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ARTICLE

How does the closure of interorganizational relationships affect entrepreneurial orientation?

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Abstract This study delves in the controversy about the nature and the sign of the effect of interorganizational relationships on entrepreneurial orientation. The paper analyses the effects of networks of interorganizational relationships at firm level. Specifically, we study the influence of closure of interorganizational relationships in entrepreneurial orientation and the mediating role of dynamic capabilities. The empirical analysis was developed on a sample of 292 Spanish agri-food firms. We detect a positive mediating effect of the closure of interorganizational relationships, mainly cooperative relationships, on entrepreneurial orientation through dynamic capabilities. It highlights the emergence of a suppression effect uncovering the dark side of closed interorganizational relationships in several dimensions of entrepreneurial orientation – proactiveness, autonomy and risk-taking –. This paper contributes to link three theoretical approaches – social capital, entrepreneurship and dynamic capabilities – to probe further into the implications of interorganizational relationships.

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Introduction

Recently, interorganizational relationships (IRs)¹ have received increasing interest in the field of management (Barringer and Harrison, 2000; Barroso-Méndez et al., 2015;

Majchrzak et al., 2015). Literature studies have looked at whether or not IRs make sense and whether the advantages outweigh the disadvantages from different theoretical perspectives (Barringer and Harrison, 2000). In this body of literature, research about the networks of IRs from the social capital theory has received increasing attention (Koka and Prescott, 2002; Zaheer et al., 2010; Bojica et al., 2012).

There are different approaches and divergent findings with respect to the consequences of IRs on strategic behaviour and firm's performance. Specifically, we find

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¹ IRs. Interorganizational relationships.

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relevant disagreements about the nature and signs of the effect of closure of IRs on entrepreneurial orientation (Wu et al., 2008). Closure encompasses the whole social interaction within the firm's network and includes density and strength of the IRs (Coleman, 1990; Zaheer et al., 2010). Thus, "a network with complete closure is one in which all actors are connected to one another" (Zaheer et al., 2010: 67). The closure of IRs, is the most controversial aspect of social capital, because it creates network paradoxes, providing opportunities to obtain tacit knowledge, valuable ideas and new opportunities, but also involving restrictions in detecting and accessing new ideas due to myopia, inertia and lock-in (Hakansson and Ford, 2002), affecting the firm's entrepreneurial orientation (Inkpen and Tsang, 2005; Bojica et al., 2012). Thus, the literature suggests that closure of IRs can yield both costs and benefits to entrepreneurial orientation, but we find a gap requiring resolution as to why these divergent effects emerge.

Entrepreneurial orientation is reflected in the implementation process of business initiatives and corporate culture (Dess and Lumpkin, 2005) and it is a key factor in obtaining a greater performance through differentiation, the development of better solutions ahead of competitors, enhancing adaptation to environmental changes and market trends and weakening the ability of rivals to compete and respond to actions in the future (Hughes and Morgan, 2007). Previous studies that have analyzed the relationship of closure of IRs on entrepreneurial orientation and performance show ambiguous results and are often divergent – positive, negative, U-inverted, non-significant – (Lee and Sukoco, 2007). Several researchers demand new studies that detect which factors explain why a positive or negative effect of closure of IRs on entrepreneurial orientation is generated. We propose answering these questions by analysing the mediating role of dynamic capabilities, because firms require mechanisms for exploring and exploiting the external knowledge derived from closure of IRs to develop an entrepreneurial orientation and dynamic capabilities can play this role.

Recently, literature relating to dynamic capabilities has been strengthened. Teece et al. (1997:516) define dynamic capabilities as the "firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments". Thus, the development of dynamic capabilities determines the firm's business strategy (Teece et al., 1997), leading firms to achieve a sustainable competitive advantage (Shamsie et al., 2009). In this sense, we suggest that dynamic capabilities are a key element to connect closure of IRs and entrepreneurial orientation. On the one hand, previous literature has suggested that the firm's strategic orientation will depend on its developed capabilities (Kyrgidou and Spyropoulou, 2013). On the other hand, closure of IRs connects the firm with its environment, being a key factor for the development of socially constructed capabilities (Schoemaker and Jonker, 2005). Thus, dense and strong IRs develop certain mechanisms that transform external knowledge into internal capabilities and can be used in the development of new processes, products or services (Zahra and George, 2002). Therefore, we propose that closed IRs lead firms to develop an entrepreneurial orientation, only if they are oriented to create and strengthen their dynamic capabilities.

The empirical analysis was conducted on a sample of firms in the Spanish agri-food industry. Several studies have highlighted the role of IR closure in the success and entrepreneurial behaviour of firms in this industry (i.e. Mason and Gos, 2014; Tudisca et al., 2014). In other traditional sectors, Parra-Requena et al. (2015) observe that IRs are a key determinant of firms' innovativeness. We can find in the agri-food sector examples of these relationships such as the SIRO² group, which due to the high cohesion with both suppliers and customers has got a strong development of its dynamic capabilities, enabling it to continuously detect changes in consumer preferences, recognition and incorporation of valuable external information for the company as well as a high capacity for innovation. As a consequence, the company has a higher entrepreneurial orientation, which along with its proactiveness and innovativeness has enabled it to get ahead of its competitors.

In short, we contribute to filling in the gap identified in the literature, by exploring the controversial connection between closure of IRs and firm's entrepreneurial orientation. To this end, we study the mediating effect of dynamic capabilities to explain the relationship between closure of IRs and firm's entrepreneurial orientation.

Therefore, the main contribution of the paper is to advance the understanding of the controversial consequences of closed IRs on firm's entrepreneurial orientation, delving into the leading role of generation and development of dynamic capabilities. Secondly, in this paper we analyze the network of IRs measured through their closure, which is characterized by the predominance of cooperation against competition between agents (Bojica et al., 2012). Finally, an important conceptual contribution of this paper is the linking together of three theoretical approaches to study the consequences of IRs – social capital, entrepreneurship and dynamic capabilities –, which have previously been poorly addressed in the literature as a group.

This paper is structured as follows. Firstly, we explain the theory framework and the derived hypotheses. Then, we describe the methodology used, followed by the obtained results. Finally, we present the discussion and conclusions of the study.

Theory and hypotheses

Closure of interorganizational relationships

During the preceding decades, interest in the use of social capital theory to study IRs has grown, based on the potential benefits derived from a firm's positioning in a network of IRs. These networks provide value to the firms immersed in them, allowing them to take advantage of the resources established in their relationships (Bourdieu, 1986). IRs of the firm's network developed over time, provide the basis for cooperation and collective action of the actors (Nahapiet and Ghoshal, 1998). The main aim of firms when they establish different IRs is the cooperation between them and the positive outcomes of these collaborations.

² The SIRO group is a company dedicated to the transformation of cereals into different foodstuffs.

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