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An Empirical Examination of the Complex Relationships Between Entrepreneurial Orientation and Stakeholder Support

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ABSTRACT

This paper integrates the entrepreneurial orientation literature and stakeholder theories to explore the evolution of relationships between distinct entrepreneurial behaviors and support from stakeholders with divergent interests. Results from an empirical study in the nonprofit professional theatre industry support a multidimensional conceptualization of entrepreneurial orientation, point to tensions inherent in managing multiple stakeholder demands, and illustrate that different stakeholders support entrepreneurial behaviors in unique and somewhat unexpected ways relative to what might be expected. The findings also offer insight into the complex balancing act that managers must master in enacting entrepreneurial behaviors that result in different levels of support from distinct stakeholder markets.

AN EMPIRICAL EXAMINATION OF THE COMPLEX RELATIONSHIPS BETWEEN ENTREPRENEURIAL ORIENTATION AND STAKEHOLDER SUPPORT

Empirical research suggests that long-term firm success depends upon the firm's ability to create value and satisfaction for a variety of stakeholders, such as customers, suppliers, investors, and employees (Berman, Wicks, Kotha and Jones, 1999; Graves and Waddock, 1994; Ogden and Watson, 1999; Ruf et al., 2001). A stakeholder is any individual or group that can influence or is affected by the achievement of the organization's objectives (Freeman, 1984).

According to instrumental stakeholder theory, competitive advantage accrues to firms that take strategic actions that satisfy influential stakeholders (Carroll, 1993; Clarkson, 1995), particularly in accordance with their ability to impact the firm's performance (Berman et al., 1999; Freeman, 1984; Frooman, 1999). Normative stakeholder theory, on the other hand, explores how a firm should treat stakeholders based on what is morally or socially acceptable (Donaldson and Preston, 1995), emphasizing philosophical guidelines that consider the social and ethical impact of firm behaviors rather than the financial benefits that accrue to the firm through satisfying stakeholder demands.

Both approaches to stakeholder theory recognize the tensions and conflict inherent in managing multiple constituencies. For example, what should managers do when normative and instrumental considerations are at odds? Or how should managers treat key instrumental stakeholders that hold divergent interests? Each case requires trade-offs between fully appeasing one or more stakeholders at the expense of others. These tensions are amplified by organizational networks that feature divergent demands and financial rewards as well as various levels of power, legitimacy and urgency (Mitchell, Agle and Wood, 1997).

Managers' decisions are further complicated when stakeholders' needs or demands are dynamic, latent or difficult to discern. For example, anticipating new product preferences is

complicated by customers' limited ability to offer creative input or predict which new product ideas they will find attractive (e.g., Veryzer, 1998). These conditions have prompted scholars to recommend that firms ignore the customer in the research and development process (Martin, 1995; Moore, 1995) or that they use a probe-and-learn process to gather feedback from stakeholders for the purpose of (re)directing the development process (Lynn, 1996).

We explore the delicate balancing act that managers orchestrate in their attempts to satisfy diverse stakeholders. To limit the scope of our investigation, we focus on a subset of strategic actions — a firm's entrepreneurial behaviors that lead to change in the organization or marketplace. These behaviors have been examined under the umbrella term entrepreneurial orientation (EO). EO is particularly relevant to the current examination because the organizational and marketplace changes that accompany these actions likely affect and are valued differently by various stakeholders. This study seeks to answer the following questions: (1) To what extent are various entrepreneurial behaviors influenced and rewarded by diverse stakeholders, and (2) How perceptive are managers in identifying and managing the causal links between stakeholder support and entrepreneurial behaviors?

We conduct our examination within the context of the nonprofit professional theatre industry, an artistic industry that revolves around creativity, the generation of new products, and the management of their acceptance by multiple stakeholders. Using an artistic context builds on a trend in the management literature, which is to turn to non-business organizations for insight into the management of innovation and creativity (Crossan and Sorrenti, 1997; Hatch, 1997; Kamoche and Pina e Cunha, 2001; Meyer, Frost and Weick, 1998; Weick, 1998). As Kao (1989, p. 13) points out,

All entrepreneurial activity unfolds around the birth of new ideas. Understanding how the creative process begins and evolves is therefore critical for entrepreneurial success.

Our results contribute to the understanding of both EO and stakeholder theory. We use focus groups and an empirical study to develop and validate scales for five dimensions of EO in an artistic context. Incorporating stakeholder theory, we extend EO theory by examining the independent associations of each EO dimension with the financial support provided by three distinct stakeholders. This allows us to explicitly examine how environmental heterogeneity in the form of multiple stakeholders moderates the EO-performance relationship. Though prior research has explored interactions between environmental heterogeneity, EO and firm performance (Lumpkin and Dess, 1996, 2001; Miller, 1983; Miller and Friesen, 1982), the direct relationship between EO and heterogeneous market outcomes has not been examined.

We also use longitudinal data to observe the evolution of the relationship between EO behaviors and financial support from external stakeholders. Our empirical results demonstrate how stakeholder support can influence firm behavior, which in turn drives future stakeholder support. The findings illuminate the challenge managers face in choosing the level of EO when support for an EO behavior varies across stakeholders. The resulting insights contest prior criticism that stakeholder theory is not capable of providing worthwhile answers to important conceptual and empirical questions (Trevino and Weaver, 1999).

