some basic characteristics of the firms in the sample.

Table 1. Characteristics of the sampled firms

	Mean	Median	SD
Age	23	14	25.2
Turnover (MSEK) ^a	56.1	29	77.7
Number of employees	44.9	29	45.9
Solvency	37.5	35	19.9

Note: ^a MSEK, million Swedish kronor; 8 SEK is roughly equal to 1 USD.

2.2. Non-respondents. Because a relatively large number of CEOs did not complete the questionnaire, we conducted three dropout analyses. When selecting the companies for the sample, we obtained background data on their characteristics from Statistics Sweden. Thus, the first step was to compare respondents with non-respondents with regard to age, location, primary industry, secondary industry, and number of employees. We did not find any statistically significant differences between the respondents and non-respondents. The second stage in the dropout analysis used a method first put forward by Armstrong and Overton (1977), who argued that late respondents and non-respondents share many characteristics (see also Churchill, 1991). Therefore, we divided the sample into early and late respondents and compared these two groups of firms. We found nothing that could indicate a statistically significant difference between the groups. The third stage of the dropout analysis was a follow-up of the non-respondents, which was carried out by contacting 150 firms by phone and mail. The CEOs were asked a number of central questions from the survey, and 67 CEOs answered the questions. Again, we were unable to find any statistically significant differences between this group and the respondents.

2.3. Analysis using LISREL. We analyzed the empirical data using Linear Structural Relations (LISREL), a structural equation modeling technique that has been used for many years not only in social sciences research, primarily in marketing and internationalization research (see Bollen, 1989), but also in entrepreneurship research (see McGrath et al., 1996; Madhoushi et al., 2011). This technique has two components. The first component is the creation of latent variables, the model’s constructs. These are higher-order variables that capture the underlying commonalities of the indicators (Bollen and Long, 1993). The second component is the creation of a model by linking the constructs in a causal chain (Jöreskog and Sörbom, 1993).

The validity of the LISREL model is estimated using three levels of testing. The first level is nomological validity (i.e., the validity of the entire model) and indicates the fit between the model and the data. Nomological validity is assessed using the Chi-square and the degrees of freedom, together with a probability estimate (Jöreskog and Sörbom, 1993). There are no definitive measures for the Chi-square and the degrees of freedom, as Jöreskog and Sörbom (1993) pointed out. Some authors have concluded that the fit is good when the Chi-square and the degrees of freedom are approximately the same. Other authors (see Bollen and Long, 1993) have concluded that it is difficult to apply such a rule of thumb. In the probability estimation, the p -value of the model must be greater than 0.05 to be valid at the 5% level. A number of other measures for assessing nomological validity have been suggested, but, according to Jöreskog and Sörbom (1993), these measures are all functions of the Chi-square. Among the more frequently used measures are the comparative fit index (CFI), which checks for non-normal distributions and should be close to 1; the goodness-of-fit index (GFI), which checks for sample size effects and should be over 0.90; and the root mean square error of approximation (RMSEA), which measures the discrepancy per degree of freedom for the chi-square distribution and should not exceed 0.08 (Bollen, 1989; Jöreskog and Sörbom, 1993). Other kinds of fit indexes that measure how much better the experimental model fits the data compared with a baseline model – usually the independence model – are the normed fit index (NFI) and the non-normed fit index (NNFI) (Jöreskog and Sörbom, 1993); the values for these indices should be close to 1.

The second level of validity assessment is discriminant validity, which checks the separateness of the constructs. This type of assessment can be performed in two steps (Jöreskog and Sörbom, 1993). First, we check that the constructs are not correlated with each other, which is carried out by forming an approximate confidence interval that is equal to twice the standard error (Anderson and Gerbing, 1988; Jöreskog and Sörbom, 1993). All values that fall within this confidence interval are not significantly different from the correlation coefficient. Second, discriminant validity can be assessed by checking the modification index. The modification index suggests changes if the indicators are related to more than one construct.

