

An Empirical Analysis of Art Galleries

The Impact of Entrepreneurial Orientation on
Performance Outcomes in Cultural Industry

ESRA MEMILI^A, HANQING FANG^B, GERD-MICHAEL HELLSTERN^C,
JOANNA OZGA^D, DILEK ZAMANTILI NAYIR^{E*}

^ABryan School of Business, University of North Carolina, Greensboro; ^BMissouri University of Science and Technology; ^CInstitute of Business Administration, Kassel University; ^DFachbereich Wirtschaft, Hochschule Fulda; ^EDepartment of Business Administration in German Language, Marmara University, Istanbul

Abstract

Despite the extant research on entrepreneurial orientation (EO) and its performance consequences, cultural industries have been under researched. In our paper, we examine the impact of the Entrepreneurial Orientation (EO) on performance as well as performance deviation from industry average in art galleries. The findings of our exploratory study based on responses from 113 art galleries in Istanbul showing that EO improves performance only in galleries with above industry average performance. We further find that the relationship between EO and performance deviation of galleries is U-shaped.

Keywords

enterprise; cultural industry; management; organization

1. Introduction

While entrepreneurship as a research field has traditionally been of interest for economics and business scholars (SCHUMPETER 1934), cultural industries have not received much attention from management and entrepreneurship researchers. Cultural industries have not been a subject for developing theory initially (JONES/THORNTON, 2005). Then, Raymond and Greyser (1978) suggested that in some respects, arts institutions are business organizations, with a set of stakeholders, including their employees, their consumers, and their local communities. Recently, Rentschler and Geursen (2004) suggested that art organizations need to be managed entrepreneurially in order to satisfy the expectations of variant stakeholders.

Arts organizations are usually in the form of small-to-medium size organizations (FILLIS 2004). Thereby, studying the entrepreneurial as-

* Email: <dnayir@marmara.edu.tr>.

pect of managers and owners of arts institutions – also known as “culturepreneurs” (DAVIES/FORD 1998) or “artpreneurs” - is a subject of scholarly interest (RENTSCHLER/GEURSEN, 2004).

Much of existing literature examines performance in arts institutions. Typical areas researched are comparative studies on the performance of not-for-profit versus for profit organizations (KOTLER / ANDREASEN 1991), customer/visitor analysis (WALSHE, 1993), and branding (O'REILLY 1999). There are only a few empirical studies of cultural industries to date and even fewer that directly address the managerial and organizational issues confronting the firms in these industries. The number of academic works linking entrepreneurship and art are limited at its best (CHONG 2000).

In an attempt to fill this gap, we conceptualize art galleries as entrepreneurial ventures and examine the link between entrepreneurial orientation (EO) and performance in art galleries as well as their performance deviations from industry average. The reasons for selecting art galleries as a research context are multifold. First of all, the cultural industry is one of the fastest growing sectors in global economies (UNITED STATES CENSUS REPORTS 2000). Indeed, given the prosperity of cultural industry, galleries are increasingly expected to be revenue-generating enterprises (CALDWELL 2002). Second, given severe market competitions and heterogeneous art products, being entrepreneurial may bring in competitive advantages.

Hence, our paper contributes to the literature in several ways. First, we examine an under researched industrial segment (i. e., the art galleries within the creative industry) in regards to EO, firm performance, and firm performance deviation from the industry average. Through this, previous findings have been validated, its generalizability has been enhanced and new insights have been generated. Second, we dive deeper in our investigation by considering the potential heterogeneity even among our sample art galleries to determine under what condition(s) EO improves galleries' performance. Accordingly, we found that EO improves firm performance in art galleries with above industry average performance only. Therefore, researchers need to avoid one size fits all type of considerations while evaluating the link between EO and performance improvement. Third, our paper contributes to the EO literature by examining the impact of EO on not only firm performance, but also firm performance deviation from industry average in response to a recent call for further studies on the topic (WIKLUND/SHEPHERD 2011).

The remainder of the paper is organized as follows. First, a review of relevant literature and hypotheses are presented. Then, we explain the methodology and the results. Finally, the results and the study's contributions are discussed, followed by future research directions.