In the next section, we conceptualize the relationship between EO and stakeholder support, incorporating insights from five focus group discussions with experts from artistic industries. We then report the results of an empirical study that collected EO scale responses from managers in the nonprofit professional theatre industry and matched these responses with objective financial performance collected and validated by a third party. We conclude with a discussion of the results.

CONCEPTUALIZING THE EO-STAKEHOLDER NEXUS

The entrepreneurship literature argues that a set of organizational attitudes and behaviors characterizes entrepreneurial firms (e.g., Miller, 1983; Stevenson and Gumpert, 1985; Stevenson and Jarillo, 1990; Covin and Slevin, 1991; Covin and Miles, 1999; Lumpkin and Dess, 1996; Morris and Jones, 1999; Lyon, Lumpkin and Dess, 2000; Lee, Lee and Pennings, 2001). As a strategic choice, EO is an embedded organizational philosophy that drives decision-making and behavior toward creating new goods, new methods of production, new markets, or the new organization of an industry (Stevenson and Jarillo, 1990). As Lumpkin and Dess (1996: 136) observe, "...new entry explains *what* entrepreneurship consists of, and entrepreneurial orientation describes *how* new entry is undertaken." Following this literature stream, we define EO as *a firm-level predisposition to engage in behaviors that lead to change in the organization or marketplace.*

Historically, the literature pointed to the importance of three EO behaviors: innovativeness, risk taking, and proactiveness (Miller, 1983; Morris and Paul, 1987; Covin and Slevin, 1989; Davis, Morris and Allen, 1991). More recently, Lumpkin and Dess (1996) added autonomy and competitive aggressiveness to this set in an attempt to capture the full range of behaviors that lead to change in the organization or marketplace. They call for explicit examination of the independent role that each EO dimension plays in influencing firm performance.

Empirical research has focused on the impact of EO on overall firm outcomes, such as return on equity/assets/sales (Miller and Bromiley, 1990; Zahra and Covin, 1995), growth of the firm (Matsuno, Mentzer and Özsomer, 2002; Wiklund, 1999; Zahra and Covin, 1995), and innovation performance (Atuahene-Gima and Ko, 2001; Matsuno, Mentzer and Özsomer, 2002). While important, these studies provide little insight into the tensions and tradeoffs that firms face

when various stakeholders value and support different entrepreneurial behaviors. For example, firms widely recognized for their innovativeness frequently attract a small, loyal following of customers (e.g., Apple Computers) but may fail to achieve mass-market acceptance (e.g., Dell). Likewise, a firm might win critical acclaim among the engineering or artistic community for the aesthetic qualities of new products (e.g., Bauhaus) but generate little enthusiasm among mainstream consumers (e.g., Lay-Z-Boy devotees). In short, different dimensions of EO may hold different levels of appeal for and satisfy the demands of heterogeneous stakeholders.

Conceptualizing EO in an Artistic Context

Given the divergent perspectives regarding the behaviors subsumed by EO and the lack of research examining specific EO-stakeholder relationships, we organized 5 focus group discussions with 24 experts representing theatre, opera, and dance. Our goal was to explore the meaning, dimensions, and impact of EO as it relates to nonprofit professional arts organizations.

In the first 4 focus groups, we explored the appropriateness of a multidimensional EO conceptualization in an artistic context. The discussions supported a direct adaptation of some of the five EO dimensions proposed by Lumpkin and Dess (1996) but suggested that other dimensions required modification. The EO dimensions and definitions that emerged from these focus groups are:

Innovativeness is a commitment to generating and cultivating new ideas that result in new product offerings.

Market proactiveness is a commitment to implementing new business processes designed to cultivate new markets for the firm's offerings.

Risk taking is a commitment to experimentation in the face of uncertainty.

Employee autonomy is a commitment to encouraging employees to be self-directed and independent in the generation and implementation of novel ideas.

Competitive scanning is a commitment to monitoring industry trends and peer organizations' best practices.

We confirmed the face validity of these dimensions in the final focus group, which included an arts consultant, the artistic director of a nationally-recognized theatre, and the executive director of another nationally-recognized theatre. We then asked the experts to allocate 100 points to each EO dimension according to its importance. They ranked innovativeness (32 out of 100) the most important dimension, followed by risk taking (25), market proactiveness (18), employee autonomy (17), and competitive scanning (8).

Linking EO Dimensions to Stakeholder Support

The final task for our experts was to predict associations between each EO dimension and support from three key external stakeholders relevant to professional theatres: *creative stakeholders* (i.e., peer arts organizations and commercial producers of theatre and film that pay royalties for the rights to new productions), *customer stakeholders* (i.e., ticket buyers), and *philanthropic stakeholders* (i.e., individuals, corporations, foundations, and public funding agencies that provide donations or grants). We now offer a brief summary of the outcomes of this exercise.

Innovativeness has been recognized as a necessary (Drucker, 1998; Covin and Miles, 1999) but not sufficient (Miller, 1983; Stevenson and Gumpert, 1985; Covin and Slevin, 1991; Lumpkin and Dess, 1996) condition to EO. The experts were in complete agreement that innovativeness would be positively related to financial support from creative stakeholders in search of creative new products. The experts either disagreed or expected no relationship between innovativeness and customer or philanthropic support. Thus, we expect that innovativeness will have a strong positive association with creative stakeholder support and a weak or nonexistent association with customer and philanthropic support.