The final test for validity is convergent validity, which checks the homogeneity of indicators and their constructs. Convergent validity is assessed with three estimates: coefficients, t -values, and R^2 -values. The coefficients represent the strength of the relationship between two variables (Bollen, 1989). There are no definite limits for coefficients; rather, the values should be judged in association with the theoretical considerations (Jöreskog and Sörbom, 1993). The t -values represent an estimate of the statistical significance; to be statistically significant at the 5% level, the t -value should exceed 1.96. The R^2 -values are an estimate of the linear relationship between two variables (Jöreskog and Sörbom, 1993). As is the case with coefficients, there are no definite limits for an acceptable R^2 -value, but a rule of thumb is that R^2 -values should exceed 0.20 (Bollen and Long, 1993).

Because it is debatable whether it is appropriate to use maximum likelihood estimation when dichotomous variables are used, we also used a generalized least squares estimation. The result of this calculation was, in all respects, the same as the result obtained with the maximum likelihood technique. This result was not surprising, because Mattson (1998) has shown that LISREL is a very robust technique even when there are deviations from the normal distribution.

3. Results from the study

The results of the analysis showed that nomological validity was secured; the p -value of 0.15 indicated that the model as a whole was valid (Chi-square, 15.89; degrees of freedom, 11). Likewise, the CFI, GFI and RMSEA values also indicated a good fit between the model and the data (1.00, 0.99 and 0.031, respectively). The NFI and NNFI values indicated that the model was robust (0.99 and 0.99, respectively). Furthermore, the constructs within the model seem to be strongly correlated. The second stage in the validity assessment is discriminant validity, which checks for the separateness of constructs. The modification index did not suggest any changes in the model (i.e., there were no cross-loadings). We made an approximate confidence interval for the factor loadings equal to twice the standard error; in no case did the values include 1. Hence, discriminant validity was secured in the model. Finally, we assessed the convergent validity; the coefficients, t -values, and R^2 -values are presented in Table 2. The correlation of the constructs, error terms, and t -values for the constructs are presented in Table 3.

Table 2. The constructs and their indicators

Constructs	Indicators	Correlation	R ²	t
Entrepreneurial orientation	Perception of new investors as providing valuable and positive input for the firm	0.69	0.47	11.38
	Perceived benefits of new equity over loans	0.54	0.29	9.61
Investor commitment	Actual commitment from a new investor	1.0	1.0	
Financial expertise development	Perceived contribution of the new investor toward improving the financial competence of the firm	0.85	0.72	19.63
	Perceived focus that the new investor has placed on financial issues	0.86	0.74	19.81
Profitability	Perception of the effect that the relationship with the new investor has had on profitability	0.83	0.69	17.16
	Perceived benefits of the relationship with the new investor with regard to the financial status of the firm	0.90	0.81	16.78

Table 3. The correlation between the constructs, the error terms (in parentheses), and t-values (in italics)

Constructs	Investor trust	Investor commitment	Financial competence	Profitability
Entrepreneurial orientation	1.00			
Investor commitment	0.62	1.00		
	(0.06)			
	<i>10.45</i>			
Financial expertise development	0.29	0.48	1.00	
	(0.06)	(0.05)		
	<i>4.55</i>	<i>10.04</i>		
Profitability	0.36	0.41	0.70	1.00
	(0.06)	(0.05)	(0.03)	
	<i>5.68</i>	<i>8.62</i>	<i>21.07</i>	

On the basis of the idea that the theoretical concept of entrepreneurial orientation contains both a general reliance on investors and a measurement of control aversion, we measured entrepreneurial orientation with two indicators: the perception of new investors as being valuable and providing positive inputs for the firm (coefficient, 0.69; *t*-value, 11.38) and the perceived benefits of new equity over loans (coefficient, 0.54; *t*-value, 9.61).

In line with the reasoning presented earlier, we focused on the investor commitment, a single variable construct. Hence, we measured the actual financial commitment for a new investor – the investor. In the questionnaire, firms were asked whether a new investor was committed to the firm. The construct of entrepreneurial orientation was strongly correlated to the construct of commitment (coefficient, 0.62; *t*-value, 10.66).

