Entrepreneurship and Philanthropy after Socialism

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Entrepreneurship
and Philanthropy
after Socialism

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Foreword

This is the tenth of the TeliaSonera Institute Discussion Papers. The Institute, which is located at the Stockholm School of Economics in Riga is generously supported by TeliaSonera and aims to promote applied economic research in the fields of entrepreneurship and telecommunication – the latter with a focus on regulatory issues.

The current discussion paper on Entrepreneurship and Philanthropy after Socialism is written by Tomasz Mickiewicz, Arnis Sauka and Ute Stephan This as well as the previous nine discussion papers can be downloaded from the SSE Riga website, www.sseriga.edu.lv. Hard copies can be ordered from office@sseriga.edu.lv.

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1. Introduction

As argued convincingly by Acs and Phillips (2002) it is not only “the creation of wealth (entrepreneurship)” but also “the reconstitution of wealth (philanthropy)”, which has been essential for the inherent dynamism of the market economy (Ibid., p.201). Moreover, a recent shift from the industrial to the entrepreneurial economy creates new opportunities for strengthening the links between entrepreneurship and philanthropy. These links are most effective when focused on local action, that is when they represent small-scale projects based on face-to-face contacts, supported by reputation and community membership. Accordingly, the most effective forms of philanthropy rely on the use of decentralised knowledge and on a good understanding of local conditions (Boettke and Rathbone 2002). Under these conditions, the decentralised wealth creation (entrepreneurship) spills over onto non-profit projects embedded in the civic society. In this way, activities creating both social and economic values become mutually reinforcing.

However, little is understood about the entrepreneurship – philanthropy link in institutional contexts that differ from that of the leading developed market economies, and the United States in particular (Acs and Phillips 2002). Accordingly our research agenda is to investigate the entrepreneurship-philanthropy nexus in a very different context of Lithuania, a country on which a command economy system, alien to entrepreneurship and private initiative, was inflicted for over half of century, and lasted until the end of the Soviet occupation in 1991 (Aidis 2004). Lithuania was able to rebuild the basic formal institutional structure of the market economy and joined the European Union in 2004. However, informal institutions (cultural norms and values) change more slowly (North 1990) and the Soviet system left a legacy of distrust; and values conducive to entrepreneurship, including autonomy and mastery, have been particularly weak (Sztompka 1996; Schwartz and Bardi 1997; Estrin and Mickiewicz 2011). How strong is this legacy after twenty years of market reforms? Is entrepreneurship, which is re-emerging in Lithuania (Aidis and Mickiewicz 2006), associated with philanthropy? Or would Lithuanian entrepreneurs behave in a way that could represent an atomised post-Communist society (Fukuyama 1995), where social capital is weak and narrow private networks substitute imperfectly for vibrant communities?

Apart from the objective to enhance our understanding of entrepreneurship in the context of a newly liberalised economy, we also believe that some findings from our research have a more general interpretation. As observed by Acs and Phillips (2002) focussing on the link between entrepreneurship and philanthropy leads to more general questions, challenging common assumptions about human economic behaviour, and about the motivation, objectives and attitudes behind the economic activity of individuals and firms. In particular, we are interested to see if the cluster of strategies of firms conducive to entrepreneurship (entrepreneurial orientation, see: Covin and Slevin 1989; Lumpkin and Dess 1996; Miller 1983) is consistent or contradictory with philanthropy? In other words, is philanthropy strongly associated with core components of entrepreneurship, or is it an entrepreneurial anomaly, relying on a minority of economic actors that provide important links with wider, non-economic communities? We are able to shed some
light on these questions with respect to Lithuania, but our answers may hold for other institutional contexts; we hope this will lead to further exploration and research.

The paper is organised as follows. In the first section we discuss the Soviet legacy and market environment in Lithuania that may shape the entrepreneurship – philanthropy nexus. Next we move to the concept of entrepreneurial orientation (EO) and discuss the links between EO, a firm’s resources and internalisation with philanthropy. We formulate our hypotheses. In the following sections of the paper we discuss our sample, methods and results, and offer final conclusions.

2. Soviet legacy, market reforms, entrepreneurship and philanthropy

Similar to other countries in Central Europe, entrepreneurship re-emerged in Lithuania as one of the key drivers of economic recovery in the early 1990s. The new enterprises could quickly fill domestic market gaps inherited from the command economy system of supply and identify exporting opportunities. However, by the end of the 1990s the process of new firm creation slowed down; the Lithuanian economy was hit by an external shock following the 1998 Russian crisis. The early 2000s brought back strong economic growth, partly thanks to changes in the tax environment, including the introduction of flat income tax, favourable to wealth creation. However, in 2009, as a result of the global financial crisis, Lithuania suffered a dramatic downturn losing 18% of its output. At the time of writing (August 2010), it seems that this small open economy is already bouncing back.

