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On the compatibility of benevolence and self-interest: Philanthropy and entrepreneurial orientation

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Abstract

This article explores the philanthropy of owner–managers of small- and medium-sized enterprises (SMEs) investigating whether and why more entrepreneurially oriented SMEs are also more likely to engage in philanthropic activities. We find support for a positive link between entrepreneurial orientation (EO) and philanthropy in a representative sample of 270 Lithuanian SMEs controlling for alternative explanations. We highlight that philanthropy is relatively common among SME owner–managers and thus complement existing research which views philanthropy as sequentially following wealth generation. In line with our theorizing, further qualitative findings point to drivers of philanthropy beyond those considered in the dominant strategic-instrumental perspective. Building on social-psychological theories of motivation, we argue and confirm that philanthropy can also be an expression of owner–managers' altruistic values; these values can be compatible and even mutually reinforcing with entrepreneurship. Our study is set in a transition economy, Lithuania, facilitating the analysis of heterogeneity in attitudes toward philanthropy.

Keywords

entrepreneurial orientation, motivation, philanthropy, transition, values

Introduction

Entrepreneurial philanthropy, broadly understood, refers to charitable giving by commercial entrepreneurs benefitting others outside their businesses.[1] Entrepreneurial philanthropy has a long

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history, especially in the United States and the United Kingdom, and leading entrepreneurs engaged in philanthropy, such as Bill Gates or Richard Branson, are regularly feted in popular media. Yet, entrepreneurial philanthropy has garnered only scarce academic attention (e.g. Shaw et al., 2013) and as a phenomenon in this context, such philanthropy is poorly theorized and researched. This is despite the fact that philanthropy by commercial entrepreneurs is an intriguing phenomenon as it challenges some of the classic assumptions about entrepreneurs as pursuing narrowly defined rational self-interest and personal utility (e.g. Parker, 2009, for an overview). Thus, a better understanding of entrepreneurial philanthropy can also yield important general insights for entrepreneurial motivation.

The few existing studies focus on philanthropic giving by particularly wealthy entrepreneurs, predominantly in the United States and the United Kingdom (e.g. Acs and Dana, 2001; Desai and Acs, 2008; Shaw et al., 2013). In particular, Shaw et al. (2013) use Bourdieu's capital theory and analyze 100 high net-worth entrepreneurial philanthropists in the United Kingdom. The authors suggest that engagement in philanthropy does not come from economic capital (wealth) alone but is facilitated by having other forms of capital (cultural, social, and symbolic), which is conducive to entry into the field of philanthropy. This study concludes that the reasons for engaging in philanthropy are complex and multifaceted, including a desire for legitimacy (using philanthropy as a reputation enhancer), but further investigation is needed. Research by Acs and colleagues (e.g. Acs and Dana, 2001; Acs and Phillips, 2002; Desai and Acs, 2008) similarly focuses on high-net-worth individuals and uses primarily (comparative) case studies to explore the role of entrepreneurial philanthropy in the economic system in terms of creating new opportunities for entrepreneurship (e.g. by creating universities).

Thus, extant research highlights that high-net-worth individuals face a social obligation of wealth and a norm of 'giving back' once success and great wealth are achieved (e.g. Acs and Phillips, 2002). This implies first achieving the self-centered objectives before engaging in other-regarding activities, in a sequential order (Van de Ven et al., 2007). However, the stereotype of 'succeeding first and giving back later' has recently been questioned (Grant, 2014: 11). Departing from the sequential, we posit that philanthropy may be compatible and simultaneous with entrepreneurship. Consequently our study investigates owner–managers of small- and medium-sized enterprises (SMEs) – as opposed to high-net-worth individuals.

Possibly, one of the reasons why philanthropy is seen as sequential, following from wealth and success, is the limited understanding of what motivates entrepreneurs. In the literature to date, the explanation of engagement in philanthropy by businesses is reduced to strategic-instrumental motives. To investigate the link of entrepreneurship and philanthropy, we postulate adopting a more complex theory of human motivation. We complement theorizing on strategic considerations with a social-psychological perspective that especially helps to understand the multifaceted nature of entrepreneurial motivation.

Strategic management scholars have investigated philanthropic giving by large corporations emphasizing the instrumental value of philanthropy including strategic benefits in terms of enhanced legitimacy and reputation (Wang and Qian, 2011). These concerns may be similar for SMEs, which are typically anchored locally (Evers, 2001). Those SMEs engaging in high-risk, proactive entrepreneurial strategies and introducing novelty in the market may indeed use philanthropy to gain legitimacy, especially in their local community, to obtain resources and the cooperation of local stakeholders.

However, such predominantly instrumental accounts of philanthropy have also been challenged. Recent contributions highlight bottom-up drivers of corporate philanthropy originating from a desire to help others (Muller et al., 2014). Similarly, entrepreneurship research increasingly recognizes the multifaceted motivations underlying owner–managers' behavior

(Gorgievski et al., 2011; Van de Ven et al., 2007) in part in response to the emerging social entrepreneurship literature, which highlights that pursuing social goals need not be at odds with acting in an entrepreneurial manner (Estrin et al., 2013; Mair and Marti, 2006). Accordingly, next to strategic concerns, owner–managers of SMEs may pursue philanthropy out of altruistic, other-regarding motives such as a desire to make a positive difference to the community.

Both the strategic-instrumental and the non-strategic altruistic perspective lead to a similar proposition, that there is a positive link between SMEs' entrepreneurial orientation (EO) and their engagement in philanthropy. However, distinguishing between these two types of motivation is important, as genuine 'givers' tend to build greater value through their actions than those whose motivation is instrumental (Grant, 2014).

Engagement in philanthropy may also be dependent on the wider context within which SMEs act. Elite entrepreneurs provide role models for philanthropy in developed economies such as the United States and the United Kingdom (Desai and Acs, 2008; Shaw et al., 2013), which Acs and colleagues attribute to cultural individualism accompanied by a social norm of the 'responsibility of wealth' (Acs and Phillips, 2002). Yet, it is unclear how the entrepreneurship−philanthropy link may look in emerging market economies. This is particularly pertinent within transition economies where there has been a shift from a command economy (that suppressed individualism and entrepreneurial initiative and undermined social capital including trust and prosocial values) to a market economy (based on inclusive economic and political institutions and characterized by a different set of social norms; Estrin and Mickiewicz, 2011; Schwartz and Bardi, 1997). By exploring the entrepreneurship–philanthropy link in a transition economy (Lithuania), our study sheds light on how generalizable or context-bound the entrepreneurship–philanthropy link may be.

Our study advances the understanding of entrepreneurial philanthropy and extends existing research in three ways. First, we challenge the sequential nature of entrepreneurial philanthropy and provide evidence that entrepreneurially oriented firms engage in philanthropy even when they are only moderately successful (yet). We find that rather than resources, entrepreneurial drive is a more important correlate of philanthropy. A corollary is that instead of investigating high-net-worth elite entrepreneurs who are the subject of the current literature on entrepreneurial philanthropy, we focus on 'typical' entrepreneurs such as SME owner–managers and thus draw attention to an important source of philanthropy that is locally embedded in communities and which has been largely overlooked in the literature to date.[2] Our findings also extend research on entrepreneurial philanthropy to a novel institutional context, where historically support for both entrepreneurship and philanthropy has been weak.

Second, we extend theorizing on the motivations of entrepreneurs, providing insights on the multifaceted drivers underlying entrepreneur philanthropic engagement. To do so, we complement the established instrumental-strategic views on philanthropy with a social-psychological perspective that accentuates intrinsic value-based drivers of philanthropy. The latter perspective is not considered in the current discourse on philanthropy, but is useful to explain heterogeneity among entrepreneurs. Importantly, we highlight that applying a more comprehensive theory of human motivation can help to resolve apparent contractions between individualistic and other-regarding drivers of entrepreneurial action.