In the questionnaire, we measured the financial contribution of the financier with two indicators: the perceived contribution to the financial competence of the firm (coefficient, 0.85; *t*-value, 19.63) and the perceived focus that the financier has helped to put on financial issues (coefficient, 0.86; *t*-value, 19.81). As posited, the level of commitment was indeed correlated with the influx of financial competence (coefficient, 0.48; *t*-value, 9.64).

The concept of profitability was also measured with two indicators: the perceived positive effects of financiers on profitability (coefficient, 0.83; *t*-value, 17.16) and the perceived positive effects of financiers on the financial position of the firm (coefficient, 0.90; *t*-value, 16.78). Furthermore, the

influx of financial competence was correlated with the level of profitability (coefficient, 0.64; *t*-value, 10.07), and the construct of entrepreneurial orientation was correlated with the level of profitability (coefficient, 0.17; *t*-value, 3.10).

4. Discussion of the findings

Several ideas have emerged from research in entrepreneurial orientation, including the concept of entrepreneurial orientation as a choice (Runyan et al., 2008) and the impact of entrepreneurial orientation on growth (Wiklund et al., 2009). As entrepreneurial orientation research moves ahead, there is a substantial need to move beyond a focus on the cognitive beliefs of the entrepreneur to include a focus on the limitations imposed by the environment. In research on control aversion (Berggren et al., 2000; Cressy and Olofsson, 1997), there is a similar perspective, because control-averse small businesses share a similar mind-set to the small business-oriented individual. Taking this discussion even further, research in finance shows that entrepreneurial orientation is dependent on changes in financial industry practices. This study shows the importance of the outside perspective and the fact that external financiers greatly influence the relationship between entrepreneurial orientation and performance.

Our first hypothesis was the relatively straightforward assumption that entrepreneurial orientation has a significant effect on performance. This effect has been shown before (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005); therefore, it serves primarily to anchor this study within the field of research. The additional hypothesis

that entrepreneurial orientation is correlated with investor commitment is more innovative. We decided to focus on new investors because of the known function of the financial sector. Entrepreneurial orientation is a necessity among small businesses in certain industries, where innovativeness and a higher level of risk taking are necessary to survive. These types of firms are generally not among those finding easy access to loan capital. In addition, formal venture capital has become more oriented toward larger firms, and both banks and venture capitalists rely less than they once did on personalized contacts in the firms with which they interact (Mayer et al., 2005; Shen et al., 2009). Informal investors are, therefore, the natural choice for small entrepreneurially oriented businesses. The commitment of investors to small businesses is also connected to the exclusivity of the relationship. In relationships where the financier is the sole provider of capital, the dependence on that financier is offset by the extended contribution of information (Baas and Schrooten, 2006; von Rheinbaben and Ruckes, 2004).

In this study, we hypothesized that the commitment of external equity investors would primarily supply access to knowledge aligned with their function as financiers. Investors with backgrounds as entrepreneurs generally have access to a substantial business network and are able to transfer their experiences to the firm in which they invest (Politis and Landström, 2002; Reitan and Sørheim, 2000; Saetre, 2003). By accessing these networks, an entrepreneur can gain knowledge on how to obtain resources for expansion. A comparison can be made with other financiers who increasingly rely on database screening (Berger et al., 2005). Smaller financiers are more important than larger ones in providing close relationships (Dell'Araccia and Marquez, 2004), because these financiers have a relevant network.

The final hypothesis was a correlation between increased financial expertise development and performance. Because our definition of performance is associated with financing, it is reasonable to argue that

an enterprise that improves its knowledge substantially in terms of financial expertise development will be able to increase its performance. The emerging enterprise will be able to provide more accurate information for investors, which has been revealed to improve the chances of small firms gaining financing substantially (Beck et al., 2006). Among the primary goals in applying financial expertise is to maximize the perception of the entrepreneur's personal commitment, which is among the most important components in deciding to finance small businesses (Ang et al., 1995; Avery et al., 1998) and in dissipating the information asymmetry between the financier and the entrepreneurial firm (Voordeckers and Steijvers, 2006).