2. Theory and Hypothesis

Aloulou and Fayolle (2005) define a small business as entrepreneurial, when the owner is willing to take risks, act innovatively and proactively towards competitors and the environment. These qualities are especially crucial in high risk environments such as the art galleries sector, which operates with high degrees of uncertainty. Art galleries are responsible for creating and maintaining the reputations of the artists they represent and at the same time have to protect their own financial solvency (PETERSON, 1997). According to Lumpkin and Dess (1996), the term also refers to the approaches, practices and decision-making styles managers use to act entrepreneurially. This perspective is consistent with Miller's (1983) definition of entrepreneurial orientation (EO), suggesting that corporate entrepreneurship is a behavioral phenomenon, and firms are generally positioned on a continuum ranging from highly conservative to highly entrepreneurial.

The owner-manager of a firm plays an important role in the orientation of the venture, especially in small enterprises (SCHMIDT 2013). Aloulou and Fayolle (2005) acknowledge that a company enacts its entrepreneurial behavior according to how the owner-manager reasons and acts. In a highly entrepreneurial firm it is the owner-manager who takes risks, acts proactively and pushes for innovative products, services or processes (FULFORD/RIZZO 2009). Whereas many galleries may not even profile their audiences or count attendance (BURNS OWEN PARTNERSHIP 2005), a firm with EO may make a special effort to study motivation and satisfaction of clients. In such a firm, the owner-manager also exhibits support for creativity and experimentation in new product development, internal processes and procedures (KNIGHT 1997; LUMPKIN/DESS 1996). In this sense, EO reflects the basic willingness of the firm to diverge from the status quo and embrace new ideas imposed by the owner-manager (BAKER/SINKULA 2009).

3. EO and Firm Performance in Cultural Industries

Exhibiting an “entrepreneurial orientation” (EO) reflects the priority that firms place on the process of identifying and exploiting market opportunities (SHANE/VENKATARAMAN 2000; FULFORD/RIZZO 2009). In the case of an arts gallery, the organization may discover opportunities by taking consumers’ interests into account for exhibitions, researching extensively to determine preferences of its visitors, and identifying market segments with different needs and interests. Subsequently art galleries could tailor programs to each market segment (CAMARERO/GARRIDO 2008). Moreover, a high EO could help the exploitation of potential opportunities by providing knowledgeable advice and creating payment plans, approval and upgrade options, pleasant environments in which to experience the art, and large collections from which to choose (QUESENBERRY/SKYES 2008).

Across a variety of firm sizes and types, a stream of empirical research supports a direct effect of EO on sales and profitability (ZAHRA/COVIN 1995; SMART/CONANT 1994; ZAHRA 1991; COVIN/SLEVIN 1986; BAKER/SINKULA 2009). This may also be the case in performance of arts organizations.

3.1 EO and Above-Industrial-Average Performance

Aside from the direct positive impact of EO on art galleries’ performance, we also expect that EO will have positive effects on galleries’ performance improvement only among those with above industry average performance because these gallery decision-makers have ‘willingness’ and ‘ability’ to do so. This is consistent with Rauch et al. (2009) suggesting the positive relationship between EO and performance can be stronger under some internal and external circumstances than others.

First, the first priority in any organization with below industrial average performance is to search for means and approaches to turn around performance (HAMBRICK/SCHECTER 1983). While entrepreneurial activities can be used in this matter, arguably more traditional cost-saving approaches may be favoured, as these approaches work faster and can often being implemented easier (CHOWDHURY/LANG 1993). In addition, organizational change driven by EO may create a major cost burden for an organization such as existing routines (AMBURGEY et al. 1993), power structure (PFEFFER 1981), strategic action (NADKARNI / BARR, 2008) and human resource practices (FORD et al. 2008) must be wrecked down and newer ones must be built up (LANT et al. 1992). Such

changes are disruptive to the organization because they often require significant internal restructuring, the cost of which can be very high (JAUCH et al. 1980). This situation may be more severe in an art gallery, as this form of organization often faces a high level of uncertainty concerning income compared to others, hence the enhancement of its sales may be even more difficult. This perspective would imply that when given below average industrial performance, decision-makers in art galleries may not have enough 'willingness' to transfer EO into actual actions. Hence the effect of EO on performance should be weak, if not completely null. On the other hand, decision-makers at galleries with above average performance are more willing to experiment with new means, practices and managerial styles, meaning the connection between EO and performance should be stronger.