Third, our findings also extend research on EO, which focuses predominantly on economic correlates of EO, by explicating how EO links with positive societal outcomes such as philanthropy.

In the following sections of the article, we first present our theoretical framework and hypotheses and then the sample, methods, and results. Our final conclusions point to both limitations and wider theoretical implications of the analysis.

Theoretical framework

Philanthropy

Our focus is on entrepreneurial philanthropy, that is, charitable giving by commercial entrepreneurs. Entrepreneurial philanthropy sits between individual, private giving, and corporate philanthropy by large firms. Definitions of individual philanthropy refer to 'the donation of money to an organization that benefits others beyond one's own family' (Bekkers and Wiepking, 2011: 925). It is conceived as an 'other-regarding', prosocial action intending to contribute to the welfare of others without expecting an immediate return or personal gain (Bekkers and Wiepking, 2011). By contrast, corporate philanthropy can be defined as 'gifts or monetary contributions given by corporations to social and charitable causes, such as those associated with education, culture, the arts, minorities, health care, and disaster relief' (Wang and Qian, 2011: 1161). In large corporations, philanthropy may take forms, which involve careful planning and assessment, such as impact investing (Mair and Hehenberger, 2013) and may evolve into more institutionalized modes of social engagement (business–social partnerships, volunteering, trust funds, for example, Amato and Amato, 2011; Goyal, 2006). The recent corporate philanthropy literature, including the wider literature on corporate social responsibility, emphasizes economic returns to corporate philanthropy such as better firm financial performance (Lee, 2008; Orlitzky et al., 2003; Wang and Qian, 2011).

As highlighted in the 'Introduction', entrepreneurial philanthropy is different from social enterprise. The latter combines social and economic wealth creation in its business model (Battilana and Lee, 2014), while the former is an activity by an entrepreneur who owns first, and foremost, a commercial enterprise concerned with economic value creation.

EO

As the economic impact of SMEs varies, there has been some emphasis upon dynamic businesses, that is, particularly entrepreneurial SMEs characterized by innovativeness, risk-taking and proactivity. These dimensions correlate and are captured in the EO construct. Firms with a strong EO contribute more economically, by higher financial performance, more innovation, and market creation (e.g. Rauch et al., 2009; Wales et al., 2013a, 2013b). More specifically, EO is defined as a firm's strategic posture that captures its propensity to act entrepreneurially and to introduce novelty in the market place (Covin and Wales, 2012; Lumpkin and Dess, 1996; Miller, 1983; Wales et al., 2013a, 2013b).

First, the EO component of *innovation* refers to a strategic focus on the development of new products, services and processes. It is in line with classical conceptualizations that see innovation at the core of entrepreneurial activity (e.g. Drucker, 1985; Schumpeter, 1934). Second, the EO component of *risk-taking* refers to a firm pursuing opportunities with high but more uncertain chances of return. As such, EO can be seen as a strategic orientation that is 'performance-variance-enhancing' (Wiklund and Shepherd, 2011). Third, *proactivity* describes whether a firm is ahead of the market, that is, it acts anticipating future market trends and competitor reactions. For the purpose of this research, we treat EO as firm-level phenomenon while recognizing that the owner–manager and the firm often closely overlap (Welter and Smallbone, 2011).

EO has become one of the most researched concepts in entrepreneurship, with a multitude of studies investigating its impact on firm performance and testing its validity in different contexts (Baker and Sinkula, 2009; Moreno and Casillas, 2008; Short et al., 2009; Wales et al., 2013a). A meta-analysis summarizes over 50 empirical studies drawing on a total sample of over 14,000 firms (Rauch et al., 2009) and finds that EO is significantly and positively related to firm performance. A subsequent systematic review of 158 studies from various disciplines including entrepreneurship, marketing, and ethics mapped the range of research topics in EO research over the past 30 years (Wales et al., 2013a). The review confirms the focus on firm performance as an outcome of EO, but did not retrieve any studies relating EO to philanthropy (Wales et al., 2013a). Similarly, we are not aware of any studies that would link SME EO with their social orientation more generally.

EO and philanthropy

We suggest that two processes may underlie a potential positive link between EO and philanthropy in SMEs. First, just as larger corporate players, entrepreneurial SMEs may instrumentally adopt philanthropy as having strategic benefits for their business, specifically enhancing their legitimacy. Second, intuitive decision-making arguably plays a greater role for SMEs as do the values and motivation of the owner–manager (Welter and Smallbone, 2011), and their engagement in philanthropy may also reflect altruistic value-judgments. We now explain each process in more detail.

Strategic-instrumental considerations to engage in philanthropy. Legitimacy arguments suggest that philanthropy helps entrepreneurially orientated SMEs gain acceptance and approval. In particular, entrepreneurially oriented SMEs may use philanthropy to counterbalance their lack of legitimacy vis-à-vis external stakeholders and gain critical access to resources. Legitimacy refers to 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995: 574). Firms perceived as legitimate find access to resources easier and can rely on greater cooperation with their stakeholders, the wider public, and local government, all of which in turn may allow the firm to run its operations more effectively (Luo and Junkunc, 2008; Orlitzky et al., 2003; Wang and Qian, 2011).

SMEs characterized by strong EO are particularly visible to the local community and their stakeholders – they stand out – as they introduce novelty in the market place such as new products, services, and processes, thereby potentially disrupting and threatening existing practices and competitive equilibria. Similarly, their proactive and risk-embracing orientation emphasizes getting ahead of the competition and first-mover advantages. Such novelty-introducing firms are often met with skepticism or even perceived as threatening by their peers and key stakeholders including the general public and government. Legitimacy is typically conferred when firms abide by the dominant, typical way of doing business, which is precisely what highly entrepreneurially oriented firms do not do. Thus, they have a greater need to establish their legitimacy and to convince their stakeholders that their 'venture is indeed competent, efficient, effective, worthy, appropriate and/or needed' (Zimmerman and Zeitz, 2002: 416). At the same time, legitimacy is particularly important for entrepreneurially oriented SMEs as EO is also a resource-intensive strategy, and legitimacy is crucial in accessing resources. Resource providers including key stakeholders and government are more likely to allow access to resources if they believe that the SME is acting appropriately and competently – that is, that it will put the resources to 'good use', including it is competent enough to generate a return on investment and able to service a line of credit.

More generally, the need for legitimacy may be especially pertinent for SMEs as they are typically closely interlinked with and thus dependent on, their local community and stakeholders to conduct their business. That is, compared with large corporations, SMEs are more closely socially embedded in their local communities (Evers, 2001; Lang et al., 2014).[3] Often their suppliers, financing institutions, customers, and co-owners are co-located in their community, and they also have relations with local government. In short, the local social milieu, or 'territorial embeddedness' (Hess, 2004), is important for SMEs (also Lang et al., 2014). By engaging in philanthropy, SMEs can build their legitimacy in the local social milieu, that is, increase acceptance by their immediate stakeholders, the public, and the local government.

Altruism and value-based considerations to engage in philanthropy. So far, we considered instrumental (narrowly) rational justifications for entrepreneurial firms to engage in philanthropy. However, there is some literature that discusses the prosocial motivation of owner–managers of smaller businesses (Gorgievski et al., 2011; Pistrui et al., 2000). In addition, Van de Ven et al. (2007) suggest that altruistic, other-regarding values are not at odds with entrepreneurship. Accordingly, we suggest that entrepreneurial philanthropy can also be driven by altruistic motivation.