Conclusions

We found our initial hypothesis to be valid. Our main goal was to complement the existing research on entrepreneurial orientation by using the theory of control aversion. Our results indicate the importance of equity financing in supporting entrepreneurial orientation and the role of entrepreneurial orientation in increasing the learning capacity of small businesses. Entrepreneurial orientation not only is connected to performance, as has been indicated by earlier research, but also opens up communication channels with important advisers. This study supports entrepreneurial orientation research while adding the dimensions of external advice and financial expertise development. In addition, this study deepens the understanding of control aversion and how control aversion can be connected to entrepreneurial orientation research. Together, these two approaches substantially enhance our understanding of entrepreneurial finance. This study also highlights the importance of informal equity investments and, thereby, reinforces the notion of the importance of informal equity investments in promoting entrepreneurial businesses and the growth of the small business sector (Wiklund et al., 2009). Parallels can be drawn to institutional complementarity research (Boyer, 2005; Gagliardi et al., 2009), which emphasizes the role of different financial institutions in developing small business financing and growth.

References

1. Acs, Z.J. and Audretsch, D.B. (Eds.). (2003). *Handbook of entrepreneurship research: An interdisciplinary survey and introduction*. Boston: Kluwer Academic Publishers.
2. Agarwal, S., Erramilli, M.K. and Dev, C.S. (2003). Market orientation and performance in service firms: Role of innovation, *Journal of Services Marketing*, 17 (1), pp. 68-82.
3. Akhavein, J., Frame, W.S. and White, L.J. (2005). The diffusion of financial innovations: An examination of the adoption of small business credit scoring by large banking organizations, *Journal of Business*, 78 (2), pp. 577-596.
4. Anderson, J.C. and Gerbing, D.W. (1988). Structural equation modeling in practice: A review and recommended two-step approach, *Psychological Bulletin*, 103 (3), pp. 411-423.
5. Ang, J., Lin, J. and Tyler, F. (1995). Evidence on the lack of separation between business and personal risks