In addition, art galleries with above average industrial performance are more likely to have excessive organizational slack (PENROSE 1959), which is often used to support creative and risk-taking activities driven by strong EO (SINGH 1986). In other words, art galleries with above average industrial performance have high 'abilities to strengthen the EO-performance linkage. Indeed, among galleries, only those with above industry average performance are expected to have the means and capabilities for utilizing and capitalizing on EO as a valuable resource (NEWBERT 2007; WIKLUND/SHEPHERD 2011). Those galleries may also be the ones which may place more value on sustained competitive advantages through performance improvement by capitalizing on EO. This can also help maintain and further enhance reputation and attain long-term prosperity unlike in galleries with below average or average performance. Indeed, art galleries with below average industrial performance may not have enough resources to use in entrepreneurial attempts, especially given the fact that venturing in business is often costly.

Based on both willingness and ability perspectives, we suggest that:

H1: EO only 'improves' firm performance in firms with above industry average performance.

3.2 EO and Performance Variance

Aside from the performance enhancement effects, EO may also influence performance-variance (WIKLUND/SHEPHERD 2011). Variance enhancement is different from performance enhancement because the former may be superior or inferior performances. This would suggest that EO not only helps some organizations raise sales and increase prof-

itability, it also enhances the divergence of performance among these organizations. Therefore, in our paper, we further examine the link between EO and performance variance (i. e., performance deviation from industry average) in art galleries. Here, we expect a U-shaped relationship between EO and performance variance. In particular, we expect that performance variance will decrease as EO increases up to a certain level. This argument is consistent with the “performance enhancement” effect of EO as mentioned above (LUMPKIN/DESS 1996; MILLER, 1983; ZAHRA/COVIN 1995), as the increase in performance across firms also leads to the decrease in performance variance. Put differently, performance variance decreases as EO moves from low to moderate level because performance in all art galleries improve, hence their performance divergence diminish. In addition, having a low-to-moderate extent of EO is also a signal conforming to the ‘norm’ of the industry (SCOTT 1987). This is particularly true in arts industry as originality and creativity are often favored here. Conforming to the ‘norm’ would also suggest following similar routines and conducting similar activities (SZULANSKI 1996), meaning that performance consequences would converge, or in other words, performance deviation would decrease.

However, after a certain level of EO at moderate-to-high levels, performance variance is expected to increase owing to the effect of experimentation. Experimentation refers to organizational attempts to initiate new routines, approaches and practices within the boundary of the organization (CARPENTER 2000; ZHANG 2006). While business practitioners often advocate means of experimentation such as organizational change, strategic renewal, etc. (BARR et al. 1992; SIMONS 1994), the performance consequence of experimentation is not always positive, often causing inconsistency in strategic implementation (LEE et al. 2004) as well as role conflicts in top managers (FLOYD/LANE 2000). That is to say, experimentation does not always lead to performance improvement, and under certain circumstances it may even cause a decline in performance (KRAATZ/ZAJAC 2001; MILLER/SHAMSIE 2001). Instead of focusing on performance incline/decline, we argue that moderate-to-high EO, or experimentation effect, may cause either incline or decline of firm performance, hence the overall effect of EO in this range is to increase the performance variance among all firms at the population level (WIKLUND/SHEPHERD 2011).

Overall, when taking low-to-moderate and moderate-to-high levels together, we argue:

H2: EO has a U-shaped relationship with firm performance deviation from industry average.

4. Methodology

4.1 Sample

To test the hypotheses, a structured interview was conducted for art galleries in Istanbul. The segment of art gallery in Istanbul was intentionally chosen because art industry in Istanbul is emerging as a global leader, also because art galleries in Istanbul are often under great market pressure as the pool of customers in Istanbul is still limited and art galleries strive to innovate in order to attract customers (GÜRELI 2014). Possible participants from 300 registered art galleries from the list of Istanbul Art galleries were visited and the project content and scope were explained. The questionnaire's content was based on the structure of the hypotheses formulated above. Additionally we have asked questions about motivation factors of art gallery owners to ensure that all owners are at least in the consideration of engaging in innovation. 49 art dealers were unreachable due to address changes and in 132 cases, we could not conduct an interview as the company's policy was against taking a part in any kind of survey. This process yielded 119 complete structured interviews. The total response rate of 39.7 % is sophisticated compared to other studies in the success of entrepreneurship (LUSSIER/HALABI 2010). Respondents were primarily directors of art galleries with managerial responsibilities (63.9 %). They graduated from universities or colleges (89.0 %) and worked in two or three different establishments before. Regarding the age, responders are in average between 31 and 50 years old. Respondents describe their buyer's profile as "rather businessman" (62.2 %), but admit that the goal of founding the art gallery was "more non-financial".