Despite the initial wave of entrepreneurship in Central Europe, the Soviet system left a legacy of social attitudes that were not conducive to entrepreneurship and rates of entrepreneurial entry remained relatively lower when compared with other countries at a similar level of development in Far East Asia and Latin America (Estrin and Mickiewicz 2011). Some of those inherited attitudes are not only detrimental to entrepreneurship (Ibid.) but also to any private sector self-organisation, including philanthropy-based non-profit activities (Boettke and Rathbone 2002). The public attitudes, which are not consistent with entrepreneurship and non-profit private sector activities relate to the expectations about the strong organising role of the government. These attitudes have an impact on economic policy choices and we may proxy the latter by the size of government expenses in GDP, which has been demonstrated to affect entrepreneurship in a negative way (Aidis et al. 2010). However, Lithuania with 29% of GDP being redistributed by the state budget, scores favourably when compared with some other economies in the region.

While the Soviet economic system was detrimental both for entrepreneurship and for non-profit private self-organisation, the entrepreneurial talent of those who were least risk averse was channelled into illegal entrepreneurship. Apart from a narrow licensed craft sector, all entrepreneurship

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4 Government expenses as a percentage of GDP are at the level similar to 28% in neighbouring Latvia, but lower than 34% in Poland, and much smaller than 43% observed in Hungary. They also remain at the lower end of the European Union spectrum (on par with Germany at 29%, but far less than 44% in France). On the other hand, the difference becomes significant, when we compare Lithuania to some dynamic economies on a similar level of development in other parts of the world, for instance Korea (20%) or Chile (17%) (all data from WB WDI; 2007).
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was illegal: under the command economy system any private economic initiative starting with a simple trade of basic commodities could be prosecuted. Nevertheless, during the final stage of the communist system, this shadow entrepreneurial sector was thriving, and Aidis and Praag (2007) document that the experience of independent economic activity in Lithuania was a significant factor associated with the development of attitudes that were conducive to entrepreneurship in the market economy. However, this tradition of shadow economic activity was based on close private networks of support and therefore was not necessarily consistent with entrepreneurial attitudes that place economic activity at the core of local communities and lead to philanthropy and spill-over effects from for-profit to non-profit activities. It remains an open empirical question if entrepreneurship in Lithuania retains this narrow, private-networks characteristics or is being transformed into communityembedded activity, consistent with the market economy logic of development, where economic freedom and civic society reinforce each other (Acs and Phillips 2002). This is the question we intend to investigate empirically in this paper.

3. Conceptual framework

Traditionally, entrepreneurial behaviour has been regarded as individualistic, that is driven by the desire not only to earn profits but also to add to power and prestige (e.g., Hayton et al. 2002). Recent research however, challenges this view suggesting that entrepreneurial behaviour is simultaneously driven by a multitude of motives of which earning money and prestige, for instance, are not necessarily the primary ones. Additional or alternative motives include selfrealisation, creativity, autonomy and independence, and also giving back to society, amongst others (e.g., Birley and Westhead, 1994; Gorgievski et al. 2010; Kuratko et al. 1997; Van Praag and Versloot 2007).

Parallel to this, some studies even suggest that entrepreneurs may thrive in collectivist cultures, rich in social networks (Hofstede et al. 2004; Kwon and Arenius 2008; Stephan and Uhlmaner, 2009; Pinillos and Reyes 2009). There is also some inherent ambiguity in the term ‘individualism’ (Schwartz 1990). As argued by Fukuyama (1995), some of the societies perceived as ‘individualistic’ are at the same time rich in self-organisation. Consistent with the perspective adopted by Acs and Phillips (2002) and Boettke and Rathbone (2002), this self-organisation is based on mutual links between private economic and social non-profit initiatives. Accordingly, we expect that the common measure of entrepreneurship at firm level, i.e. entrepreneurial orientation (EO) might well be consistent with philanthropy. As an indicator of philanthropy we examine whether entrepreneurs contribute financially to the needs of their local community via charitable giving. We assume that dynamic entrepreneurs realize the need to embed in local social structures and one way to do so is charity. Accordingly, we posit that there is no inherent conflict between an entrepreneurial orientation and philanthropy.
3.1. Entrepreneurial Orientation

Entrepreneurial Orientation (EO) refers to a firm’s strategic posture, i.e. its propensity to act entrepreneurially (Covin and Slevin 1989; Lumpkin and Dess 1996; Miller 1983). More specifically, an entrepreneurial firm is characterized by the emphasis on innovation, risk-taking and pro-activity (Covin and Slevin 1989; Miller 1983). In contrast, a “... non-entrepreneurial firm is one that innovates very little, is highly risk averse, and imitates the moves of competitors instead of leading the way.” (Miller 1983, p:771).