First, entrepreneurs can act upon *multiple* motivations simultaneously. So, entrepreneurs may pursue self-interest aligned with entrepreneurship in parallel to more altruistic motives aligned with philanthropy. Second, although altruistic motivation could be cast as being in conflict with self-centered motivation, the two are not necessarily conflicting. The following combinations are also possible: low self-centered motivation combined with low other-regarding motivation (apathy) and strong self-centered motivation accompanied by strong other-regarding motivation ('otherish') (Grant, 2014).

Moreover, Schwartz's – widely validated and replicated – theory of human values maps in more detail the multiple motivation driving behaviors and their patterns of conflict and compatibility (e.g. Schwartz, 1990, 1992, 2009). This theory differentiates two aspects of individualism: first, openness to change (contrasted with conservation) drives independent, proactive, novelty, and risk-seeking behaviors, which overlap with EO. Second and in comparison, self-enhancement (contrasted with self-transcendence) is more closely aligned with the core notion of self-interest as elevating oneself over others and seeking material wealth. In Schwartz's theory, self-enhancement is in conflict with altruistic values, while openness to change is compatible with altruistic values or self-transcendence. Common to both openness to change and altruistic, self-transcendence values is the emphasis on intrinsic motivation, that is, the attainment of these values is rewarding in itself. By contrast, self-enhancement and conservation values reflect extrinsic motivation; their attainment is rewarding, contingent on receiving material rewards and meeting societal expectations (Schwartz, 1992). Thus, the apparent conflict between individualist, entrepreneurial, and altruistic motivation depends on which of the two aspects of individualism dominates (openness to change vs self-enhancement). This more fine-grained differentiation of individualism allows us to recognize possible compatibilities between entrepreneurship and altruism.

Third, altruistic actions taken by SME owners seeking to make a positive difference to their local community can also be seen as building social capital (Evers, 2001). Philanthropic giving as an act of goodwill can reinforce norms of generalized reciprocity and thereby foster social capital in the community more generally. It is this 'constructive' aspect that makes us see philanthropy as sharing some characteristics with a more general phenomenon of institutional entrepreneurship, where new institutions are built from below (Estrin et al., 2013). At the same time, charitable giving also builds specific social relationships with those to whom entrepreneurs give.

The distinction between actions that build wider social capital and those that build narrower, specific social networks broadly corresponds to the distinction between the genuine 'givers' and those that adopt giving instrumentally (Grant, 2014). Genuine givers typically receive more positive responses from their environment over longer time (Grant, 2014), and philanthropy treated as an intrinsic objective may therefore be a better way of connecting an entrepreneurial SME to the local community and to civic society in particular (e.g. to voluntary community associations). Such connections can, over time, further strengthen the philanthropy–EO link as they provide access to new knowledge that could further stimulate innovation activities. From this perspective, philanthropy is not only a strategy element compensating for newness; it creates synergy with the core elements of EO through generating access to additional knowledge and opportunities that entrepreneurially oriented firms can use to their advantage. This is also more generally consistent with research suggesting that EO is conducive to utilizing knowledge-based resources more fully (Wiklund and Shepherd, 2003). The critical aspect, however, is that those in the environment are often able to distinguish between instrumental strategies and genuine altruism (Grant, 2014; Van de Ven et al., 2007). While instrumental strategies may be successful in the short run, it is only genuine other-regarding motivated behavior that secures cooperation of others (and therefore sustained access to key resources) in the long run (Grant, 2014; Van de Ven et al., 2007).

Taken together, we draw on both strategic-instrumental and other-regarding value-based arguments to suggest that philanthropy is positively associated with SME EO. However, the interpretation of the association varies according to which argument dominates. The instrumental-strategy perspective implies a straightforward causal relationship. The altruistic, other-regarding argument implies that the association is determined jointly by compatibilities within the value set of the entrepreneurial owner–managers. We shed some light on the relative importance of strategic-instrumental (self-enhancement) and other-regarding (self-transcending) motivation for philanthropic action, based on the qualitative extension of our survey.

The context: Lithuania

Similar to other countries in Central Europe, entrepreneurship re-emerged in Lithuania as one of the key drivers of economic recovery in the early 1990s that followed the implosion of the Soviet economic system. New enterprises and SMEs in Lithuania could quickly fill domestic market gaps inherited from the command economy system of supply (Aidis and Mickiewicz, 2006). Yet, the environment remained challenging, as the economic transition implied an ‘uncertain, ambiguous and turbulent institutional framework’, which led to a ‘heterogeneity of entrepreneurial responses to institutional conditions’ (Welter and Smallbone, 2011: 107). In such a transition context, EO may be seen as a ‘prospecting’ strategy responding with innovation and flexibility to the transition environment (Peng, 2000: 178; Welter and Smallbone, 2011: 110).

Moreover, as emphasized by Welter and Smallbone (2011), the reality of heterogeneous responses to a similar (turbulent) institutional context implies that ‘institutionalist perspectives … may be criticized for being overly deterministic in circumstances where human agency can also play a role’ and more attention should be paid to venture- and person-related factors (Welter and Smallbone, 2011: 120). As such, this transition environment is efficacious to diversity in motivations (strategic-instrumental and other-regarding altruistic) for philanthropy.

The turbulence in the transition environment results from the uneven pace of reforming various aspects of formal institutions and inconsistencies emerging from having reformed formal institutions while change in culture and dominant attitudes remains slow (Mickiewicz, 2010). Despite the initial wave of entrepreneurship in Central Europe after transition, the Soviet system left a legacy of social attitudes that were not conducive to entrepreneurship, and the rates of entrepreneurial entry remained relatively lower compared with other countries at a similar level of development in South East Asia and Latin America (Estrin and Mickiewicz, 2011). Some of those inherited attitudes are not only detrimental to entrepreneurship (Estrin and Mickiewicz, 2011) but also to any private self-organization, including philanthropy (Boettke and Rathbone, 2002).

In particular, the Soviet cultural legacy is described by Sztompka (1996) as ‘block culture’ that emphasizes dependency over self-reliance, conformity over individualism, and extremism and rigidity in beliefs over tolerance and innovation (see also Estrin and Mickiewicz, 2011; Schwartz and Bardi, 1997). These cultural traits did not necessary follow from the official Soviet ideology that stressed cooperation and prosocial values, but resulted directly from adaptation to the actual political, economic, and social conditions (Schwartz and Bardi, 1997). The command economy system was organized in a hierarchical way and discouraged spontaneous action. The prevailing conditions of surveillance and detailed monitoring of citizens destroyed trust and horizontal cooperation (Schwartz and Bardi, 1997). Thus, most aspects of the value system supporting entrepreneurship such as openness to change values remain weak (Schwartz and Bardi, 1997).

Estrin and Mickiewicz (2011) provide evidence that cultural traits change slowly and the shift in values may only come with generational change. Across the countries in the former Soviet bloc that embarked on the process of institutional transition, it is the youngest generation that represents cultural change. This observation is important as our respondents represent an age cohort, whose values were formed under the old regime.

More generally, in examining the EO–philanthropy link in the transition context, we build the odds against our hypothesis. Most research on both entrepreneurship and philanthropy to date is set in the United States or the United Kingdom, that is, in countries which are characterized by entrepreneurial dynamism and by active community life, including philanthropy.[4] To confirm the link between EO and philanthropy in US or UK context may, thus, not be surprising. In contrast, we consider an environment where both entrepreneurial values and values supporting decentralized, prosocial initiatives including philanthropy are weak. Here, it is likely that the strength of the relationship between philanthropy and entrepreneurship would be attenuated. Therefore, if we could find support for our hypothesis in such an environment, we may have more confidence that these links can be generalized across different cultures.