We evaluated potential nonresponse bias by comparing early and late respondents on several dimensions: (1) age of the responders, (2) buyer's profile, (3) entrepreneurial orientation, (4) innovation success, and (5) profitability. We have not found any statistically significant difference across early and late respondents that suggest that non-response bias is not a serious concern. Among these 119 observations, 6 include missing data in their responses. In the end we have 113 cross-sectional observations for further analysis.

4.2 Dependent Variable

There are three dependent variables in this study: performance, performance above industrial average, and performance deviation. 'Performance' is measured via asking respondents three questions in terms of change in sales revenue, change in profit and change in profit margin (JAWORSKI/KOHLI 1993). For each question, respondents are asked to evaluate in a 1-10 Likert scale in which 1 denotes to worst and 10 denotes to best. Performance is measured using the average of the three items. 'Performance above industrial average' is measured using the extent of calculated performance, when the performance is above industrial average and 0 otherwise. 'Performance deviation' is calculated using the absolute deviation of calculated performance from the industrial average. It should be noted that performance deviation is different from performance as superior and inferior performance may have similar deviation from the industrial average.

4.3 Independent Variables

The independent variable in this study is Entrepreneurial Orientation (EO). We follow previous studies in using nine items (Table 1, BAKER/SINKULA 2009; NAMAN/SLEVIN 1993). For each item, a 1-10 Likert scale is used in which 1 means completely disagree and 10 means completely agree. Cronbach's alpha is 0.7891. EO is measured using the average of these eight items. To test for the curve-linear U-shaped relationship, we also include the squared term of EO in our model.

Items: Entrepreneurial Orientation (EO)
In general, the top managers of my firm favour a strong emphasis on the marketing of products or services and a strong emphasis on R&D, technological leadership and innovation.
In general, the top managers of my firm have a strong proclivity for low risk projects (with normal and certain rates of return) a strong proclivity for high risk projects (with chances of very high returns).
In general, the top managers of my firm believe in gradual and cautious incremental behaviour bold, wide ranging acts.
When confronted with decision-making involving uncertainty, my firm typically adopts a cautious, 'wait and see' posture to minimize the probability of making costly errors. Typically adopts a bold, aggressive posture to maximize the potential of exploiting potential opportunities.
When confronted with decision-making involving uncertainty, my gallery typically adopts a cautious, 'wait and see' posture to minimize the probability of making costly errors typically adopts a bold, aggressive posture to maximize the potential of exploiting potential opportunities.

How would you characterize changes in your product or service lines in the past five years? Changes have been minor changes have been dramatic.
In dealing with competitors my firm typically responds to actions which competitors initiate . . . Typically initiates actions to which competitors then respond.
In dealing with competitors, my firm is very seldom the first business to introduce new products, services, administrative techniques, operating technologies, etc. is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc.)
In dealing with competitors, my firm typically seeks to avoid competitive clashes, preferring a 'live and let live' posture typically adopts a very competitive 'undo the competitors' posture.

Tab. 1: *Measurement of Entrepreneurial Orientation.*

Items: Decision-Making Formality
It is considered extremely important here to follow the rules
People can ignore formal procedures and rules if it helps get the job done
Everything has to be done by the book
Its not necessary to follow procedures to the letter around here
Nobody gets too upset if people break the rules around here

Tab. 2: *Measurement of Decision-Making Formality.*

Items: Market Orientation
We continually monitor customers and competitors to find new ways to improve customer satisfaction.
We freely communicate information about our successful and unsuccessful customer experiences across all business functions.
Our strategy for competitive advantage is based on our understanding of customers' needs.
We are more customer focused than our competitors.
We poll end users at least once per year to assess the quality of our products and services.
Our business objectives are driven primarily by customer satisfaction.
We measure customer satisfaction systematically and frequently.
We have routine or regular measures of customer service.
I believe this business exists primarily to serve customers.
Data on customer satisfaction are disseminated at all levels in this business on a regular basis

Tab. 3: *Measurement of Market Orientation.*

4.4 Control Variables

In this study, we control for decision-making formality, network intensity, network frequency, network reciprocity, market orientation and life stage in organization.¹ We also control for variables related to respond-