Innovation such as the development of new products, services and processes is often regarded as the key component of EO (e.g. Kreiser et al. 2002). This is in line with classical conceptualizations of entrepreneurship that define innovation at its core (Drucker 1985; Schumpeter 1934; also Wong et al. 2005). Similarly, definitions of corporate entrepreneurship commonly emphasize innovation (e.g., Covin and Miles 1999; Kuratko et al. 2005; Lumpkin and Dess 1996).

Risk-taking refers to a firm pursuing opportunities with high but more uncertain chances of return. Pro-activity describes whether a firm is ahead of the market, i.e. it acts anticipating future market trends and competitors’ reactions.

EO has become one of the most researched concepts in entrepreneurship with a multitude of studies investigating its impact on firm performance and testing its validity in different contexts (e.g. Baker and Sinkula 2009; Hughes and Morgan 2007; Kreiser et al., 2002; Moreno and Casillas, 2008; Short et al. 2009). A recent meta-analysis summarizes over 50 empirical studies drawing on a total sample of over 14,000 firms (Rauch et al. 2009) and finds that a firm’s EO is significantly and positively related to firm performance. The EO-performance relationship is found to be similar using different operational definitions of EO such as the EO questionnaire by Covin and Slevin (1989) versus adaptations of it. Furthermore, the EO-performance link holds across different operational definitions of a firm’s performance (e.g. growth, profitability) and longitudinal research finds that this relationship becomes stronger when a longer time window is used (Wiklund 1999; Zahra and Covin 1995). Finally, the EO construct can be replicated in different countries (Kreiser et al. 2002; Hansen et al. 2009) and EO is associated with a firm’s performance across different cultural contexts (Rauch et al. 2009).

3.2. Philanthropy and Entrepreneurial Orientation

The word ‘philanthropy’ has many meanings one of which is ‘other-regarding’ and ‘intending to contribute to the welfare of others’, i.e. doing something for somebody else without expecting an immediate return or personal gain. A firm’s philanthropy is often discussed in the literature with reference to large corporations and their social responsibility initiatives (e.g. Lee 2008; Campbell 2007; Orlitzky et al. 2003). Corporate social performance specifically refers to ‘a business organization’s configuration of principles of social responsibility, processes of social
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responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships’ (Wood 1991, p: 693). Thus, corporate social performance includes activities such as giving to charities; the indicator used in the present research. A seminal paper by Caroll (1991) places philanthropy (‘contributing resources to the community’, Ibid., p. 228) at the top of the corporate social responsibility pyramid, being built on the foundations of ethical, legal and economic responsibilities.

One could argue that charitable giving might not be pure ‘social’ behaviour in the sense that it entails a benefit for the organization such as legitimating it in the eyes of stakeholders (Campell 2007; Orlitzky et al. 2003). Consistent with this, recent research finds corporate social performance to be positively associated with corporate financial performance (Orlitzky et al. 2003). While the original discussion on corporate social responsibility and the social orientation of enterprises saw it much as an ethical obligation, research to date concentrates on showing performance benefits of adopting CSR for large corporations (Lee 2008). In contrast, our research explores the social orientation of small and medium-sized enterprises and shifts the focus from the social orientation-performance debate to exploring whether a social orientation is compatible or conflicting with a strategic orientation towards entrepreneurship of these enterprises. There is far less literature that explains the motivation of owners/managers of smaller businesses. Interestingly however, Pistrui et al. (2000) found that need for social respect and community plays a significant role in the motivation of East German entrepreneurs, in a society that shares a similar history with Lithuania.

In the following we discuss in more detail why philanthropy and entrepreneurial orientation are not in conflict, first – more generally – drawing on the theory of human motivation, and second – more specifically – based on the role that the social milieu plays for entrepreneurs and small business owner-managers.

EO, as defined in the previous section, appears to be related to the ‘individualistic’ orientation as it is concerned with how a firm can be ahead of the market by innovating, taking risks and adopting a proactive stance towards competition. As such it appears not to be compatible with a concern about giving back to the community. However, drawing on the probably most comprehensive and well validated theory of human motivation (Schwartz 2005; 2009) we can posit that a social and an entrepreneurial concern are not necessarily at odds. More specifically, an entrepreneurial orientation (innovation, pro-activity, risk-taking) reflects striving for and valuing openness to change, which is a value orientation that previous research in over 70 cultures finds to be compatible, and not conflicting, with a concern for community, nature and distant others, i.e. with a social orientation (Schwartz 1990; 2005).

In addition, the social capital and the legitimacy arguments also suggest that the social and the entrepreneurial orientation can be mutually reinforcing. Social capital can be broadly defined as an ‘instantiated informal norm that promotes co-operation’ (Fukuyama 1995, p:7). Giving back to the community is an act promoting cooperation, thus socially orientated entrepreneurs can
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build social capital. Social capital, in turn, has been found to be associated with entrepreneurial success. Specifically, the resources that are made available through wider, community-based networks are often embedded in voluntary associations (as contrasted with narrower, strictly private networks). Those resources include information, money, as well as emotional support and are crucial for the firm’s success (Aldrich et al. 1987; Bruederl and Preisendoerfer 1998; Uzzi 1997) as well as for the discovery of entrepreneurial opportunities (Burt 1992; Kwon and Arenius 2008).