Whereas innovativeness captures entrepreneurial activities associated with a new product development strategy, market proactiveness captures entrepreneurial activities associated with market penetration and market development strategies. There was no consensus among the experts regarding the link between market proactiveness and stakeholder support: the arts consultant predicted a positive relationship between market proactiveness and customer and philanthropic support; the artistic director expected no relationship; and the executive director predicted a negative relationship between market proactiveness and customer support. As a result, we expect to find either a weak relationship or no relationship between market proactiveness and stakeholder support.

Risk is often viewed as a function of asset commitment (Covin and Slevin, 1991; Lumpkin and Dess, 1996), but risk associated with non-financial assets such as reputation among stakeholders also is important (Srivastava, Shervani and Fahey, 1998). At the core of each risky decision is the prospect of an uncertain outcome (e.g., Baird and Thomas, 1985; March and Shapira, 1987; Lumpkin and Dess, 1996). There were discussions of the need to moderate artistic risk and general agreement that risk taking would be positively related to creative and philanthropic support and negatively related to customer support. We conclude that managing risk taking requires an adept balancing act to satisfy everyone.

Employee autonomy reflects employees' ability to be self-directed in the pursuit of entrepreneurial opportunities (Lumpkin and Dess, 1996). The focus group discussions suggested that arts managers feel normative pressures to allow employees the freedom and independence to generate and implement new ideas even though external stakeholders may not value the behavior. Given the importance of employees as the engine of creativity in many artistic settings, managers apparently make a tradeoff between normative and instrumental rewards. The

discussion led us to anticipate high levels of employee autonomy in arts organizations, even though the autonomy likely is unrelated, or even negatively related, to instrumental stakeholder support.

Lumpkin and Dess (1996) propose competitive aggressiveness, which involves challenging competitors to improve relative industry position, as a dimension of EO. But in a nonprofit industry, competition between firms is tempered by frequent collaborations and the absence of a profit motive. Competitors tend to monitor the competition rather than aggressively target competitors' weaknesses to acquire market share, a perspective that is consistent with the notion that entrepreneurial behaviors can be imitative rather than initiating (Baumol, 1986), and can include innovative, late mover activities (Shankar, Carpenter and Krishnamurthi, 1998) that remix existing ideas to invent new applications in a type of bricolage (Levi-Strauss, 1967; Morris and Jones, 1999; Stevenson and Gumpert, 1985). We capture these activities as competitive scanning. There was near-complete agreement among our experts that competitive scanning would be positively related to instrumental support from all three stakeholders. We conclude that competitive scanning is enacted based on a general belief that it provides a preemptive means to garner and maintain instrumental support from all external stakeholders.

AN EMPIRICAL STUDY

To empirically examine the relationships between EO and stakeholder support, we conducted a survey in conjunction with Theatre Communications Group (TCG). TCG is the largest service organization to the nonprofit professional theatre industry in the United States. All TCG member theatres are professional as opposed to community or avocational theatres, meaning that artists are professional employees paid union wages. TCG member theatres also are producing organizations, meaning that they select and manage all product inputs, develop the product, and

bring it to market. This is in contrast to presenting organizations that contract performances of already-completed, touring productions.

Each year, TCG conducts a survey of its member theatres. Participation rates typically vary between 35-50%, with larger theatres being more likely to participate. In fiscal year 2001, 197 of the 407 TCG theatres completed the in-depth survey. These 197 theatres constituted a \$751 million industry and produced more than 38,000 performances for 12.8 million ticket buyers; the average theatre had a budget of \$3.8 million, an average ticket price of \$21, and total paid attendance of 70,324 over 195 performances (Voss et al., 2002).

EO Data Collection

The empirical study was designed to minimize concerns of endogeneity and simultaneity and to allow us to examine the evolution of the relationships between EO and stakeholder support over three years. To accomplish this, we mailed EO surveys to 324 managing directors during fiscal year 2000 (TCG membership increased from 324 theatres in 2000 to 407 theatres in 2001). Our use of a single key informant approach is consistent with prior studies (Covin and Slevin, 1989; Knight, 1997; Miller and Friesen, 1982; Zahra and Covin, 1995) that have collected measures of firm-level entrepreneurship from high-level executives who are responsible for developing and executing firm strategy. In the case of nonprofit professional theatres, the managing director is the senior executive with full knowledge of and responsibility for the organization's strategy.

The order of the EO items was randomized within the survey. We received EO responses from 136 managing directors, for a 42% response rate. We then examined the relationships between EO scores collected during FY2000 and stakeholder support measures collected by TCG for FY1999 and FY2001. Of the 136 theatres responding to the EO survey, 111 completed the in-depth TCG survey for 1999 and 2001. Compared to the TCG population and to the 197

theatres that completed the in-depth TCG survey in 2001, smaller theatres were under-represented in our sample, which had an average budget size of \$4.5 million, with attendance of 76,443 at 298 performances.