1 We didn't control for firm size as art galleries are likely to be small in employment.

ent such as his/her age, business experience, ownership status and educational level. 'Decision-making formality' is calculated by the average of five items related to decision-making type in organization (MANN 1982), each item measured using 1-5 Likert scale in which 1 means completely disagreement and 5 means completely agree. Organization's connection with external network may impact its performance. We follow XU & colleagues (2008) in measuring network intensity, network frequency and network reciprocity. 'Network intensity' is measured by asking respondents how intense are their relationships with their biggest five stakeholders, each measured using 1-5 Likert scale in which 1 means weakest relationship and 5 means strongest relationship. And the variable is calculated using the average of these five items. 'Network frequency' is measured by asking the frequency that focal organizations communicate with their biggest five stakeholders, each measured using 1-5 Likert scale in which 1 means least frequent and 5 means most frequent. Again the variable is calculated using the average of these five items. 'Network reciprocity' is measured by asking respondents the importance of relationships between focal organizations and their five biggest stakeholders, each measured using 1-5 Likert scale in which 1 means least important and 5 means most important. Again the variable is calculated using the average of all items. 'Market orientation' is measured by asking respondents ten questions in terms of focal firms' opinions of customers, services and products. Each question is measured using 1-5 Likert scale in which 1 means completely disagree and 5 means completely agree (JAWORSKI/KOHLI 1993). We ask respondents to classify their organizations into the following four life stages² -existence, survival, success and renewal-measured by 1~4 respectively.

Respondent's 'age' is measured by a categorical variable in which 20-30, 31-40, 41-50, 51-60, and above 60 years old are measured by 1~5 respectively. Respondent's 'business experience' is measured by number of organizations they have worked before the focal organisation. 'Ownership status' is measured using a dummy variable in which 1 means the respondent is the owner of the art gallery and 0 otherwise. Respondent's 'educational level' is measured using a categorical variable in which 1~4 mean high school, undergraduate, graduate and post-graduate levels of education.

2 Life stage can be also seen as a measure of firm age.

4.5 Analyses

Descriptive statistics and the correlation matrix for the variables are provided in Table 4. The correlations among the variables are relatively low. VIFs of all variables are lower than 5. Taken together, it appears that multicollinearity is not a problem for this study.

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1, Performance	5.95	2.01	1.00														
2, Performance Above Industrial Average	4.06	3.79	0.87	1.00													
3, Performance below Industrial Average	1.89	2.27	-0.56	-0.90	1.00												
4, Performance Deviation	1.59	1.21	-0.17	0.01	-0.17	1.00											
5, EO	6.57	1.29	0.38	0.34	-0.23	-0.01	1.00										
6, Decision-Making Formality	3.33	0.80	0.01	-0.03	0.05	-0.21	-0.32	1.00									
7, Network Intensity	3.85	0.69	0.36	0.30	-0.18	-0.13	0.30	-0.01	1.00								
8, Network Frequency	3.70	0.65	0.34	0.24	-0.09	-0.05	0.36	-0.21	0.65	1.00							
9, Network Reciprocity	3.93	0.39	0.18	0.14	-0.07	-0.05	0.27	-0.19	0.29	0.34	1.00						
10, Market Orientation	3.88	0.44	0.03	-0.04	0.10	-0.08	0.28	-0.15	0.10	0.02	0.10	1.00					
11, Life Stage	2.71	1.01	0.17	0.12	-0.05	-0.06	0.10	-0.06	-0.01	0.08	0.20	0.19	1.00				
12, Age	2.57	0.93	-0.17	-0.14	0.08	0.00	-0.23	0.14	-0.21	-0.25	-0.16	-0.02	0.04	1.00			
13, Business Experience	3.10	1.75	0.33	0.32	-0.24	-0.15	0.23	0.29	0.27	0.22	0.12	0.08	0.11	0.23	1.00		
14, Ownership Status	0.11	0.31	-0.37	-0.25	0.10	0.32	-0.28	0.00	-0.19	-0.24	-0.08	0.04	-0.19	0.13	-0.33	1.00	
15, Education	2.47	0.80	0.20	0.24	-0.23	0.00	0.21	-0.14	0.15	0.12	0.13	-0.21	-0.02	-0.13	0.26	-0.17	1.00

N=113. Absolute value of correlation bigger than 0.18 is significant at 0.05 level

Tab. 4: Statistics and Correlation Table.