Moreover, by engaging in philanthropy firms build their legitimacy vis-à-vis stakeholders, the wider public, and the government (including the local government, which is particularly important for small firms), all of which in turn allow the firm to run its operations more effectively (Campell 2007; Orlitzky et al. 2003; Lee 2008). Entrepreneurial firms with their emphasis on being first in the market, e.g. introducing new products, services and processes that might not yet be accepted in the market, may have a higher need to engage in philanthropy in order to build legitimacy for their organization and its new products, services and processes. Taken together, we hypothesize based on social capital and legitimacy arguments that:

Hypothesis 1: A firm’s philanthropic orientation (charitable contributions) is positively associated with its entrepreneurial orientation.

3.3. Philanthropy, Access to Resources and Internationalisation

While philanthropy may be seen at the top of the corporate responsibility pyramid, its ultimate foundations are in economic responsibility, that is in taking proper care of financial and economic objectives of the firm (Carroll 1991). Firms have been found to be more likely to engage in the sponsoring of social projects when they have the resources to do so (so-called ‘slack resources’ view, Orlitzky et al. 2003). Thus it might not be just the firm’s EO that contributes to its philanthropic orientation but also the endowment with slack financial capital. Moreover, resources are also accumulated as a result of good performance (Orlitzky et al. 2003). Thus, we test whether available financial resources and past performance contribute to a firm’s philanthropic orientation.

Hypothesis 2: A firm’s philanthropic orientation (charitable contributions) is positively associated with its access to finance and past performance.

As argued by Acs and Dana (2001), the process of globalisation leads to institutional learning, and in particular to the spread of a model of philanthropy that is consistent with the long term development under the market economy system. If so, it is natural to look for the microeconomic foundations of this process. In particular, we would expect that companies in Lithuania, which have wider international contacts, both as a result of exporting and as a result of having foreign investors, are more exposed to business cultures in which pro-social attitudes are em-
bedded and therefore, via the processes of organisational learning and adaptation, are likely to import attitudes and strategies that promote philanthropy. Accordingly, we hypothesise:

Hypothesis 3: A firm's philanthropic orientation (charitable contributions) is positively associated with its internationalization.

4. Sample and Methods

4.1. Sample

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

The sampling frame was 800 randomly selected companies from the official register. Out of the list of 800 firms, 238 companies could not be contacted (either moved to another office and the new tenants could not provide the correct contact information, or the phone line was not in use anymore). Additionally, 42 phone numbers appeared to be non-existent, which can be explained either by the probability that those companies have gone out of business or by errors in the company registry. During the initial contact phase, the company representatives (usually administrators or secretaries) were informed about the study, and were asked for direct contact with the owner or owner-manager.

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

The final sample represented 270 enterprises from the five largest Lithuanian cities as well as 27 other smaller towns. The enterprises were on average six years old (Mean (M): 5.98, Standard Deviation (SD): 2.02) and had a mean of 18 employees (M: 18.47, SD: 23.68). The enterprises were active in retail trade (10.0% of sample), wholesale trade (16.3%), construction (14.4%), manufacturing (17.4%) and services (41.5%).
4.2. Measures and statistical analysis

**Philanthropic orientation.** Our key variable of interest is based on the survey instrument intended to capture the philanthropic contribution of entrepreneurs. We asked the following question: “In the past 12 months, do you consider that your business has contributed to the sponsorship for social needs (donations for hospitals, social organizations, sports, etc.)?” The answers were recorded on a 5-point Likert scale: 1 – ‘no’, 2 – ‘yes, but very little’, 3 – ‘yes, partly’, 4 – ‘yes to a large extent’ and 5 – ‘yes to a very large extent’. This became our dependent variable, intended to capture the extent of direct social contribution of owners-managers that goes beyond their narrowly defined economic role. To conduct a robustness check, we dummy-coded philanthropic orientation (0 – no charitable giving, 1 – charitable giving). This variable reduces the available variance captured in the 5-point scale but is a more robust measure, in the sense that it eliminates possible response-bias due to different interpretations of the scale points ‘very little’, ‘partly’, ‘to a large extent’ and ‘to a very large extent’.