Measure Description

Stakeholder Support Measures. To operationalize stakeholder support, we used objective revenue measures collected by TCG for FY1999 and FY2001. *Creative stakeholder support* was measured as the level of royalty revenue a theatre receives when plays that it originates are picked up and produced by other theatres or made into film. *Customer stakeholder support* was measured as the theatre's total ticket revenue. *Philanthropic stakeholder support* was measured as total contributed revenue.

EO Scales. We conceptualized EO as a higher-order construct with multiple, independent dimensions. Our EO measures used parlance common to the nonprofit professional theatre context. We assessed the reliability and validity of the EO scales using exploratory factor analysis, which indicated that five factors had eigenvalues greater than 1. One item exhibited strong cross-loadings and low item-to-total correlations in reliability analyses, so we deleted it from subsequent analyses. The remaining items all loaded together on a single factor and all construct reliabilities exceeded .70.

We also assessed the construct validity of our measures by examining correlations between the EO dimensions and objective measures of new product development activity and resource allocations (see Lyon, Lumpkin and Dess, 2000). This analysis supported the construct validity of each EO dimension. We present a description of each item, the rotated factor pattern, and coefficient alphas for each scale in Table 1.

Insert Table 1 about here

Control Variables. To minimize bias associated with omitted variables, we included control variables in each analysis, three to control for variations in theatres' resources and pricing strategy and two to control for marketplace variations. The three firm-level controls were collected by TCG and include the number of seats in the theatre, the number of full-time employees, and the average ticket price. Two marketplace controls were drawn from the U.S. Department of Commerce Bureau of Economic Analysis data for 2000: market population and per capita income. Summary statistics and a correlation matrix for the variables of interest are provided in Table 2.

Insert Table 2 about here

LONGITUDINAL ASSESSMENT OF THE RELATIONSHIPS BETWEEN EO AND STAKEHOLDER SUPPORT

To examine the complex evolution of the relationships between EO and stakeholder support, we conducted two series of regression analyses. In the first series, we regressed each EO dimension (measured in FY2000) on stakeholder support measures from FY1999. These analyses allowed us to examine whether stakeholder support influences subsequent EO behaviors (Frooman, 1999). In the second series of analyses, we regressed stakeholder support measures from FY2001 on FY2000 EO dimensions. These analyses allowed us to examine whether EO behaviors in FY2000 influence stakeholder support in FY2001 (Berman et al., 1999).

The Influence of Stakeholder Support on Subsequent EO

To explore the influence of stakeholder support on EO, we estimated separate regression models with each of the five EO dimensions as dependent variables. We included number of seats, number of full-time employees and average ticket price as firm-level control variables. The models explained between 6-29% of the variation in firm EO (see Table 3). An examination of

variance inflation factors indicated that the largest value was 5, suggesting that multicollinearity was not a serious problem in any of the analyses.

Insert Table 3 about here

The results indicate that royalty revenue in FY1999 was positively ($p < .01$) related to innovativeness. This result is consistent with the experts' predictions that innovativeness would be positively related to support from creative stakeholders. Contributed revenue in FY1999 also was positively ($p < .05$) related to market proactiveness. This result suggests that philanthropic stakeholders may encourage the development of new marketplace initiatives.

Royalty and contributed revenue were positively ($p < .01$) associated with risk taking and ticket revenue was negatively ($p < .01$) related to risk taking. These results are consistent with ideas expressed in our focus group that creative and philanthropic stakeholders value risk taking and customer stakeholders do not. Consistent with the experts' predictions, employee autonomy was not related to creative, customer, or philanthropic stakeholder support. These results are consistent with the notion that managers support employee autonomy in response to normative internal pressures rather than in response to instrumental support from external stakeholders.

Contrary to our experts' predictions, stakeholder support in FY1999 was not related to competitive scanning. This finding reveals that competitive scanning is not driven by any specific form of instrumental stakeholder influence. Competitive scanning is negatively related to the number of employees, suggesting that smaller theatres view the marketplace as an external resource that augments internal employee expertise. Small, entrepreneurial firms outsource and stay lean so that they can remain more flexible and responsive to marketplace changes and trends. As they grow, theatres diversify and enrich their internal employee assets and rely less on competitive scanning.

The Influence of EO on Stakeholder Support

To explore the influence of EO on subsequent stakeholder support, we estimated separate regression models with each of the three FY2001 stakeholder support measures as dependent variables. We included number of seats, number of full-time employees and average ticket price as firm-level control variables and market population and per capita income as marketplace controls. All three regression models were highly significant, explaining between 46-80% of the variation in performance outcomes (see Table 4).

We assessed whether multicollinearity might be biasing individual regression coefficients by examining variance inflation factors. The largest value was less than 2, suggesting that multicollinearity was not a problem in any of the analyses. To assess the relative explanatory value of the EO dimensions, we conducted a two-step analysis, entering the control variables first and the EO dimensions next. This indicated that EO explained between 2% (ticket revenue) and 15% (royalty revenue) of the total variance in the dependent variables.

Insert Table 4 about here

Results indicate that innovativeness had a positive ($p < .05$) relationship with royalty revenue, ticket revenue, and contributed revenue. The royalty revenue result was predicted by our experts, but the ticket and contributed revenue results were not. Recall that our experts' predictions and the first set of analyses suggested that theatre managers understand how innovativeness is linked to support from creative stakeholders. This is borne out in this second analysis as well. However, results indicate that managers under-appreciate the degree to which innovativeness creates a positive response from customers and philanthropic stakeholders.