	Model 1	Model 2	Model 3	Model 4
DV	Performance above Industrial Average	Performance below Industrial Average	Performance Deviation	Performance Deviation
Constant	0.00	-5.17*	5.17*	9.07***
EO	0.22*	0.14	0.08	-1.47***
EO ²				0.13***
Decision-Making Formality	-0.10	0.27*	-0.37*	-0.20
Network Intensity	0.17	0.33	-0.16	-0.06
Network Frequency	0.11	0.07	0.04	0.04
Network Reciprocity	-0.12	0.10	-0.22	-0.11
Market Orientation	-0.35	0.08	-0.43	-0.58*
Life Stage	0.13	0.11	0.02	0.02
Age	-0.12	-0.07	-0.05	-0.10
Experience	0.11 [†]	0.06	0.05	0.07
Ownership Status	0.16	-1.25**	1.41***	1.31***
Education	0.03	0.07	-0.04	-0.09
Sample Size	113	113	113	113
Adjusted R ²	0.12	0.27	0.09	0.18
F-statistic	2.43***	4.72***	2.04***	3.06***
*** Significant at 0.001 level; ** Significant at 0.01 level; * Significant at 0.05 level; [†] Significant at 0.10 level				

Tab. 5: OLS Regression Analyses.

Ordinary Least Square (OLS) regression analysis is used to test all hypothesized effects. White variance correction of the error terms is applied to control for potential heteroscedasticity in all models. H1 is tested by Model 1 and 2. Performance above industrial average serves as the dependent variable in Model 2. Adjusted R² is 0.12 indicating a reasonable model fit. H1 is supported as EO has a positive and significant effect on performance above industrial average (B=0.22, p-value<0.05). We also test EO’s effect on performance below industrial average (Model 2). As expected, the effect of EO turns into insignificant (B=0.14, p-value>0.10), further confirming the robustness of H1. Performance deviation is used as the dependent variable in Model 3 and 4. In Model 3, only the simple term of EO is included, while we include both the simple term

and squared term of EO in Model 4. While EO is insignificant in Model 3 ($B=0.08$, $p\text{-value}>0.10$), its simple term ($B= -1.47$, $p\text{-value}<0.001$) and squared term ($B= 0.13$, $p\text{-value}<0.001$) turn into significant in Model 4. In a support of H2, this would suggest that the effect of EO on performance deviation should be better described as being curve-linear and U-shaped. Increase of EO initially mitigates performance deviation. However, after certain threshold, the originally negative effect becomes positive, and medium-to-high level of EO may increase rather than decrease performance deviation.

4.6 Robustness Test

To ensure our regression results are not artificial, we run two additional robustness tests. Firstly, we separate the sample based on whether performance is above or below average. H1 is still supported as the positive effect of EO is only significant in the sample with above average performance. In addition, we test H2 in the sample of above average performance and the sample of below average performance. The U-shaped effect of EO on performance deviation remains significant at 0.01 level for both samples. Finally we break our measure of performance into three items and test all hypotheses for each item of performance. H1 and H2 are fully supported for the item of change in sales revenue and the item of change in profit, but only partially supported for the item of change in profit margin. We conclude that our results are robust. In the following Discussion section, we further discuss the results of our study and provide insights for future research and practice.

5. Discussion

In this paper, we attempt to explore the impact of EO on performance outcomes (i. e., firm performance and performance variance) in art galleries. We first suggest that EO improves performance in art galleries with above industry average performance only. In addition, we expect a U-shaped relationship between EO and performance deviation from industry average. The findings support our hypotheses.

We base our hypotheses on the extant literature on EO and contribute to the literature in several ways. First, we explore art galleries in terms of EO and its outcomes such as firm performance and performance variance. By this, the generalizability of the findings of the extant research on EO and firm performance is improved. Second, we take

into consideration the differences among art galleries and explore under what condition(s) EO enhances galleries' performance. In our study, we found that EO improves firm performance only in art galleries with above industry average performance. Therefore, researchers need to consider that the link between EO and performance improvement may be variant based on performance relative to competition. Lastly, we examine the impact of EO on firm performance deviation from industry average, as suggested by Wiklund and Shepherd (2011). As expected, we found a U-shaped relationship between EO and performance variance. The performance variance diminishes as EO increases up to a certain level. This may be owing to similar firm performance levels among art galleries with low-to-medium levels of EO, resulting in a decrease in performance variance. Nevertheless, after a certain level of EO at moderate-to-high levels, performance variance is expected to increase owing to firms' outperforming others (or underperforming). The firms which can make the best use of EO are expected to outperform others (and those which cannot are expected to underperform).