- among small businesses, *Journal of Small Business Finance*, 4 (2/3), pp. 197-210.
6. Armstrong, J.S. and Overton, T.S. (1977). Estimating nonresponse bias in mail surveys, *Journal of Marketing Research*, 14 (3), pp. 396-402.
 7. Avery, R.B., Bostic, R.W. and Samolyk, K.A. (1998). The role of personal wealth in small business finance, *Journal of Banking & Finance*, 22 (6-8), pp. 1019-1061.
 8. Baas, T. and Schrooten, M. (2006). Relationship banking and SMEs: A theoretical analysis, *Small Business Economics*, 27 (2-3), pp. 127-137.
 9. Baldwin, J. and Gellatly, G. (2003). *Innovation strategies and performance in small firms*. Cheltenham, UK: Edward Elgar.
 10. Beck, T., Demirgüç-Kunt, A. and Maksimovic, V. (2006). The influence of financial and legal institutions on firm size, *Journal of Banking & Finance*, 30 (11), pp. 2995-3015.
 11. Beck, T., Demirgüç-Kunt, A. and Maksimovic, V. (2008). Financing patterns around the world: Are small firms different? *Journal of Financial Economics*, 89 (3), pp. 467-487.
 12. Ben-Ari, G. and Vonortas, N.S. (2007). Risk financing for knowledge-based enterprises: Mechanisms and policy options, *Science and Public Policy*, 34 (7), pp. 475-488.
 13. Benfratello, L., Schiantarelli, F. and Sembenelli, A. (2008). Banks and innovation: Microeconomic evidence on Italian firms, *Journal of Financial Economics*, 90 (2), pp. 197-217.
 14. Berger, A.N., Klapper, L.F. and Udell, G.F. (2001). The ability of banks to lend to informationally opaque small businesses, *Journal of Banking & Finance*, 25 (12), pp. 2127-2167.
 15. Berger, A.N., Miller, N.H., Petersen, M.A., Rajan, R.G. and Stein, J.C. (2005). Does function follow organizational form? Evidence from the lending practices of large and small banks, *Journal of Financial Economics*, 76 (2), pp. 237-269.
 16. Berggren, B., Olofsson, C. and Silver, L. (2000). Control aversion and the search for external financing in Swedish SMEs, *Small Business Economics*, 15 (3), pp. 233-242.
 17. Bollen, K.A. (1989). *Structural equations with latent variables*. New York: John Wiley & Sons.
 18. Bollen, K.A. and Long, J.S. (Eds.). (1993). *Testing structural equation models*. Newbury Park, CA: Sage.
 19. Bolton, J.E. (1971). *Small firms: Report of the Committee of Inquiry on Small Firms*, CMND 4811. London: Her Majesty's Stationery Office.
 20. Boyer, R. (2005). Coherence, diversity, and the evolution of capitalisms – the institutional complementarity hypothesis, *Evolutionary and Institutional Economics Review*, 2 (1), pp. 43-80.
 21. Carter, D.A., McNulty, J.E. and Verbrugge, J.A. (2004). Do small banks have an advantage in lending? An examination of risk-adjusted yields on business loans at large and small banks, *Journal of Financial Services Research*, 25 (2-3), pp. 233-252.