Market proactiveness had a marginally negative ($p < .10$) association with royalty revenue but no significant relationship with ticket or contributed revenue. The experts and the

first set of analyses suggested that the relationship between ticket revenue and market proactiveness is well-understood by theatres. However, to what degree this understanding creates a self-fulfilling prophecy or whether customers really do not respond to marketing activities remains unanswered. On the other hand, based on the stage one analyses, we might have expected contributed revenue and marketing proactiveness to have a stronger relationship in stage two. It appears there is weak instrumental basis for this belief. Finally the negative relationship between market proactiveness and royalty revenues was not anticipated but points again to the tension between artistic and business missions within theatres.

Risk taking had a positive ($p < .10$) association with royalty revenue, a negative ($p < .05$) association with ticket revenue, and no significant relationship with contributed revenue. The royalty and ticket revenue results are consistent with the experts' expectations (and with the results reported in Table 3) but the nonsignificant contributed revenue result was not.

Surprisingly, employee autonomy had a negative ($p < .10$) relationship with all forms of external stakeholder support. Though the first series of analyses did not uncover an instrumental relationship between employee autonomy and stakeholder support, our experts hinted at these concerns. It appears that normative obligations to employees lead theatres to adopt levels of employee autonomy that are detrimental to external stakeholder support.

Consistent with the experts' predictions, competitive scanning was positively ($p < .10$) associated with all three revenue sources. Thus, though prior stakeholder support does not appear to influence competitive scanning (Table 3), competitive scanning leads to higher levels of support from all three external stakeholders.

DISCUSSION

The objective for this research was to explore the evolutionary relationships between different dimensions of EO and heterogeneous stakeholder support. We examined these relationships in an artistic context and offer insights that may be useful to other corporate and nonprofit sectors. The results suggest that when the relationship between stakeholder influence and EO behaviors is transparent, managers develop reciprocal, strategic relationships that reinforce valued behaviors. When the interaction between stakeholder influence and EO behaviors is less transparent, managers must perform a balancing act to contend with complex, pluralistic and conflicting stakeholder demands and responses.

Instrumental and Normative Behaviors

Our research provides an empirical basis for distinguishing between instrumental behaviors, which are driven by an economic valuation of stakeholder relationships, and normative behaviors, which are driven by social, ethical, or cultural obligations. We infer that firms are making instrumental choices when historical stakeholder support influences future firm behavior. Using this perspective, the results offer insights into the dynamics driving the evolution of instrumental strategies.

Table 3 results suggest that theatres view as instrumental the relationships between innovativeness and risk taking and creative stakeholders (positive), between market proactiveness and risk taking and philanthropic stakeholders (positive), and between risk taking and customer stakeholders (negative). The findings in Table 4 indicate a through-line in the evolution of instrumental response in some cases. For example, it appears that theatres recognize creative stakeholders' support of innovativeness and risk taking, they then engage in higher levels of these two entrepreneurial behaviors, and they are subsequently rewarded with higher levels of support from creative stakeholders. Similarly, it appears that theatres are aware that

customer stakeholders do not value high levels of risk taking but they continue to engage in risk taking behaviors for reasons germane to their mission or artistic vision, despite knowing that customers will respond with lower levels of support for this behavior as played out in Table 4.

The findings in Table 4 also indicate that there can be spillover effects associated with instrumental choices. For example, experts predicted that creative stakeholder support would be positively associated with innovativeness, and royalty revenue in 1999 and 2001 was positively related to innovativeness in the empirical analysis. However, innovativeness also produced higher ticket revenue and contributed revenue in FY2001. It appears that support from customer and philanthropic stakeholders does not lead to higher innovativeness, even though innovative actions attract strong customer and philanthropic support. Theatres may fear that launching innovative new products increases the potential for rejection by these stakeholders, despite instrumental evidence to the contrary (Voss and Voss, 2000).

In many instances, the evolutionary through-line of the relationship between stakeholders' support of entrepreneurial behaviors is murky, perhaps reflecting complex relationships. For example, although instrumental support from philanthropic stakeholders encouraged proactiveness, higher levels of proactiveness were not rewarded with subsequent support from contributors. Philanthropic stakeholders may be fickle in their support of proactive entrepreneurial behaviors, at times encouraging and rewarding the behaviors and at times not. The firm's ability to create value and satisfaction for these stakeholders in the context of entrepreneurial behaviors may require a high level of managerial sophistication.

We infer that decisions are likely influenced by normative obligations or beliefs when historical stakeholder support has no influence on firm behavior. In our study, both employee autonomy and competitive scanning were unrelated to past instrumental stakeholder support;

yet, our experts rated these behaviors as relevant to EO, and the survey respondents reported higher levels for these behaviors than for the other three (see mean values in Table 2).

Collectively, the results suggest that these behaviors are driven by factors other than direct influence exerted by the three instrumental stakeholders examined.