5.1 Limitations and Future Research Directions

Aside from its contributions, our study has several limitations, which also provide future research directions. First, we intentionally examine the arts galleries in cultural industry which are characterized by creativity and originality, yet need to frequently interact with suppliers (i. e. artists) and customers (buyers of artistic works) with unique tastes (JONES/THORNTON 2005). Such an industrial setting ensures that EO indeed has performance enhancement effects as well as variance effects as mentioned in our theory. Nevertheless, such an industrial setting also limits the generalizability of our findings. In addition, this setting limits our sample of observations in comparison to more accessible databases. Future studies may replicate our study in other industrial settings to further validate our results.

Second, we use a sample of organizations in Istanbul, Turkey. Indeed, entrepreneurial activities in culture related industry (JONES/THORNTON 2005) may be significantly influenced by its social, economic and institutional context. While our study provides a unique opportunity to take a closer look at this fast growth emerging economy, future studies should replicate our study in other probably more advanced economies. Third, we use a subjective measure of financial performance by asking respondent's perceptions regarding different dimensions associated with firm performance. While this approach has been widely used in research,

notably it has limitations. Future research can use more traditional yet objective measures to further confirm our results. Additionally, future research can investigate the unquantifiable measures of nonfinancial performance such as the impact a cultural product might have. We also acknowledge that we follow previous studies (BAKER/SINKULA 2009; NAMAN/SLEVIN 1993) in measuring EO, while the measurement of EO remains a debatable topic in the entrepreneurship scholarship. Future studies may consider using different measures (KNIGHT 1997; LYON et al. 2000).

Last but not least, we suggest that future studies should employ other theoretical perspectives such as effectuation to investigate entrepreneurial decision making (Sarasvathy 2001). Effectuation dictates that especially in highly uncertain and dynamic environments goals change, are shaped and constructed over time, and are sometimes formed by chance. In the arts business this may mean for example, that target customers may only be defined *ex post* through whoever buys an arts product or service rather than initially as suggested by causal, predictive reasoning. We therefore recommend future studies should investigate this approach in more depth.

5.2 Implications for Practice

Our findings show that only art galleries with above industry average performance have the capabilities and means to turn EO into high firm performance. Hence, art galleries can capitalize on past successes while pursuing new strategies such as EO. In addition, EO itself is not sufficient to make every gallery financially successful. Indeed, past successes may be helping galleries develop a positive image and reputation in the eyes of stakeholders first, then enabling them to have the leeway to implement new and bold strategies such as EO. EO consequently further elevates the firm performance. Therefore, art galleries with average and below industry average performance should take caution in pursuing relatively risky strategies such as EO and rather focus on core competencies and reputation building through quality suppliers of artwork and developing clientele initially.

5.3 Conclusion

We intend to explore EO's effect on performance in a sample of art galleries in Istanbul, Turkey. We find that the impact of EO on performance enhancement is salient only in art galleries with above-industrial-av-

erage performance. We also find that EO has a U-shaped related with performance variance. We hope that our exploratory investigation will spark more future research on this under researched topic.

Notes on contributors

Esra Memili is an Assistant Professor of Entrepreneurship and Margaret Van Hoy Hill Dean's Notable Scholar at the Bryan School of Business and Economics at University of North Carolina-Greensboro. Her articles have appeared in *Entrepreneurship Theory and Practice*, *Family Business Review*, *Small Business Economics*, *Journal of Small Business Management* and others.

Hanqing "Chevy" Fang is an Assistant professor in the Department of Business and Information Technology at Missouri University of Science and technology. His articles have appeared in *Entrepreneurship Theory and Practice*, *Family Business Review*, *Small Business Economics*, *Journal of Small Business Management*, *Journal of Product Innovation Management* and others.

Gerd-Michael Hellstern is professor (emeritus) at Kassel University. He teaches and researches in the fields of public economics and management.

Joanna Ozga is professor of international management since October 2015. She gained her PhD at the University of Kassel in 2010. She has presented her papers at international management conferences such as EURAM and RENT.

Dilek Zamantlı Nayır is Full Professor of Management and Organization at Marmara University (Istanbul/Turkey). Her articles have appeared in *Journal of Knowledge Management*, *Journal of International Management*, *Journal of Business Ethics*, *Industrial Marketing Management* and others.

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