Methods

Sample

The study draws on 270 phone interviews with randomly sampled owner–managers of SMEs, that is, firms with less than 250 employees according to the SME definition adopted by the European Union. 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 contacted, 162 refused to connect us to the top person(s), which was typically motivated by time constraints, holidays, or other reasons. Finally, 275 owners or owner–managers of SMEs agreed to be interviewed which gives an overall response rate of 34.4%. Five of those were excluded due to missing data. The final sample represented 270 enterprises from the five largest Lithuanian cities as well as 27 other smaller towns. The enterprises were on average 6 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 in retail trade (10.0% of sample), wholesale trade (16.3%), construction (14.4%), manufacturing (17.4%), and other services (41.5%). This is a representative sample when compared against the 4770 firms with less than 250 employees that are registered in the Orbis database for Lithuania.[5]

In addition, to gain a more detailed understanding of the motivations and considerations of owner–manager philanthropy, we conducted in-depth follow-up interviews with 10 owner–managers from the final sample of 270 enterprises in 2013. The interviews explored their engagement in philanthropy, the reasons behind this engagement, and the benefits created from it. We offer insights from these interviews in the 'Results' section to shed light on what might drive the pattern of results observed in the quantitative analysis and in particular on the difference between strategic-instrumental and altruistic, 'other-regarding' drivers of philanthropy.

Measures

Philanthropy

Our dependent variable is based on the survey instrument capturing the charitable contributions of SMEs. We asked the following question: 'In the past 12 months, has your business contributed to the sponsorship for social needs (donations for hospitals, social organizations, sports, etc.)?' The answers were recorded on a 5-point Likert scale: 1 – 'no', 2 – 'yes, but very little', 3 – 'yes, partly', 4 – 'yes to a large extent', and 5 – 'yes to a very large extent'. We also conduct a robustness check in which we dummy-coded the philanthropy variable (0 − no charitable giving, 1 − charitable giving, that is, collapsing the points 2–5 of the Likert scale). 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 2–5.

EO

EO was measured with a questionnaire widely used and validated in prior research (e.g. Covin and Slevin, 1989; Miller and Friesen, 1983; Rauch et al., 2009). Entrepreneurs rated their firm's strategic emphasis on innovation, risk-taking and proactivity using several bi-polar statements (see Appendix for items). 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 proactivity as suggested by, for instance, Lumpkin et al. (2009) and Moreno and Casillas (2008).[6]

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 proactivity, that is, being the first in a market and ahead of competition. However, the theoretical foundation for an aggressive stance toward 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 (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 (Covin and Lumpkin, 2011; Covin and Slevin, 1989; Lumpkin and Dess, 1996). Most studies treat EO as one dimension (Rauch et al., 2009). Given the theoretical background which defines innovation, proactivity, and risk-taking as components of EO and given the fact that prior research finds these components to co-vary, we conceptualize EO as a second-order factor consisting of three distinguishable, yet related first-order factors (Covin and Wales, 2012). In line with Covin and Wales' (2012) review of the

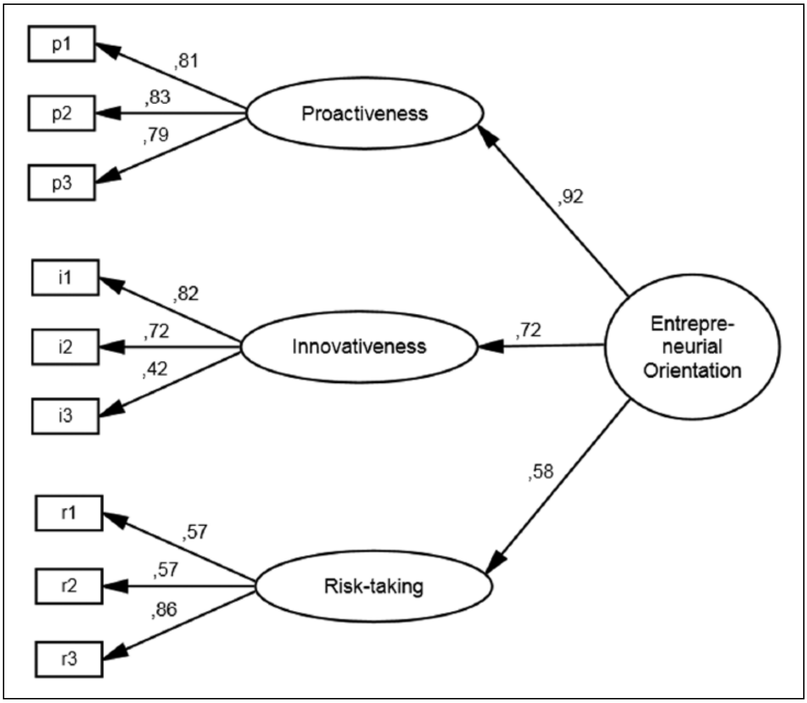

Figure 1. Hierarchical factor structure entrepreneurial orientation.
All displayed coefficient estimates are statistically significant ($p < .001$). Measurement errors and residuals are not displayed to increase readability. All figures available from the authors on request.

measurement of EO, we specify a hierarchical factor model (Figure 1) with both reflective first- and second-order constructs. This model has innovativeness, proactiveness and risk-taking represented as first-order factors loading on the second-order factor of EO. We employed confirmatory factor analysis to test this model, using AMOS 18 (Arbuckle, 2009). The specified model fitted the data reasonably well with $\chi^2 = 130.55$ (degree of freedom (df) = 51), comparative fit index (CFI) = .93, Tucker–Lewis index (TLI) = .91, and goodness-of-fit index (GFI) = .93, all exceeding the .90 cut-off criterion (Hu and Bentler, 1995, 1999).

Root mean square error of approximation (RMSEA) was .076, exceeding 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 nine items showed an excellent model fit with $\chi^2 = 45.72$ ($df = 24$), 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, that is, on innovation, proactivity, and risk-taking. The first-order factors in turn loaded substantially and significantly ($p < .001$) onto a second-order EO factor (see Figure 1 for all factor loadings). Cronbach's alpha for this nine-item EO scale was .82 (and thus better than for the 12-item EO scale .75).

The Appendix contains the list of retained items. In contrast to the original Covin and Slevin's (1989) scale, the retained items for innovation include not only aspects of product/service innovation but also process innovations. The risk-taking scale consists of the three items suggested by

Covin and Slevin (1989); the proactivity scale also closely resembles the original Covin and Slevin (1989) scale except for one item. This emphasizes following the leader or being ahead of competition in introducing new products or ideas; it is conceptually consistent with the theoretical background of the scale. We see that as an advantage given increasing 'variety of operationalizations' may help to 'establish the convergent validity of measures' of the underlying theoretical concept of EO (Miller, 2011). Moreover, Rauch et al. (2009) showed that the association of EO with firm performance is relatively unaffected by the specific measurement scale used. Thus, our measure contains validated items of closely related EO measures; as such, we use a content valid scale to measure EO.

Control variables

There are a range of possible alternative explanations for engagement in philanthropy. For instance, it could be that better performing firms simply can afford to engage in philanthropy. Furthermore, exposure to Western-style philanthropy through international links could increase propensity to engage in philanthropy. Both firm performance and internationalization are also associated with EO; therefore, by including them we eliminate an omitted variable bias.