**Entrepreneurial Orientation (EO).** EO was measured with a questionnaire widely used and validated in prior research (e.g., Covin and Slevin 1989; Miller and Friesen 1982; Rauch et al. 2009) evaluating the firm’s emphasis on innovation, risk-taking and pro-activity. More specifically we used items suggested by Covin and Slevin (1989) supplemented by two additional items regarding innovation, and one item each for risk-taking and pro-activity as suggested by Lumpkin (1998), Lumpkin et al. (2009) and similarly by Moreno and Casillas (2008).\(^5\)

Lumpkin and Dess (1996) suggested two further components of EO: autonomy and competitive aggressiveness. Autonomy is understood to be more an enabler or a precondition of EO (e.g., Kuratko et al. 2005; Morris et al. 2007). Competitive aggressiveness shows conceptual overlap with pro-activity, i.e. being the first in a market and ahead of competition. However, the theoretical foundation for an aggressive stance towards competitors as a defining feature of an entrepreneurial firm orientation is less clear. Research on organizational networking and open innovation suggests that collaboration with competitors can also be considered to be entrepreneurial (e.g. Chiaromonte 2006).

There has been some debate in the literature whether EO should be conceptualized as three separate dimensions or whether they form an integrated whole (e.g., Covin and Slevin 1989; Lumpkin and Dess 1996). Most studies treat EO as one dimension (e.g. Rauch et al. 2009). Given the theoretical background which defines innovation, pro-activity and risk-taking each as components of EO and given the fact that prior research finds these components to co-vary, EO is best conceptualized as a second-order factor consisting of three distinguishable, yet related first-order factors (Gorsuch 1983). Accordingly, we specified a hierarchical factor model (Figure 1). This is a model with innovativeness, pro-activeness and risk-taking modelled as first-order factors loading on the second-order factor of entrepreneurial orientation. We employed

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\(^5\) A limitation of the data is that one item of the Covin and Slevin’s (1989) item measuring pro-activity (“In dealing with its competitors my company, typically seeks to avoid competitive clashes, preferring a ‘live-and-let live’ posture vs. typically adopts a very competitive ‘undo-the competitors’ posture.’”) was not included in the current study.
confirmatory factor analysis to test this model, using AMOS 18 (Arbuckle 2009). The specified model fitted the data reasonably well with $\chi^2= 130.55$ ($df=51$) and CFI = .93, TLI = .91, and GFI = .93 all exceeding the .90 cut-off criterion (Hu and Bentler 1995; 1999). RMSEA was .076 and as such did not meet the suggested upper threshold of .06 (Hu and Bentler 1999).

After eliminating items which showed cross-loadings, a more parsimonious model (see Figure 1) based on 9 items, showed an excellent model fit with $\chi^2= 45.72$ ($df=24$) and CFI = .97, TLI = .96, and GFI = .96 all exceeding the .90 and even the stricter .95 cut-off criterion (Hu and Bentler. 1995; 1999). RMSEA was .058 and as such lower than the recommended maximum of .06 (Hu and Bentler 1999) again indicating a good model fit. All items loaded substantially and significantly ($p<.001$) onto their corresponding first-order factor, i.e. on innovation, pro-activity and risk-taking. The first-order factors in turn loaded substantially and significantly ($p<.001$) onto a second-order Entrepreneurial Orientation factor (see figure 1 for all factor loadings). The overall Cronbach’s alpha for entrepreneurial orientation based on the 9-item scale was .82 (and as such better than for the 12-item EO scale .75).

![Hierarchical Factor Structure Entrepreneurial Orientation](image)

**Figure 1. Hierarchical Factor Structure Entrepreneurial Orientation**

Note. All displayed coefficient estimates are statistically significant ($p<.001$). Measurement errors and residuals are not displayed to increase readability. All figures available from the authors upon request.

Source: Authors
The Appendix 1 contains the list of retained items. In contrast to the original Covin and Slevin’s (1989) scale, the retained items for innovation include not only aspects of product/service innovation but also process innovations. The risk-taking scale consists of the three items suggested by Covin and Slevin (1989). The pro-activity scale also closely resembles the original Covin and Slevin (1989) scale except for one item. This item emphasises following the leader or being ahead of competition in introducing new products or ideas. It is conceptually consistent with the theoretical background of the scale.

**Financial resources and a firm’s performance.** In line with prior research we use a subjective measure of ‘satisfaction with capital availability’ as it is difficult to obtain objective measures of whether or not available capital is sufficient for small and medium-sized firms (Wiklund 1999). Owner-managers responded to the question how they regard their company’s access to financial capital using a 7-point scale ranging from 1 – ‘Insufficient and a great impediment for our development’, to 7 – ‘Fully satisfactory for the firm’s development’. Wiklund and Shepherd (2005) provide convergent and discriminant validation of this measure.

We measure *past firm performance* using the change in sales turnover over the past three years rated by respondents on a 5-point scale ranging from 1 – ‘decrease a lot (more than -40%)’ to 5 – ‘increase a lot (more than 40%)’. We also conduct robustness checks by using three alternative measures of past firm performance. These are:

1. Owner-rated subjective firm success in response to the question ‘Please assess the overall performance of your business, rated on a scale from 1 – success, 2 – satisfactory, 3 – relatively satisfactory, 4 – relatively unsatisfactory, to 5 – very unsatisfactory. The scale was reverse scored for the analysis so that higher values indicated more success.