Managers may believe that competitive scanning is a required activity that enhances all forms of instrumental support. The positive link between competitive scanning and creative stakeholder support in FY2001 is particularly noteworthy because it offers additional insight into an ongoing conceptual debate. Much of the literature on competitive strategy suggests that competitive scanning should lead to reacting to the industry (i.e., paying close attention to incremental change, relative performance, and cost differences [Day and Nedungadi, 1994; Glazer, Purohit and Winer, 1999]) rather than shaping the industry. However, the positive relationship between competitive scanning and royalty revenue may reflect what Eisenhardt and Tabrizi (1995, p. 91) refer to as an experiential strategy that involves “rapidly building intuition and flexible options in order to learn quickly about and shift with uncertain environments.” Thus, rather than simply remixing existing ideas or innovating incrementally (Baumol, 1986), these organizations apparently scan the industry, adopt competitors’ sources of innovation (e.g., playwrights) with proven utility, and create and diffuse their own new products.

Insights from our focus groups suggested that theatre managers are motivated by normative obligations to provide employees with autonomy even though they recognize the instrumental downside of doing so. Employee autonomy did, in fact, lead to lower support from all three stakeholders. We interpret these results as support for the omission of employee autonomy as an EO dimension in future EO research. EO has been conceptualized at the strategic level to include behaviors that lead to change in the organization or marketplace, and

the implicit motivation in all strategic decisions is the enhancement of firm performance. Our results indicate that managers do not view employee autonomy as a strategic decision leading to enhanced firm performance; rather, it is a normative obligation associated with organizational behavior or culture with no direct, positive link to performance envisioned or found.

Tensions in Managing Multiple Stakeholders

The results underscore the complexity inherent in coordinating and balancing EO behaviors to satisfy divergent stakeholder interests and hint at a larger issue involved in the theory and management of organizations that have both creative and business missions (Thornton, 2001). This is particularly reflected in the innovativeness, risk taking, and market proactiveness dimensions. For example, the negative link between market proactiveness and subsequent creative support suggests a danger in placing too great an emphasis on business aspects to the detriment of the art. The nonsignificant results for customer support in both analyses indicate that this shift in resources is neither encouraged nor valued by theatre customers. These results are consistent with the notion that market proactiveness may be a more salient EO behavior in industries marked by relatively stable products, where market penetration and market development are more relevant growth strategies, rather than in creative and dynamic industries (Kao, 1989). In artistic industries, word-of-mouth and critics' reviews – not new marketing initiatives – may be the primary drivers of customer response.

The associations between risk taking and stakeholder support were largely consistent across experts' predictions and across the analyses linking risk taking to prior and subsequent years' stakeholder support. The through-line is fairly clear: managers learn which stakeholders are instrumental to the organization's continued ability to take risks. The only inconsistency was the nonsignificant association between risk taking and contributed revenue in 2001 (see Table 4).

Several focus group participants alluded to the idea that some risk was desirable but that too much risk was bad. An artistic director observed, "On a scale of 10, 1 is bad and 10 is bad but 3 is pretty good." To explore the possibility that the relationship between risk taking and stakeholder support might be curvilinear, we re-estimated the models in Table 4, including a quadratic term for risk taking. The results indicated that the quadratic term was non-significant with royalty and ticket revenues as dependent variables but significantly negative with contributed revenue as the dependent variable.

This post-hoc analysis further highlights the tension that managers face in finding the right balance of risk to satisfy divergent stakeholders (see Figure 1). The tension is particularly acute for theatres that engage in risky innovation that may result in higher royalty revenue, critical acclaim, and recognition from industry peers. Pursued too aggressively, this type of entrepreneurial activity may alienate traditional audiences and funders. Translating artistic risk taking into higher (or acceptable) customer and philanthropic support requires a complex balancing act that combines high levels of innovativeness with low-to-moderate levels of risk taking; high levels of innovativeness to maximize revenues from all stakeholders and low to moderate levels of risk to maximize ticket and contributed revenue.

Insert Figure 1 about here

These findings support Rowley's (1997: 887) theoretical framework that argues for moving beyond the dyadic ties between a firm and its stakeholders and to instead "consider the multiple and interdependent interactions that simultaneously exist in stakeholder environments."

As Pfeffer and Salancik (1978: 27) suggest:

That different people, groups, organizations may have different criteria for evaluating an organization creates problems for the organization...Faced with conflicting demands, the organization must decide which groups to attend to and which to ignore.

Conclusion

As an initial attempt to unravel the complex set of relationships that define the EO–stakeholder nexus, this study reveals as many questions as answers. For example, does downstream market proactiveness play a more important role in stable industries than it does in this dynamic, artistic industry? Should employee autonomy be considered an organizational behavior or a strategic construct? Will the negative effects for employee autonomy found in this artistic context extend to other environments or, in a widely representative sample of firms from different industries, would evidence of an inverted U-shaped effect for employee autonomy and support from various stakeholders emerge? Would the largely positive effects of competitive scanning and the curvilinear effects of risk taking on philanthropic support be found in other, non-artistic contexts? When multiple stakeholders wield influence but diverge in the behaviors that they value, how should managers prioritize and meet their stakeholders’ demands? We hope that these questions, among others, will encourage researchers to explore further the links between EO and all types of firm performance.