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

We measure *past firm performance* using an index of two items, one measuring the change in sales turnover over the past 12 months ('*turnover'* hereafter) and the other capturing change in net sales profit over the past 12 months ('*profit*' hereafter). Respondents rated both on a 5-point scale ranging from 1 – 'decrease a lot (more than −40%) to 5 – 'increase a lot (more than 40%)'. Cronbach's alpha for this two-item index was .73.[7]

Internationalization. Firm internationalization was measured by two questions capturing two aspects of internationalization, that is, foreign direct investment (FDI) and ownership, and exporting of goods or services. The first question asked about the extent to which the firm has attracted investments from abroad over the past 12 months (*FDI*). The owner–managers answered using a 5-point scale from 1 – 'no', 2 – 'yes, but very little', 3 – 'yes, partly', 4 – 'yes to a big extent', and 5 – 'yes, to a very big extent'. The second question captured the 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%)'.

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 number of permanent full-time employees. Similarly, we control for *firm age* (in years) since younger firms are often considered to be more entrepreneurial. Both firm size and age showed a skewed distribution; thus, adhering to protocols outlined by Tabachnick and Fidell (2007), we log-transformed both variables to avoid biased results. Moreover, *industry branch* was controlled for by using dummy variables for retail trade, wholesale trade, construction, and manufacturing.

Test for common method bias

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

Analysis strategy

We present results of structural equation modeling which combines factor analysis with the regression approach and has the advantage of explicitly taking measurement errors and intercorrelations among predictors into account (e.g. Kline, 2005). As a robustness check, we repeated the analysis using ordered probit regression estimations. The results are highly similar and lead to no different conclusions from those presented here; they are available upon request from the authors.

Results

We first present our main results based on the quantitative analyses of the survey of 270 SMEs, and next, we extend it based on qualitative data from 10 in-depth follow-up interviews.

EO and philanthropy: results based on quantitative analysis

Descriptive statistics and simple correlations for all the variables are displayed in Table 1. They indicate that reported philanthropic activity is surprisingly common among SMEs in Lithuania; 53% of Lithuanian SMEs engaged in some form of philanthropy over the past year.

In formal testing of hypotheses, we rely on structural equation modeling. Figure 2 and Table 2 display the results of regressing philanthropy on EO, controlling for potential covariates (access to finance, past firm performance, internationalization, firm size, firm age, and industry sector). Overall, 25% of the variance of a firm's philanthropic orientation was explained by this predictor and set of control variables. The model fitted the data well with $\chi^2 = 191.19$ ($df = 130$), CFI = .95, TLI = .93, and GFI = .94, all exceeding the .90 and partly the stricter .95 cut-off criterion (Hu and Bentler, 1995, 1999). RMSEA was .042 and as such lower than the recommended maximum of .06 (Hu and Bentler, 1999), indicating a good model fit.

EO was significantly related to the SMEs' philanthropy ($\beta = .27$, $p < .01$; see Figure 2 and Table 2). As a robustness check, we substituted the dummy-coded philanthropy variable for the continuous philanthropy measure. The relationship of philanthropy and EO remains significant albeit somewhat reduced ($\beta = .17$, $p < .05$), which is to be expected as dummy-coding reduces the variance of the philanthropy measure.

Table 1. Correlations and descriptive statistics.

Variables	*M*	*SD*	1	2	3	4	5	6	7	8	9	10	11	12
1. EO	3.95	1.02												
2. Philanthropy	1.76	0.87	0.37***											
3. Philanthropy – dummy	0.53	0.50	0.31***	0.82***										
4. Manufacturing	0.17	0.38	−0.01	0.02	0.08									
5. Wholesale trade	0.16	0.37	0.08	0.10ᵗ	0.07	−0.20***								
6. Retail trade	0.10	0.30	0.04	0.02	−0.03	−0.15*	−0.15*							
7. Construction	0.14	0.35	0.08	0.05	0.11ᵗ	−0.19**	−0.18**	−0.14*						
8. Size (ln number employees)	2.40	1.00	0.27***	0.31***	0.32***	0.19***	−0.12*	−0.12ᵗ	0.30					
9. Age (ln firm age)	1.73	0.33	−0.02	0.09	0.09	−0.01	0.03	0.05	−0.15*	0.10ᵗ				
10. Past performance (sales turnover)	3.99	1.08	0.40***	0.30***	0.31***	0.08	0.18**	−0.08	0.10t	0.27***	−0.10			
11. Access to finance	4.56	1.76	0.30***	0.20***	0.20***	0.08	0.04	−0.08	0.12*	0.22***	−0.11ᵗ	0.29***		
12. Foreign direct investment	0.20	0.41	0.15*	0.19**	0.16**	0.05	0.05	−0.12ᵗ	−0.06	0.02	−0.03	0.09	0.12*	
13. Export share	3.19	0.74	0.10ᵗ	0.17**	0.12*	0.27***	0.06	0.00	−0.13*	0.10ᵗ	0.06	0.26***	0.04	0.14*

EO: entrepreneurial orientation.
$N = 270$.
ᵗ$p < .10$; *$p < .05$; **$p < .01$, ***$p < .001$.

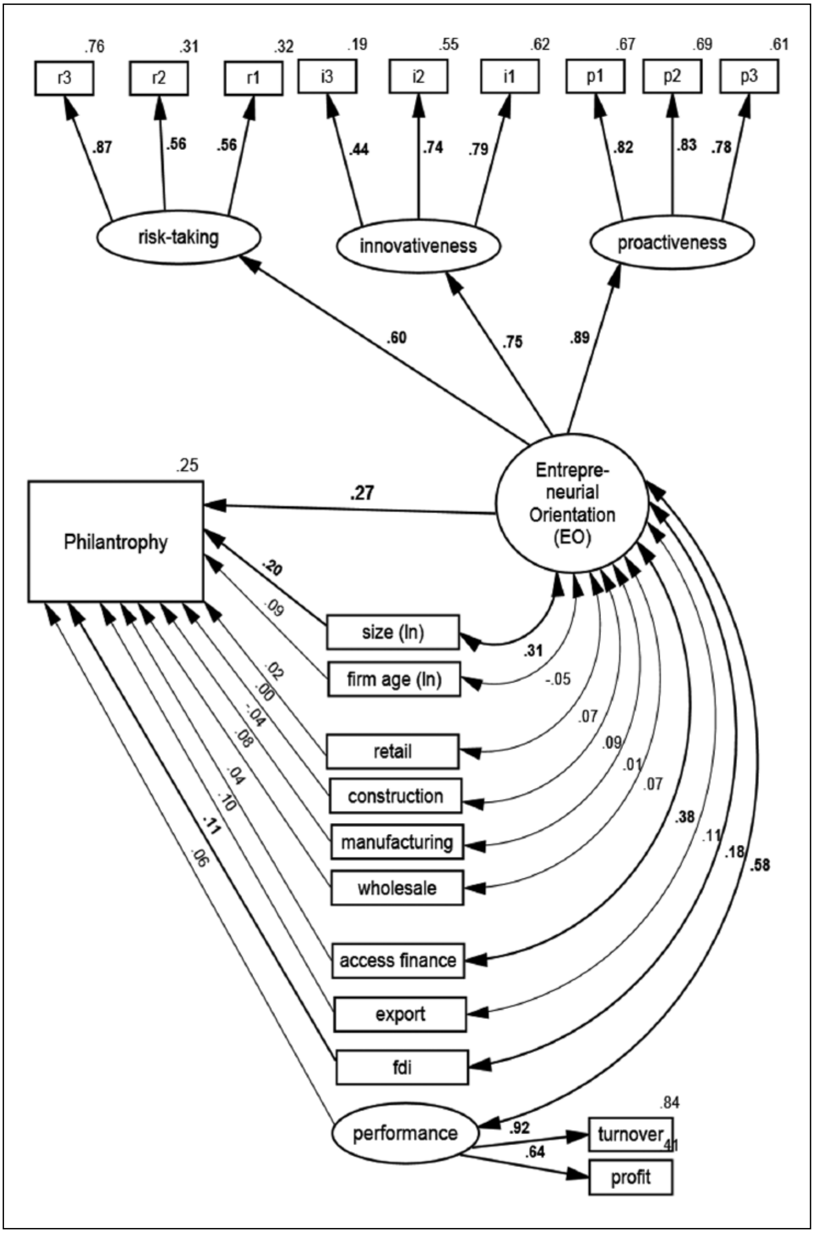

Figure 2. Predictors of philanthropy (standardized estimates).
Figures in bold and bolded paths are statistically significant (at least at $p < .05$). Measurement errors and residuals as well as correlations among control variables are not displayed to preserve readability. All figures are available from the authors on request.