 22. Chandler, G.N., Honig, B. and Wiklund, J. (2005). Antecedents, moderators, and performance consequences of membership change in new venture teams, *Journal of Business Venturing*, 20 (5), pp. 705-725.
 23. Churchill, G.A. (1991). *Marketing research: Methodological foundations*. 5th ed. Chicago, IL: Dryden Press.
 24. Covin, J.G. and Miller, D. (2014). International entrepreneurial orientation: Conceptual considerations, research themes, measurement issues, and future research directions, *Entrepreneurship Theory and Practice*, 38 (1), pp. 11-44.
 25. Cressy, R. (2006). Why do most firms die young? *Small Business Economics*, 26 (2), pp. 103-116.
 26. Cressy, R. and Olofsson, C. (1997). The financial conditions for Swedish SMEs: Survey and research agenda, *Small Business Economics*, 9 (2), pp. 179-194.
 27. Cumming, D., Fleming, G. and Schwienbacher, A. (2008). Financial intermediaries, ownership structure, and the provision of venture capital to SMEs: Evidence from Japan, *Small Business Economics*, 31 (1), pp. 59-92.
 28. Cumming, D.J. (2006). The determinants of venture capital portfolio size: Empirical evidence, *Journal of Business*, 79 (3), pp. 1083-1126.
 29. Davidsson, P. (1989). *Continued entrepreneurship and small firm growth*. Stockholm: Stockholm School of Economics.
 30. Davidsson, P., Delmar, F. and Wiklund, J. (2002). Entrepreneurship as growth: Growth as entrepreneurship. In M.A. Hitt, R.D. Ireland, S.M. Camp & D.L. Sexton (Eds.), *Strategic entrepreneurship: Creating a new mindset*. Oxford, UK: Blackwell Publishing.
 31. Davidsson, P. and Honig, B. (2003). The role of social and human capital among nascent entrepreneurs, *Journal of Business Venturing*, 18 (3), pp. 301-331.
 32. Degryse, H. and Van Cayseele, P. (2000). Relationship lending within a bank-based system: Evidence from European small business data, *Journal of Financial Intermediation*, 9 (1), pp. 90-109.
 33. Dell'Araccia, G. and Marquez, R. (2004). Information and bank credit allocation, *Journal of Financial Economics*, 72 (1), pp. 185-214.
 34. Delmar, F. and Shane, S. (2004). Legitimizing first: Organizing activities and the survival of new ventures, *Journal of Business Venturing*, 19 (3), pp. 385-410.
 35. DeYoung, R., Hunter, W.C. and Udell, G.F. (2004). The past, present, and probable future for community banks, *Journal of Financial Services Research*, 25 (2-3), pp. 85-133.
 36. DeYoung, R., Glennon, D. and Nigro, P. (2008). Borrower-lender distance, credit scoring, and loan performance: evidence from informational-opaque small business borrowers, *Journal of Financial*