2. Change in net sales profit over the past 12 months, and

3. Change in sales turnover over the past 12 months, both rated on a 5-point scale ranging from 1 ‘decrease a lot (more than -40%)’ to 5 ‘increase a lot (more than 40%)’.

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

**Control variables.** EO has been found to be a more ‘effective’ strategy for smaller businesses (Rauch et al. 2009) hence we control for *firm size* using the natural log of the number of permanent full-time employees. Similarly, we control for *firm age* (using the natural log of firm age in years) since younger firms are often considered to be more entrepreneurial. Moreover,
industry branch was controlled for by using dummy variables for retail trade, wholesale trade, construction and manufacturing.

Building on the discussion above, we present results of structural equation modelling which combines factor analytics with the regression approach and has the advantage of explicitly taking measurement errors and inter-correlations among predictors into account (e.g. Kline 2005). As a robustness check, we repeated all analysis using ordered probit regression estimations. The results are highly similar and can be obtained from the authors upon request.

5. Results

Simple correlations for all the variables are displayed in Appendix 2 and provide initial support for Hypothesis 1: entrepreneurial and philanthropic orientation are positively correlated ($r=.37, p<.001$) as well as for Hypothesis 3: philanthropic orientation is also positively correlated with indicators of internationalization (attraction of foreign direct investment and increasing export share).

While correlation results are consistent with our assumptions, in formal testing of hypotheses we rely on structural equation modelling. Figure 2 and Table 1 display the results of regressing the predictor variables, EO, access to finance, past firm performance, as well as internationalization measures (export share and attracted FDI) on philanthropic orientation while controlling for potential covariates (firm size, firm age and industry sector). Overall 24% of the variance of a firm’s philanthropic orientation was explained by this set of predictor and control variables. The model fitted the data well with $\text{Chi}^2= 160.78 (df=112)$ and CFI = .96, TLI = .93, and GFI = .95 all exceeding the .90 and partly the stricter .95 cut-off criterion (Hu and Bentler 1995; 1999). RMSEA was .040 and as such lower than the recommended maximum of .06 (Hu and Bentler 1999), again indicating a good model fit.
Figure 2. Predictors of Philanthropic Orientation (Standardized Estimates)

Note. Figures in bold and bolded paths are statistically significant (at least p<.05). Measurement errors and residuals as well as intercorrelations amongst control variables are not displayed to increase readability. All figures available from the authors upon request.
Source: Authors
We now turn to the discussion of our findings related to the hypotheses.

**Hypothesis 1.** Entrepreneurial orientation (EO) was significantly related to the firm’s philanthropic orientation ($\beta = .26, p < .01$, see figure 2 and table 1). Substituting past firm performance with alternative measures (subjective success, 12-month change in net sales profit and sales turnover), did not substantively change the relationship of EO with social performance and the quality of the overall model fit was maintained. The association of EO with philanthropic orientation amounts to $\beta = .25, p < .01$ when past performance is subjectively measured, $\beta = .31, p < .001$ when past performance is measured through change in net sales profits, and $\beta = .27, p < .01$ when past performance is measured through change in sales turnover. (Further results

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<th>Table 1. Predictors of Philanthropic Orientation (PO): Standardized and Unstandardized Estimates (including Factor Loadings of Entrepreneurial Orientation)</th>
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<td><strong>Hypotheses testing (regressed on PO)</strong></td>
<td>Standardized estimate (regression weight, $\beta$)</td>
<td>Unstandardized estimate (B)</td>
<td>S.E.</td>
<td>$P$</td>
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<td>Past performance</td>
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<td>FDI</td>
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<td>Export</td>
<td>.086</td>
<td>.101</td>
<td>.069</td>
<td>.144</td>
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<td><strong>Control variables (regressed on PO)</strong></td>
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<td>Size (In employees)</td>
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<td>.178</td>
<td>.056</td>
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<td>.074</td>
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<td>.662</td>
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<td>Construction</td>
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<td>-.009</td>
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<td>.953</td>
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<td>-.105</td>
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<tr>
<td>EO on proactiveness</td>
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<tr>
<td>EO on innovativeness</td>
<td>.720</td>
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<tr>
<td>EO on risk-taking</td>
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<td>.889</td>
<td>.141</td>
<td>.001</td>
</tr>
<tr>
<td>P1 on proactiveness</td>
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<td>.891</td>
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<td>.001</td>
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<tr>
<td>P2 on proactiveness</td>
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<tr>
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</tr>
<tr>
<td>I2 on innovativeness</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>I3 on innovativeness</td>
<td>.431</td>
<td>.564</td>
<td>.091</td>
<td>.001</td>
</tr>
<tr>
<td>R1 on risk-taking</td>
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<td>.651</td>
<td>.088</td>
<td>.001</td>
</tr>
<tr>
<td>R2 on risk-taking</td>
<td>.560</td>
<td>.681</td>
<td>.093</td>
<td>.001</td>
</tr>
<tr>
<td>R3 on risk-taking</td>
<td>.871</td>
<td>1</td>
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Entrepreneurship and Philanthropy after Socialism

As a robustness check we also substituted the dummy-coded philanthropic orientation variable for the continuous philanthropic orientation measure. The relationship of philanthropic orientation and EO is significant albeit somewhat reduced ($\beta = .17, p < .05$), which is to be expected as dummy-coding reduces the variance of the philanthropic orientation measure.