EO and philanthropy: insights from additional in-depth interviews

In additional interviews, we probed in more detail the motivations underlying philanthropy efforts (and the lack of such effort) by SMEs with medium to high EO (defined as values at or above the sample

Table 2. Predicting philanthropy: standardized and unstandardized estimates including factor loadings of items on EO construct.

	Standardized estimate (regression weight, β)	Unstandardized estimate (*B*)[a]	*SE*[a]	*p*[a]
Hypotheses testing[b]				
EO	.267	.253	.089	.004
Control variables[b]				
Past performance	.063	.064	.055	.248
Access to finance	.035	.018	.030	.562
FDI	.108	.232	.120	.054
Export	.098	.116	.068	.088
Size (ln employees)	.196	.172	.057	.002
Firm age (ln)	.087	.228	.150	.129
Retail trade	.019	.055	.169	.743
Construction	−.005	−.012	.157	.943
Manufacturing	−.042	−.097	.143	.501
Wholesale	.076	.178	.142	.208
EO factor loadings (hierarchical factor analysis)				
EO on proactiveness	.888	1.368	.182	.001
EO on innovativeness	.747	1	–	–
EO on risk-taking	.600	.870	.134	.001
p1 on proactiveness	.816	.789	.058	.001
p2 on proactiveness	.829	1	–	–
p3 on proactiveness	.783	.887	.062	.001
i1 on innovativeness	.790	1.127	.117	.001
i2 on innovativeness	.741	1	–	–
i3 on innovativeness	.437	.566	.090	.001
r1 on risk-taking	.562	.651	.088	.001
r2 on risk-taking	.561	.682	.092	.001
r3 on risk-taking	.871	1	–	–
Performance factor loadings				
Profit	.642	.637	.082	.001
Turnover	.916	1	–	–
Variance explained in philanthropy	25%			
Model fit	$\chi^2 = 191.19$ (*df* = 130), CFI = .95, TLI = .93, GFI = .94, RMSEA = .042			

EO: entrepreneurial orientation; FDI: foreign direct investment; CFI: comparative fit index; TLI: Tucker–Lewis index; GFI: goodness-of-fit index; RMSEA: Root mean square error of approximation; SE: standard error; df: degree of freedom.
[a]Due to the model estimation process within the confirmatory factor analyses part of the model (bottom half of this table), one item factor loading per latent factor is fixed to 1. *SE* and *p* are not estimated for those items (e.g. Kline, 2005).
[b]All variables are regressed on philanthropy as shown in lower part of Figure 2.

mean of EO). We selected both the SMEs who were and who were not engaged in philanthropy.

When asked about their motivations and the benefits that they receive from philanthropy, it was notable that a range of benefits and reasons were cited consistent with the mechanisms reviewed in the theoretical framework. On the one hand, the owner–managers recognized benefits from philanthropy in terms of increased legitimacy. For example, the owner–manager of an insurance services firm sponsoring children in need declared,

> For our company there is one big benefit – in costumer eyes we are good and helpful company… people see that we are helping children and they may choose our company services but not competitors who don't help anyone.

Similarly, probed about the potential business benefits of their philanthropy, the owner–manager of a construction company, which also supported children with special needs, stated,

> Hmm, maybe yes. If I think deeper then I can say yes, because in costumer and supplier eyes we look better, if we are helping someone…..yes we can get better relationship with government if we are helping someone… Yes, local government also like when companies are helping someone. So this also helps us to have good relationship with government.

Yet at the same time probed for benefits with regard to the company's competitiveness, the respondent dismissed the importance of instrumental motives using the following words:

> … this is simply sponsorship for children. It's not a part of our business. So we can't become more competitive because we help someone.

In a similar fashion, the owner–manager of a retail (cosmetics) company that supports a sport-team replied the following when asked about (instrumental) benefits of philanthropy:

> I think there are not any benefits for the company, because we are giving away money and they don't come back….

When probed further for whether or not there are any business benefits from the philanthropy engagement he mentioned,

> I think more no then yes. Maybe our company becomes more recognizable, but it's only very, very small part of all things that we need to be more competitive.

An owner–manager of an Information and Communication Technology (ICT) service company, working in an ethical and responsible manner, supporting a similar smaller company did not see any legitimacy benefits. However, he mentioned other indirect and long-term business benefits that are consistent with the notion of philanthropy, in particular building social capital in the form of building up general norms of cooperation, as contrasted with (direct) instrumental benefits:

> The motivation is simple – if you will help someone than when you will need some help, someone will help you. All good things come back.
>
> We don't have any [business] benefits.

Hence, some of the above responses – that is, those that see helping others through philanthropy as an obligation – suggest that altruistic values are a driver of philanthropy in addition to instrumental-strategic considerations. Indeed, altruistic motives including the notion that philanthropy was the 'right thing to do' were a recurring theme as the following quotes illustrate:

> I think helping children… it's a big moral benefit for you as human and also for company…. We are getting moral benefits from this sponsorship. (Owner–manager of the construction company)

> I think every company should sponsor someone if they have some free resources. (Owner–manager of a retail cosmetics firm, in response to the question whether companies have an obligation to engage in philanthropy)

> Because children need help more than others and I think if we can help than it's our obligation. If we can, we always will help. (Spontaneous answer of the owner–manager of the insurance services firm when asked about his reason for engaging in philanthropy)

> I think companies should sponsor social needs. But if they cannot than is not something bad…..It's not correct to help someone only if you will have some benefits. It's very bad I think. (The same owner–manager when asked whether businesses have an obligation to engage in philanthropy and whether there needs to be a business case or benefit for them)

Interestingly, the views of those SMEs who were currently *not* engaged in philanthropy stressed free choice – no obligation to engage in philanthropy – often alongside instrumental motives including legitimacy and business opportunities. They did not refer to altruistic motivations. The following quotes illustrate this:

> Yes of course it [philanthropy] is part of business. When you are sponsoring someone your company becomes much better in customers eyes and because of that you have opportunity to get new customers. (Owner–manager of an advertising company)

> No [we don't engage in philanthropy], because it's not profitable. Because of our country laws, sponsorship is not profitable. We need to pay big taxes for government. If taxes wouldn't be so large then our company would sponsor someone….it's no obligation to sponsor someone, if you don't want to do that. It's your choice. (Owner–manager of a cargo shipping company)

> If you don't get some [business] benefits from sponsorship than it's not reasonable to sponsor someone. (Owner–manager of a plastic products company)

> It's every company's free choice. If you want you will engage in sponsorship, but if no than no….. if you will get some benefits than yes. (Owner–manager of a wholesale food products company)

> … it's not obligated and we don't want to do that. You can sponsor someone if you need to launder some money. (Owner–manager of a financial services firm)

Additional findings: quantitative evidence

Both measures of internationalization – the attraction of FDI and export share – were positively associated with the SMEs' philanthropy at $p < .10$. Firm size (natural log of the number of employees) was positively related to SME philanthropy at $p < .01$ (as well as to their EO). Accordingly, bigger and more internationalized firms seemed to be more inclined to make a positive contribution to society. At the same time, past firm performance and access to finance – indicators that capture the availability of resources – were not significantly related to philanthropy.