Empirical strengths of the research include the examination of independent effects for each of the five EO dimensions, the examination of instrumental and normative stakeholder support, the use of objective performance measures that capture support from distinct stakeholders, the study of a single industry and longitudinal data collection (Kreiser, Marino and Weaver, 2002; Schwartz and Teach, 2000). Though single-industry studies enhance internal validity, focusing on a single industry limits the generalizability of the findings. Nevertheless, it may be useful for comparative purposes to contrast our findings with those that examine the relationship between EO and performance in other industries. As already noted, the sample in our study omits some of the smallest nonprofit professional theatres, which may be among the

most entrepreneurial of theatres. Furthermore, we examined the evolution of the relationships between EO dimensions and stakeholder support by studying a three year period of time. A longer arc in the evolutionary cycle would provide greater understanding of long-term relationship development and management of stakeholder influence.

As Covin and Slevin (1991) point out, an organization's entrepreneurial posture is dependent on its mission. Our focus group participants frequently alluded to the importance of embracing a macro view of EO that takes into account such philosophical issues as the inherent desirability of risk taking for a nonprofit organization. Thus, it is not our intent to imply that our results should guide an organization's values or goals, that EO is appropriate in all cases, or that every organization should strive for high levels of the outcome measures examined herein. Especially in the nonprofit sector, desired outcomes can vary dramatically in terms of manifest (e.g., number of people served, growth in the number of new or returning clients, annual net surplus/deficit) and latent (e.g., quality of service provided, improved reputation, client satisfaction) measures. Nevertheless, our empirical findings indicate that an organization's EO levels should be considered when examining factors that influence stakeholder support.

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TABLE 1
Factor Analysis Results for Entrepreneurial Orientation Items

Scale Items	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Innovativeness ($\alpha = .86$)					
A key component of our artistic mission is to develop innovative new works.	.91	.04	.10	.10	-.17
We actively solicit and develop new plays.	.84	-.04	.10	.18	-.33
We regularly commission playwrights to develop new work.	.80	.14	.14	.04	-.11
Competitive Scanning ($\alpha = .78$)					
We pay close attention to our competitors' fundraising activities.	-.03	.87	.14	.04	.01
We keep a close eye on our competitors' audience development tactics.	.07	.86	-.02	.20	.00
We keep abreast of industry trends.	.12	.65	.27	.29	.05
Employee Autonomy ($\alpha = .72$)					
We reward people for being innovative.	.05	.19	.77	.27	.08
We encourage employees to implement their novel ideas.	.14	-.09	.77	.00	-.18
We encourage our employees to be independent problem-solvers.	.12	.31	.74	.10	-.08
Market Proactiveness ($\alpha = .72$)					
We try out new marketing and fundraising programs each year.	.09	.07	.20	.84	-.09
We constantly seek new ways to market the theatre.	.16	.30	.27	.73	.07
We are not afraid of implementing new marketing and fundraising initiatives.	.08	.23	-.12	.65	-.40
Risk Taking ($\alpha = .72$)					
There is a major element of artistic risk in all of our productions.	-.29	.10	.01	-.07	.84
We generally avoid high-risk projects. ^R	-.22	-.03	-.20	-.11	.80
Variance explained by each factor	17%	16%	15%	14%	12%

Notes:

All items used Likert-type seven-point scales anchored by strongly disagree (1) and strongly agree (7). Loadings greater than .40 are bolded for visual clarity.

^R Denotes reverse-coded item.

Table 2
Summary Statistics and Correlation Matrix for Variables of Interest

		Mean	Standard Deviation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1	Innovativeness 2000	4.88	1.73	1.00																
2	Market Proactiveness 2000	5.14	1.01	.32 ^a	1.00															
3	Risk Taking 2000	4.90	1.35	.50 ^a	.28 ^a	1.00														
4	Employee Autonomy 2000	5.45	0.78	.29 ^a	.35 ^a	.18 ^b	1.00													
5	Competitive Scanning 2000	5.16	1.09	.14 ^c	.43 ^a	-.02	.32 ^a	1.00												
6	Royalty Revenue 1999*	3.39	4.22	.35 ^a	.07	.30 ^a	.01	.16 ^c	1.00											
7	Royalty Revenue 2001*	3.45	4.37	.35 ^a	.05	.21 ^b	-.09	.11	.77 ^a	1.00										
8	Ticket Revenue 1999*	13.63	1.38	-.03	.02	-.15 ^c	-.14 ^c	.16 ^b	.46 ^a	.49 ^a	1.00									
9	Ticket Revenue 2001*	13.74	1.39	-.00	.02	-.12	-.16 ^c	.15 ^c	.48 ^a	.52 ^a	.96 ^a	1.00								
10	Contributed Revenue 1999*	13.70	1.24	.07	.08	.06	-.13 ^c	.16 ^b	.52 ^a	.55 ^a	.85 ^a	.82 ^a	1.00							
11	Contributed Revenue 2001*	13.97	1.20	.11	.12	.06	-.13 ^c	.17 ^b	.54 ^a	.55 ^a	.85 ^a	.83 ^a	.94 ^a	1.00						
12	Number of Seats 2001*	6.24	1.22	.08	.07	-.19 ^b	-.10	.04	.22 ^b	.26 ^b	.39 ^a	.40 ^a	.32 ^a	.33 ^a	1.00					
13	Number of Employees 2001*	3.69	1.13	-.06	-.00	-.13 ^c	-.15 ^c	.05	.41 ^a	.48 ^a	.86 ^a	.82 ^a	.82 ^a	.81 ^a	.38 ^a	1.00				
14	Average Ticket Price 2001	22.22	7.79	-.04	.06	.03	-.04	.15 ^c	.35 ^a	.30 ^a	.73 ^a	.75 ^a	.65 ^a	.69 ^a	.27 ^a	.63 ^a	1.00			
15	Market Population*	14.16	1.33	.13 ^c	.15 ^c	.28 ^a	.00	.11	.34 ^a	.28 ^a	.25 ^a	.24 ^a	.38 ^a	.40 ^a	-.15 ^c	.13 ^c	.33 ^a	1.00		
16	Per Capita Income*	10.40	0.23	.12	.03	.30 ^a	-.03	.10	.30 ^a	.22 ^b	.15 ^c	.20 ^b	.24 ^a	.24 ^a	-.10	.08	.25 ^a	.43 ^a	1.00	