**Hypothesis 2.** The model presented in Figure 2 tests for access to financial capital and past firm performance while regressing EO on philanthropic orientation. EO is associated with philanthropic orientation beyond any potential direct effects of financial resources and past performance on a firm’s philanthropic orientation. Again we conducted robustness checks by using the alternative measures of past performance and the dummy-coded philanthropic orientation variable. All observed relationships were closely similar with one exception. When treating philanthropic orientation as a dummy variable, past firm performance emerged as a significant influence on philanthropic orientation ($\beta = .14, p < .05$). However, for all other model specifications using the three alternative measures of past firm performance (subjective evaluation, change in net sales profits and turnover) no significant effect of past performance on philanthropic orientation emerged. Thus we sum up that contrary to H2, both access to financial capital and past performance are not significantly related to charitable giving. However, both are significantly positively related to the firms EO. This result is in line with prior findings that EO is a resource consuming strategy and dependent on sufficient access to capital (Moreno and Casillas 2008; Wiklund 1999).

**Hypothesis 3.** Of the two internationalization measures included, only the attraction of foreign direct investment was significantly and positively associated with the firms’ philanthropic orientation ($\beta = .11, p < .05$). Export share was not related to philanthropic orientation. Consistent with past research (e.g. De Clercq et al. 2005) we also observed greater internationalization (particularly foreign direct investment) to relate positively to EO. Again we conducted robustness checks by using the alternative measures of past performance and the dummy-coded philanthropic orientation variable. All observed relationships were closely similar. The difference between the effects of foreign ownership and exporting may indicate stronger organisational learning effects in case of the former; this effect is consistent with empirical evidence that indicates that foreign direct investment enhances corporate social responsibility (Chapple and Moon 2005).

**Control variables.** Of the control variables firm size measured as the natural log of the number of permanent employees was consistently positively related to a firm’s philanthropic orientation (as well as to its entrepreneurial orientation). Thus, bigger firms seem to be more inclined to give back to society.

---

6 Notably all measures of past firm performance were significantly and strongly associated with a firm’s EO. The strongest association with EO existed when firm performance was measured as change of sales turnover in the past year ($\beta = .52, p < .001$).
6. Discussion and final conclusions

Twenty years after regaining economic freedom, Lithuania's most entrepreneurial small companies are also those that are engaged in philanthropy; that is for the most entrepreneurial firms, private economic activity generates spillovers into private non-profit activity. This implies that the country is moving in a direction which is arguably consistent with an entrepreneurial-based economic development trajectory (as described by Acs and Phillips 2002). Moreover, philanthropy is most supported where firms are most internationalised, by having foreign investors in particular as well as for larger firms.

This is striking, given the norms and values, which Lithuania inherited from the command economy period and which were alien to both entrepreneurship and to self-organisation that defines non-profit private activities. The process of change in informal institutions is typically seen as slow (North 1990), but our results indicate that it is taking place. Economic initiative jointly with its social dimension may be a norm, which is deeply rooted in culture or perhaps even human nature, and therefore may be less difficult to restore after socialism than one could think.

The importance of the link between private for profit and private non-profit activities is that they are mutually reinforcing – rather than being mutually exclusive. Transfer of funding from firms to charities is often accompanied by transfer of knowledge, but the reverse also holds (Acs and Braunerhjelm 2004). Voluntary associations create a social milieu where entrepreneurial networks are formed, supporting private initiative.

We find that larger firms in terms of number of people employed are more likely to engage in philanthropy, suggesting that philanthropic giving may also serve to legitimize the firm in the eyes of the its employees. Such reasoning is consistent with the stakeholder theory (see Lee 2008) which argues that the integrating the interest of various stakeholders (including employees) is central for the performance of the firm. Moreover, engaging in philanthropy and other corporate social responsibility initiative increases the attractiveness of a firm to prospective employees (Turban and Greening 1997).