Additional insights from in-depth interviews

These interviews shed light on the lack of findings around slack resources. The SMEs not engaged in philanthropy reflected the slack resources view 'without money you can't do anything like that' (owner–manager of wholesale trade food products company), 'we don't have the money for that, we need money for our company needs … without money you can't do anything … first we need to resolve our problems and then we will start think about sponsorship' (owner–manager of a car diagnostics firm), and ‘money rules the world’ (owner–manager of a financial services firm). Similarly, when asked why other companies do not engage in philanthropy, lack of resources was cited (e.g. ‘don’t have money’, ‘don’t have resources’) along with ‘don’t want that’.

By contrast, SME owners engaging in philanthropy showed a broader understanding of resources, in that resources other than money can be helpful and so, monetary constraints would not necessarily limit their philanthropy. This is illustrated in the following quotes: ‘I can help people also without money’ (owner–manager of a retail cosmetics firm), ‘Our company is an example how companies can help without money’ (owner–manager of an insurance services firm), and ‘I think if you don’t have money then it’s very hard to help someone, because in nowadays everyone need money to do something. But there are also things that you can do without money’ (owner–manager of a construction company).

Discussion

This study provides novel evidence that more entrepreneurially oriented SMEs are also more likely to engage in philanthropy (charitable giving). We find that philanthropy is common among SME owner–managers (just over half of the representative sample of SMEs engaged in philanthropy). Our findings complement and extend existing research on entrepreneurial philanthropy by demonstrating that philanthropy is not a sequential occurrence after the achievement of wealth and success. We further illustrate that the entrepreneurship–philanthropy relationship can even be found in an institutional context where historical support for both entrepreneurship and philanthropy has been weak.

Our results also have more general implications for research on entrepreneurial motivation. They highlight the multifaceted motivations underlying SMEs philanthropic engagement and thereby add to the growing literature challenging the view of SME owners–entrepreneurs as one-dimensional, self-interested actors. Finally, our results also add to the literature on EO, extending it to societal outcomes.

Contributions to research on entrepreneurial philanthropy

Our findings extend existing research on entrepreneurial philanthropy (Acs and Phillips, 2002; Shaw et al., 2013) from high-net-worth elites to typical SME owner–managers. Thus, philanthropy is not just the responsibility of the very rich (Acs and Phillips, 2002) taken up after economic wealth is generated. Philanthropy is also a tool for entrepreneurial SMEs to build legitimacy in their communities and importantly an expression of altruistic values. Philanthropy by elite entrepreneurs is attention-catching, while the philanthropy of SMEs is smaller in scale. However, the latter may, over the longer term, be just as important – not only for the businesses but also for local communities building social capital – an informal institution poorly developed in transition economies such as Lithuania. Accordingly, our study sheds further light on the micro-level mechanisms of bottom-up institutional change.

Our qualitative findings suggest altruism as one driving force of entrepreneurial philanthropy. This emphasizes that research on philanthropy has a connection with that upon social entrepreneurship; there is a common link related to motivational values. More generally, the positive link between entrepreneurial SMEs and philanthropy adds to notions that private for-profit and private non-profit activities can be mutually reinforcing (Estrin et al., 2013; Van de Ven et al., 2007) rather than present two mutually exclusive logics.

Analyzing the entrepreneurship–philanthropy link in a novel context

We also extend existing research on entrepreneurial philanthropy by investigating it in a post-Soviet transition economy: Lithuania. Thus, our findings highlight that philanthropy is not unique to developed market economies such as the United Kingdom and the United States. Instead, it surfaces in a context characterized by a cultural legacy alien to both entrepreneurship and independent, decentralized social initiatives (Estrin and Mickiewicz, 2011; Schwartz and Bardi, 1997). As such, finding these positive relationships of EO with philanthropy in the Lithuanian context is striking. While the process of change in informal institutions and culture is typically seen as slow (Inglehart, 2008; North, 1990), our results suggest that this change is occurring.

This evolution may be driven both by the strategic choices of owner–managers, seeking legitimacy and by building synergies with local knowledge and, on a more fundamental plane, reflecting the above-mentioned value-pattern (emphasizing both prosociality and openness to change), which appears to be universally shared (Schwartz and Bardi, 2001) – and therefore may be less difficult to restore after communism than might be thought. Fundamentally, change through strategic choices and change in value-patterns do not need to be mutually exclusive: what is legitimate is affected by prevalent norms.

For Lithuania, our findings imply that the country is moving in the direction which is arguably consistent with an entrepreneurial-based, economic development trajectory. This is further corroborated by our findings that philanthropy is supported more where firms are engaged with internationalization, although the positive effect of this on philanthropic engagement is weaker than the effect of EO.

The multifaceted nature of entrepreneurial motivation

This study contributes to research emphasizing the complex nature of entrepreneurial motivation (e.g. Gorgievski et al., 2011; Jayawarna et al., 2011; Lang et al., 2014). Our finding of a mutually reinforcing (rather than competing) relationship of EO with prosocial behavior, such as philanthropy, offers an extension of fundamental psychological theories of human motivation (e.g. Schwartz, 1992) to entrepreneurship. Evidence is accumulating that people across cultures share values related to both prosociality (related to philanthropy) and openness to change (a key entrepreneurial trait; see: Noseleit, 2010); both are strongly endorsed across countries (Schwartz and Bardi, 2001). Importantly, these two clusters of values are repeatedly found to be positively related to each other, as both imply intrinsic motivations (e.g. Schwartz, 1992, 2009). Our analysis offers evidence reinforcing this association for entrepreneurs.

Our findings suggest that the philanthropy of SME owner–managers may actually be an expression of their altruistic values. We also see evidence that other-regarding motivation is associated with long-term orientation (the long-term building of local social capital and generalized reciprocity), consistent with findings on the characteristics of 'givers' in business (e.g. Grant, 2014).

Interestingly, those entrepreneurs *not* engaged in philanthropy emphasized its instrumental, strategic benefits and pointed to resource constraints as a barrier to engaging in philanthropy. Thus, existing academic theories emphasizing the instrumental-strategic perspective and resource constraints may at least in part also be a reflection of the rationalizations of those business owners who do not engage in philanthropy.

In this regard, our analysis has wider implications for business research. As observed by DiMaggio (1988) and Oliver (1991), self-interested behavior of firms tends to be assumed in business research instead of being theorized explicitly. Addressing these gaps in the literature first, we provide evidence of heterogeneity in entrepreneur motivation that includes both the strategic-instrumental self-regarding and the other-regarding intrinsic-value-based aspects. Second, and more importantly, we point out that the association of the EO and other-regarding orientation (as exemplified by philanthropy) is less paradoxical as it appears as soon as we draw upon the overarching intrinsic aspect that links innovativeness to other-regarding motivation – based on Schwartz's (1992) systematization of human values map. This has wider implications and calls for further research on the role of self-oriented and self-transcending values as drivers of entrepreneurship.