- Intermediation*, 17 (1), pp. 113-143.
37. Fili, A., Berggren, B. and Silver, L. (2013). The impact of financial capital, human capital and social capital on the evolution of Business Angel Networks, *International Journal of Corporate Governance*, 4 (3), pp. 209-228.
 38. Frank, M.Z. and Goyal, V.K. (2003). Testing the pecking order theory of capital structure, *Journal of Financial Economics*, 67 (2), pp. 217-248.
 39. Freel, M.S. (2007). Are small innovators credit rationed? *Small Business Economics*, 28 (1), pp. 23-35.
 40. Fuller, T. and Moran, P. (2001). Small enterprises as complex adaptive systems: A methodological question? *Entrepreneurship and Regional Development*, 13 (1), pp. 47-63.
 41. Gagliardi, D. (2009). Financial development and the growth of growth of cooperative firms, *Small Business Economics*, 32 (4), pp. 439-464.
 42. Gohmann, S.F. (2012). Institutions, latent entrepreneurship, and Self-Employment: An international comparison, *Entrepreneurship Theory and Practice*, 36 (2), pp. 295-321.
 43. Hall, G.C., Hutchinson, P.J. and Michaelas, N. (2000). Industry effects on the determinants of unquoted SMEs' capital structure, *International Journal of the Economics of Business*, 7 (3), pp. 297-312.
 44. González, M., Guzmán, A., Pombo, C. and Trujillo, M.A. (2013). Family firms and debt: Risk aversion versus risk of losing control, *Journal of Business Research*, 66 (11), pp. 2308-2320.
 45. Harris, L.C. (2000). The organizational barriers to developing market orientation, *European Journal of Marketing*, 34 (5-6), pp. 598-624.
 46. Harris, L.C. (2002). Developing market orientation: An exploration of differences in management approaches, *Journal of Marketing Management*, 18 (7-8), pp. 603-632.
 47. Hartarska, V. and Gonzalez-Vega, C. (2006). What affects new and established firms' expansion? Evidence from small firms in Russia, *Small Business Economics*, 27 (2-3), pp. 195-206.
 48. Heydebreck, P., Klofsten, M. and Maier, J. (2000). Innovation support for new technology-based firms: The Swedish Teknopol approach, *R&D Management*, 30 (1), pp. 89-100.
 49. Honig, B., Davidsson, P. and Karlsson, T. (2005). Learning strategies of nascent entrepreneurs, *Journal of Competence-based Management*, 1 (3), pp. 67-88.
 50. Hsu, D.H. (2004). What do entrepreneurs pay for venture capital affiliation? *Journal of Finance*, 59 (4), pp. 1805-1844.
 51. Jensen, M. and Meckling, W.H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 3 (4), pp. 305-360.
 52. Jöreskog, K. and Sörbom, D. (1993). *LISREL 8: Structural equation modeling with the SIMPLIS command language*. Chicago, IL: Scientific Software International.
 53. Koeller, C.T. and Lechler, T.G. (2006). Economic and managerial perspectives on new venture growth: An integrated analysis, *Small Business Economics*, 26 (5), pp. 427-437.
 54. Leary, M.T. and Roberts, M.R. (2005). Do firms rebalance their capital structures? *Journal of Finance*, 60 (6), pp. 2575-2619.
 55. Lukas, B.A. and Ferrell, O.C. (2000). The effect of market orientation on product innovation, *Journal of the Academy of Marketing Science*, 28 (2), pp. 239-247.
 56. Lumpkin, G.T. and Dess, G.G. (2001). Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle, *Journal of Business Venturing*, 16 (5), pp. 429-451.
 57. Lybaert, N. (1998). The information use in an SME: Its importance and some elements of influence, *Small Business Economics*, 10 (2), pp. 171-191.
 58. Madhoushi, M., Sadati, A., Delavari, H., Mehdivand, M. and Mihandost, R. (2011). Entrepreneurial orientation and innovation performance: the mediating role of knowledge management, *Asian Journal of Business Management*, 3 (4), pp. 310-316.
 59. Madsen, E.L. (2007). The significance of sustained entrepreneurial orientation on performance of firms – a longitudinal analysis, *Entrepreneurship and Regional Development*, 19 (2), pp. 185-204.
 60. Mason, C.M. and Harrison, R.T. (2000). The size of the informal venture capital market in the United Kingdom, *Small Business Economics*, 15 (2), pp. 137-148.
 61. Mattson, S. (1998). *Essays on structural equation modeling with applications of the basic univariate twin model*. Uppsala, Sweden: Uppsala University Press.
 62. Mayer, C., Schoors, K. and Yafeh, Y. (2005). Sources of funds and investment strategies of VC funds: Evidence from Germany, Israel, Japan and the UK, *Journal of Corporate Finance*, 11 (3), pp. 586-608.
 63. McGrath, R.G. (2001). Exploratory learning, innovative capacity, and managerial oversight, *Academy of Management Journal*, 44 (1), pp. 118-131.
 64. McGrath, R.G., Tsai, M.-H., Venkataraman, S. and MacMillan, I.C. (1996). Innovation, competitive advantage and rent: A model and test, *Management Science*, 42 (3), pp. 389-403.
 65. Miles, M.P., Covin, J.G. and Heeley, M.B. (2000). The relationship between environmental dynamism and small firm structure, strategy, and performance, *Journal of Marketing Theory and Practice*, 8 (2), pp. 63-74.
 66. Mole, K. (2004). Systems theory and the common-sense view of advisers, *Journal of Small Business and Enterprise Development*, 11 (1), pp. 114-120.
 67. Ortiz-Molina, H. and Penas, M.F. (2008). Lending to small businesses: The role of loan maturity in addressing information problems, *Small Business Economics*, 30 (4), pp. 361-383.
 68. Paul, S., Whittam, G. and Wyper, J. (2007). The pecking order hypothesis: Does it apply to start-up firms? *Journal*