While our results are of novel and preliminary nature, we believe they may have wider implications for future research. In particular, they suggest that the traditional and almost exclusive focus on individualism, self-interest and economic return in entrepreneurship might need rethinking. Private initiative contains a strong social element; successful examples of entrepreneurship are characterised not by lonely efforts of individuals but by self-organisation. Indeed, it is this capacity for (local) self-organisation which is at the core of both economic initiative and civic society. If one accepts that entrepreneurs are not just one-dimensional economic actors, but are at the same time embedded in local communities, the link between economic initiative and civic society is to be expected.
As we stressed, we see our study as an exploratory one. We believe that the questions we address are novel, yet we face data limitations. Future studies could explore in more depth (e.g. by means of a qualitative interview or case study) why small business entrepreneurs engage in philanthropy, as we need to build a richer understanding of what motivates them to engage in philanthropy. Future research should also work towards a better understanding of the tangible benefits that entrepreneurs obtain from contributing to civic society, such as access to information spill-overs and networking or legitimisation in the eyes of their (future) employees.

Moreover, the present study includes one aspect of social firm performance that is giving to charity. Future studies can extend the present findings by analyzing the association with different aspects of corporate social performance in addition to philanthropy, such as business practices relating to environmental behaviour, treatment of shareholders and co-owners, employees, customers and suppliers (e.g., Campbell 2007).
References


## Appendix 1: Entrepreneurial Orientation

### How many new lines of products or services has your firm marketed in the past 3 years?

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>i1 — No new lines of products or services</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>i2 — Changes in product or service lines have been mostly of a minor nature</td>
<td></td>
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<tr>
<td>i3 (reverse scored) — My firm prefers to design its own unique new processes and methods of production</td>
<td></td>
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</tbody>
</table>

### In general, the top managers of my firm...

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>r1 — Have a strong proclivity for low risk projects (with normal and certain rates of return)</td>
<td></td>
<td></td>
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<tr>
<td>r2 — Believe that owing to the nature of the environment, it is best to explore it gradually via careful, incremental behavior</td>
<td></td>
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</tbody>
</table>

### r3 — When confronted with decision-making situations involving uncertainty, my firm...

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typically adopts a cautious, ‘wait-and-see’ posture in order to minimize the probability of making costly decisions</td>
<td></td>
<td></td>
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</tbody>
</table>

### In dealing with its competitors, my firm...

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>p1 — Typically responds to action which competitors initiate</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>p2 — Is very seldom the first business to introduce new products/services, administrative techniques, operating technologies, etc.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### p3 — In general, the top managers of my firm have...

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>A strong tendency to ‘follow the leader’ in introducing new products or ideas</td>
<td></td>
<td></td>
<td></td>
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</table>
### Appendix 2: Correlations

N=270, t p<.10, *p<.05, **p<.01, ***p<.001

<table>
<thead>
<tr>
<th>Variables</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
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<tbody>
<tr>
<td>EO</td>
<td>3.95</td>
<td>1.02</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philanthropic orientation (giving to charity)</td>
<td>1.76</td>
<td>0.87</td>
<td>0.37***</td>
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<td></td>
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</tr>
<tr>
<td>Philanthropic orientation (giving to charity) – dummy</td>
<td>0.53</td>
<td>0.50</td>
<td>0.31***</td>
<td>0.82***</td>
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<tr>
<td>Manufacturing</td>
<td>0.17</td>
<td>0.38</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.08</td>
<td></td>
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<tr>
<td>Wholesale trade</td>
<td>0.16</td>
<td>0.37</td>
<td>0.08</td>
<td>0.10t</td>
<td>0.07</td>
<td>-0.20***</td>
<td></td>
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<tr>
<td>Retail trade</td>
<td>0.10</td>
<td>0.30</td>
<td>0.04</td>
<td>0.02</td>
<td>-0.03</td>
<td>-0.15*</td>
<td>-0.15*</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Construction</td>
<td>0.14</td>
<td>0.35</td>
<td>0.08</td>
<td>0.05</td>
<td>0.11t</td>
<td>-0.19**</td>
<td>-0.18**</td>
<td>-0.14*</td>
<td></td>
<td></td>
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<tr>
<td>Size (ln number employees)</td>
<td>2.40</td>
<td>1.00</td>
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<td>0.31***</td>
<td>0.32***</td>
<td>0.19***</td>
<td>-0.12*</td>
<td>-0.12t</td>
<td>0.30</td>
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<td>0.09</td>
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<td>0.05</td>
<td>-0.15*</td>
<td>0.10t</td>
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<td>0.30***</td>
<td>0.31***</td>
<td>0.08</td>
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<td>0.12*</td>
<td>0.22***</td>
<td>-0.11t</td>
<td>0.29***</td>
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<td>0.19**</td>
<td>0.16**</td>
<td>0.05</td>
<td>0.05</td>
<td>-0.12t</td>
<td>-0.06</td>
<td>0.02</td>
<td>-0.03</td>
<td>0.09</td>
<td>0.12*</td>
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<td>0.74</td>
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<td>0.12*</td>
<td>0.27***</td>
<td>0.06</td>
<td>0.00</td>
<td>-0.13*</td>
<td>0.10t</td>
<td>0.06</td>
<td>0.26***</td>
<td>0.04</td>
<td>0.14*</td>
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Entrepreneurship and PHILANTHROPY after Socialism

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