Contributions to research on EO

Our findings add to the large body of research on EO. This literature has successfully focused on establishing economic outcomes of EO (Rauch et al., 2009; Wales et al., 2013a). Our research offers an extension by highlighting that positive social outcomes, such as philanthropy, may arise from strong EO. Philanthropy helps entrepreneurial firms to build legitimacy, compensating for newness and potentially leading to synergies in the use of local knowledge. While legitimacy effects are well established, future research could explore these synergetic effects further. Entrepreneurially oriented SMEs may benefit from the distinct knowledge that they could access through philanthropic engagement, for instance, with non-profit organizations (Acs and Braunerhjelm, 2005). Moreover, there may be a strong synergy between the access to additional knowledge and the capacity to utilize this knowledge effectively by those SMEs that are most entrepreneurial (EO). This makes seeking additional knowledge through strengthening links with the local community an attractive strategy for entrepreneurially oriented firms. Conversely, non-profit initiatives may benefit from knowledge transfers that accompany the financial transfers (Acs and Braunerhjelm, 2005), which is one of the examples of benevolent transfer of non-monetary resources our respondents hinted at during the in-depth interviews. Finally, voluntary associations also create a social milieu where entrepreneurial networks are formed, further supporting for-profit initiatives (Estrin et al., 2013).

Our results on the significant relationship between EO and philanthropy are made sharper by the fact that we control for alternative explanations. With regard to these, our findings contrast with those from corporate philanthropy. The latter reports that past performance and slack resources are positively related to firm philanthropy (Orlitzky et al., 2003; Wang and Qian, 2011). We fail to find such a relationship: the in-depth, follow-up interviews suggest one possible reason. It appears that one of the hallmarks of entrepreneurial action – making creative use of existing scarce resources (Baker and Nelson, 2005) – also applies to philanthropy. Philanthropy need not be constrained by lack of financial resources and entrepreneurs, for whom philanthropy is consistent with their values, find other ways of giving. Again, our findings are only tentative, and future research is needed to explore these issues in more depth.

Limitations

We see our study as an exploratory one. Although we could draw on a representative sample of SMEs in Lithuania and thereby shed light on the philanthropic engagement of typical SMEs, the cross-sectional nature of our data implies caution in forming any judgments on causality. We believe that the questions we address are novel, yet we face data limitations. Future studies could test more rigorously which driver of philanthropy (strategic or altruistic) is most common among SME owners and, importantly, what the differences in outcomes may be. We need to build a richer understanding of what motivates SME owners to engage in philanthropy, but also of the effects that philanthropy has on the firm, the community, and, ultimately, for those who receive it. Future research could also explore in more depth the tangible benefits that entrepreneurs obtain from contributing to civic society, such as legitimization in the eyes of the key stakeholders as well as access to information spillovers and networking. Future studies can extend the present findings by analyzing the association with different aspects of corporate social performance in addition to philanthropy, such as business practices relating to environmental behavior, treatment of shareholders, and co-owners, employees, customers, and suppliers (e.g. Campbell, 2007).

Conclusion

While our results are of novel and preliminary nature, we believe that the findings may have wider implications for future research. The traditional focus on self-interest in entrepreneurship might need rethinking. Private initiative contains a strong social element; successful examples of entrepreneurship are characterized not by lonely efforts of individuals but by interaction with the local social context, which often provides critical resources to small and starting firms in general and to dynamic firms in particular (Efendic et al., 2014; Stephan and Uhlaner, 2010). Indeed, it is this capacity for (local) self-organization which is at the core of both economic initiative and civic society (Estrin et al., 2013). If one accepts that entrepreneurs are not one-dimensional, self-centered actors, but are at the same time embedded in local communities (Evers, 2001), the link between economic initiative and civic society is to be expected. Applying psychological value theory (Schwartz, 1992) leads us to similar conclusions: the association between the other-regarding and entrepreneurial, innovative behavior stems from common underlying intrinsic motivations. We hope future research explores corresponding predictions (Grant, 2014) that other-regarding (giving) behavior may lead to higher long-term economic benefits for SMEs than an instrumental, narrower focus on self-interest (taking).

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Notes

1. Our focus is on philanthropy by conventional, commercial entrepreneurs and not on social entrepreneurs. Social entrepreneurs ingrain social-value creating activities directly in their business alongside efforts to create economic value, thus resulting in hybrid organizations (Battilana and Lee, 2014). In contrast, commercial entrepreneurs operate predominantly under the economic value creation logic.
2. More generally, some have argued that the sociology of entrepreneurship pays too little attention to communities (see Devereaux Jennings et al., 2013).
3. The spatial aspect of embeddedness has been emphasized by economic geography. For small- and medium-sized enterprises (SMEs), local embeddedness in a geographic area, such as a local community, is likely to overlap substantially with their social embeddedness (in networks with other actors). Thus, although the two concepts of embeddedness stress different aspects (Hess, 2004), these are converging for SMEs.
4. Even if there are some doubts where the long-term trends in the United States are leading, see Putnam (1995).
5. This is the only available dataset with a wide coverage of firms; however, it is known to oversample large firms. The mean number of employees in the Orbis sample is higher than in our sample, at 61 employees. We find that for our sample, the 25th percentile corresponds to two full-time permanent employees, while the corresponding number is seven for the Orbis database. The median number of employees in the Orbis database is 20 employees and closely similar to the median of 18 employees in our sample. A sector comparison reveals that percentages for construction, manufacturing, and retail trade are highly similar. There is one exception: Orbis firms are more concentrated in wholesale trade (31% v, 16% in our sample) which comes at the cost of a correspondingly lower share of other services. Again, this seems consistent with size differences as discussed above: many service and repair firms are of micro-size, while wholesale trade firms tend to be large.

6. A limitation of the data is that one item of the Covin and Slevin's (1989) item measuring proactivity ('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.
7. We also conducted a robustness check substituting this index with the owners' subjective appraisal of performance. We did not, however, include this subjective item in our firm success index as it showed only low correlations with turnover and sales. Thus, the subjective success assessment captures a distinct aspect of firm performance, which justifies its use as a robustness check. The results remained unchanged, and further details are available upon request.

Appendix

Entrepreneurial orientation items

How many new lines of products or services have your firm marketed in the past 3 years?		
i1 − No new lines of products or services	1 2 3 4 5 6 7	Very many new lines of products and services
i2 − Changes in product or service lines have been mostly of a minor nature	1 2 3 4 5 6 7	Changes in product or service lines have usually been quite dramatic
i3 (reverse scored) – My firm prefers to design its own unique new processes and methods of production	1 2 3 4 5 6 7	My firm prefers to adapt for our own use methods and techniques that others have developed and proven
In general, the top managers of my firm …		
r1 − Have a strong proclivity for low-risk projects (with normal and certain rates of return)	1 2 3 4 5 6 7	Have a strong proclivity for high-risk projects (with chances of very high returns)
r2 − Believe that owing to the nature of the environment, it is best to explore it gradually through careful, incremental behavior	1 2 3 4 5 6 7	Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives
r3 − When confronted with decision-making situations involving uncertainty, my firm …		
Typically adopts a cautious, 'wait-and-see' posture in order to minimize the probability of making costly decisions	1 2 3 4 5 6 7	Typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities
In dealing with its competitors, my firm …		
p1 − Typically responds to action which competitors initiate	1 2 3 4 5 6 7	Typically initiates actions which competitors then respond to
p2 − Is very seldom the first business to introduce new products/services, administrative techniques, operating technologies, and so on	1 2 3 4 5 6 7	Is very often the first business to introduce new products/services, administrative techniques, operating technologies, and so on
p3 − In general, the top managers of my firm have …		
A strong tendency to 'follow the leader' in introducing new products or ideas	1 2 3 4 5 6 7	A strong tendency to be ahead of other competitors in introducing novel ideas or products

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