- of *Small Business and Enterprise Development*, 14 (1), pp. 8-21.
69. Petersen, M.A. and Rajan, R.G. (2002). Does distance still matter? The information revolution and small business lending, *Journal of Finance*, 57 (6), pp. 2553-2570.
 70. Politis, D. and Landström, H. (2002). Informal investors as entrepreneurs – the development of an entrepreneurial career, *Venture Capital*, 4 (2), pp. 78-101.
 71. Rajan, R. and Zingales, L. (1998). Financial dependence and growth, *American Economic Review*, 88 (3), pp. 559-587.
 72. Ramsden, M. and Bennett, R.J. (2005). The benefits of external support to SMEs: “Hard” versus “soft” outcomes and satisfaction levels, *Journal of Small Business and Enterprise Development*, 12 (2), pp. 227-243.
 73. Reitan, B. and Sørheim, R. (2000). The informal venture capital market in Norway – investor characteristics, behavior and investment preferences, *Venture Capital*, 2 (2), pp. 129-141.
 74. Reynolds, P.D., Hay, M., Bygrave, W.D., Camp, S.M. and Autio, E. (2000). *Global entrepreneurship monitor: 2000 executive report*. Kansas City, MO: Kauffman Center for Entrepreneurial Leadership.
 75. Runyan, R., Droge, C. and Swinney, J. (2008). Entrepreneurial orientation versus small business orientation: What are their relationships to firm performance? *Journal of Small Business Management*, 46 (4), pp. 567-588.
 76. Saetre, A.S. (2003). Entrepreneurial perspectives on informal venture capital, *Venture Capital*, 5 (1), pp. 71-94.
 77. Schmid, F. (2001). Equity financing of the entrepreneurial firm, *Federal Reserve Bank of St. Louis Review*, 83 (6), pp. 15-28.
 78. Scott, J.A. (2004). Small business and the value of community financial institutions, *Journal of Financial Services Research*, 25 (2-3), pp. 207-230.
 79. Shane, S. and Stuart, T. (2002). Organizational endowments and the performance of university start-ups, *Management Science*, 48 (1), pp. 154-170.
 80. Shen, Y., Shen, M., Xu, Z. and Bai, Y. (2009). Bank size and small- and medium-sized enterprise (SME) lending: Evidence from China, *World Development*, 37 (4), pp. 800-811.
 81. Shin, G.H. and Kolari, J.W. (2004). Do some lenders have information advantages? Evidence from Japanese credit market data, *Journal of Banking & Finance*, 28 (10), pp. 2331-2351.
 82. Shyam-Sunder, L. and Myers, S.C. (1999). Testing static tradeoff against pecking order models of capital structure, *Journal of Financial Economics*, 51 (2), pp. 219-244.
 83. Sjögren, H. and Zackrisson, M. (2005). The search for competent capital: Financing of high technology small firms in Sweden and USA, *Venture Capital*, 7 (1), pp. 75-97.
 84. Smart, D.T. and Conant, J.S. (2011). Entrepreneurial orientation, distinctive marketing competencies and organizational performance, *Journal of Applied Business Research*, 10 (3), pp. 28-38.
 85. Stewart, W.H., Jr., Carland, J.C., Carland, J.W., Watson, W.E. and Sweo, R. (2003). Entrepreneurial dispositions and goal orientations: A comparative exploration of United States and Russian entrepreneurs, *Journal of Small Business Management*, 41 (1), pp. 27-46.
 86. Stewart, W.H., Jr. and Roth, P.L. (2001). Risk propensity differences between entrepreneurs and managers: A meta-analytic review, *Journal of Applied Psychology*, 86 (1), pp. 145-153.
 87. Storey, D.J. (1994) *Understanding the small business sector*. London: Routledge.
 88. Turok, I. and Raco, M. (2000). Developing expertise in small and medium-sized enterprises: An evaluation of consultancy support, *Environment and Planning C: Government and Policy*, 18 (4), pp. 409-427.
 89. Vázquez, R., Santos, M.L. and Alavarez, L.I. (2001). Market orientation, innovation and competitive strategies in industrial firms, *Journal of Strategic Marketing*, 9 (1), pp. 69-90.
 90. von Rheinbaben, J. and Ruckes, M. (2004). The number and the closeness of bank relationships, *Journal of Banking & Finance*, 28 (7), pp. 1597-1615.
 91. Voordeckers, W. and Steijvers, T. (2006). Business collateral and personal commitments in SME lending, *Journal of Banking & Finance*, 30 (11), pp. 3067-3086.
 92. Wiklund, J., Patzelt, H. and Shepherd, D.A. (2009). Building an integrative model of small business growth, *Small Business Economics*, 32 (4), pp. 351-374.
 93. Wiklund, J. and Shepherd, D. (2003). Aspiring for, and achieving growth: The moderating role of resources and opportunities, *Journal of Management Studies*, 40 (8), pp. 1919-1941.
 94. Wiklund, J. and Shepherd, D. (2005). Entrepreneurial orientation and small business performance: A configurational approach, *Journal of Business Venturing*, 20 (1), pp. 71-91.
 95. Wright, M. and Lockett, A. (2003). The structure and management of alliances: Syndication in the venture capital industry, *Journal of Management Studies*, 40 (8), pp. 2073-2102.
 96. Wyre, P., Mason, J. and Theodorakopoulos, N. (2000). Small business development and the learning organization, *International Journal of Entrepreneurial Behavior & Research*, 6 (4), pp. 239-259.
 97. Zahra, S.A., Sapienza, H.J. and Davidsson, P. (2006). Entrepreneurship and dynamic capabilities: A review, model and research agenda, *Journal of Management Studies*, 43 (4), pp. 917-955.
 98. Zellweger, T.M., Nason, R.S. and Nordqvist, M. (2012). From longevity of firms to transgenerational entrepreneurship of families introducing family entrepreneurial orientation, *Family Business Review*, 25 (2), pp. 136-155.