Notes:

^a Significant at $p < .01$.

^b Significant at $p < .05$.

^c Significant at $p < .10$.

* Indicates log transformed variables.

TABLE 3
Regression Analysis Results Examining the Effect of Stakeholder Support in 1999 on EO in 2000

Independent Variables	Innovativeness '00	Market Proactiveness '00	Risk Taking '00	Employee Autonomy '00	Competitive Scanning '00
Royalty Revenue '99	.45 ^a	.03	.34 ^a	.09	.06
Ticket Revenue '99	-.23	-.08	-.66 ^a	-.18	.15
Contributed Revenue '99	.18	.34 ^b	.54 ^a	-.02	.21
Number of Seats '99	.15 ^c	.17 ^c	-.12	.12	-.03
Number of Employees '99	-.23 ^c	-.39 ^a	-.19	-.18	-.36 ^b
Average Ticket Price '99	-.10	.03	.19 ^b	.15	.18 ^c
Model R ²	.19 ^a	.07	.29 ^a	.06	.10 ^c

Notes:

- ^a Significant at $p < .01$.
- ^b Significant at $p < .05$.
- ^c Significant at $p < .10$.

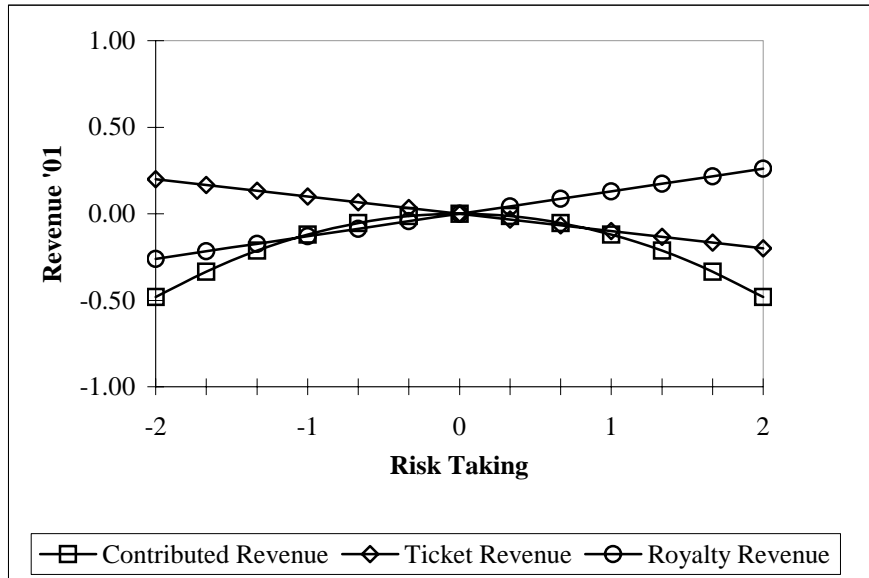
TABLE 4
Regression Analysis Results Examining the Effect of EO in 2000 on Stakeholder Support in 2001

Independent Variables	Royalty Revenue '01	Ticket Revenue '01	Contributed Revenue '01
Innovativeness '00	.33 ^a	.09 ^b	.11 ^b
Market Proactiveness '00	-.13 ^c	-.01	.02
Risk Taking '00	.14 ^c	-.10 ^b	.04
Employee Autonomy '00	-.12 ^c	-.08 ^c	-.09 ^b
Competitive Scanning '00	.13 ^c	.07 ^c	.09 ^c
Number of Seats '01	.12 ^c	.08 ^c	.06
Number of Employees '01	.49 ^a	.54 ^a	.63 ^a
Average Ticket Price '01	-.11	.35 ^a	.19 ^a
Market Population	.17 ^c	.04	.22 ^a
Per Capita Income	.05	.07 ^c	.01
Model R ²	.46 ^a	.80 ^a	.79 ^a

Notes:

- ^a Significant at $p < .01$.
- ^b Significant at $p < .05$.
- ^c Significant at $p < .10$.

Figure 1
Plotting the Effect of Risk Taking on Stakeholder Support



* The range of scores for risk taking and revenue represents mean centered values plus or minus the number of standard deviations shown. Therefore, 1 is equal to one standard deviation above the mean-centered risk-taking level and -1 is one standard deviation below the mean-centered risk-taking level.