

Enemy or friend? The cultural impact of cross-functional behavior on the EO–performance link



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ARTICLE INFO

Article history:
Available online 14 August 2014

Keywords:
EO
Cooperation
Competition
Organizational environment
Cross-cultural
Culture

ABSTRACT

Using power distance (PD) and individualism (ID), this study examines the impact of cross-functional cooperation and competition on the EO–performance link in different cultural settings. This study is the first to take departments' cooperative and competitive behavior into account. A study of 846 firms from nine countries reconfirms the positive impact of EO and finds a negative impact of cross-functional cooperation, but does not confirm an impact of competition. When culture is taken into account, we see a significant impact of PD on the proposed relationships, with lower levels of PD increasing the impact. We find no significance for ID.

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1. Introduction

Today's business environment is characterized by high levels of (global) competition and technological challenges that require entrepreneurial behavior from managers and firms. This behavior is reflected in the entrepreneurial orientation (EO) of a firm, which Wales, Gupta, and Mousa (2013, p. 359) referred to as a “strategy making mode” that is a “core concept in organizational literature.” The development of EO is rooted in Mintzberg (1973) and Khandwalla (1977). Miller (1983) coined the three dimensions of EO—innovativeness, proactiveness, and risk-taking—which Covin and Slevin (1989) operationalized in its most commonly used way (George & Marino, 2011; Rauch, Wiklund, Lumpkin, & Frese, 2009).

The large majority of studies on the relationship of EO and organizational performance show a positive correlation (Rauch et al., 2009). Among others, Lumpkin and Dess (1996) stressed the importance of external influences on the relationship, and primarily external factors like “environmental hostility, turbulence, external networks or national culture” (DeClercq, Dimov, & Thongpapanl, 2010, p. 88) have been used. Although it has been acknowledged that EO, as a firm-wide characteristic, should be managed properly (DeClercq et al., 2010) and that its effects on

performance depend heavily “on the ‘home-made’ internal factors” (Saeed, Yousafzai, & Engelen, 2014, p. 283), this field remains largely unexplored (Wales et al., 2013).

Because employees and departments drive the implementation of EO in an organization, we take a coalitional view of the firm in seeing it not as a rational social system but as a coalitional one (Pfeffer & Salancik, 1977). Parties enter into coalitions to get their required resources, so coalitions can be “partly cooperative, partly conflicting” (Pfeffer & Salancik, 1977, p. 23) in nature. Engelen (2010, p. 357) sees cross-functional integration and though “extensive communication and interactions” as antecedent to EO. DeClercq et al. (2010), and DeClercq et al. (2013) found that increasing cooperative social exchanges between departments should have a positive influence on knowledge-sharing and, thus, on the EO–performance link but that there can be competition or conflict over resources as well. The generally assumed negative effects of competition are accompanied by positive effects, such as more efficient resource distribution and increased innovativeness (Taylor, 2008). Therefore, we analyze both the impact of cross-functional cooperation and competition (and the closely related conflict) on the EO–performance link. The (social) behavior of individuals in coalitions could be heavily dependent on cultural values (Keller & Loewenstein, 2010), as employees bring their cultural-value orientations to the workplace (Lachman, Nedd, & Hinings, 1994). We also include the two most relevant dimensions of national culture for organizational research: power distance and individualism.

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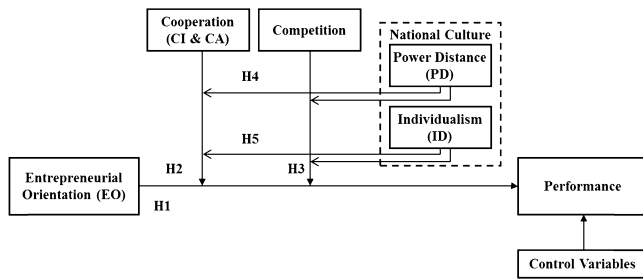


Fig. 1. Overview of research model.

We empirically validate our hypotheses based on a sample of 846 firms from five cultural clusters and nine countries. Fig. 1 shows our research model, with national culture moderating the effect of cross-functional cooperation and competition on the EO–performance link. We base our research on the coalitional view of the firm (Pfeffer & Salancik, 1977).

This study contributes to the EO-literature in two ways. First, it extends the limited use of organizational behavior moderators on the EO–performance link to include cross-functional cooperation and competition (Wiklund & Shepherd, 2005). In contrast to research that has considered only facets of organizational behavior and only the “positive” side (cooperative behavior and its antecedents; DeClercq et al., 2010), we use constructs of behavior between departments and their impact on an organization. Further, to our knowledge no study on the impact on the EO–performance relationship of competitive behavior between departments has been conducted yet. The second way in which this study contributes to the EO-literature is that, by measuring the impact of national culture in our model, we contribute to the cross-cultural applicability of EO. Reviews show that, although EO has been analyzed in the US and other developed economies (Wales et al., 2013), cross-cultural studies with several countries and cultural clusters are lacking. Further, we learn about the boundary conditions of the coalitional view in a cross-cultural context.

The remainder of this article is structured as follows. In the next section we derive our hypotheses based on existing theory and literature. Then we describe our sample and the constructs used and confirm the validity of our research. Next, we present the results with regard to our hypothesized relationships. Finally, we discuss the implications of our research on theory and practice.

2. Theory and hypotheses

Entrepreneurial firms—that is, firms with high levels of EO—have varying characteristics. Based on Mintzberg (1973) and Khandwalla (1977), Miller (1983) distinguished three dimensions that should be present if a firm is “entrepreneurial”: proactiveness, innovativeness, and risk-taking (Covin & Slevin, 1989; Miller, 1983). Proactiveness describes an “opportunity-seeking, forward-looking perspective” (Rauch et al., 2009, p. 763), while innovativeness refers to a “tendency to engage in and support new ideas, novelty, experimentation, and creative processes” (Wiklund & Shepherd, 2005, p. 75). Risk-taking reflects readiness to engage in projects whose outcomes are unknown (Wiklund & Shepherd, 2005) or to commit “significant resources to ventures in uncertain environments” (Rauch et al., 2009, p. 763). Most studies use Covin and Slevin’s (1989) unidimensional view (Covin & Wales, 2012) to assess the firm’s level of EO on the organizational level (George & Marino, 2011).

2.1. Positive impact of EO on performance

The interplay of the three dimensions of EO fosters first-mover advantages. Innovative companies develop new products, which

proactive companies with a tendency toward risk-taking bring earlier to the market, charge higher prices, and target less price-sensitive customer segments, generating higher profits (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005; Zahra & Covin, 1995). Rauch et al.’s (2009) meta-analysis of more than 50 studies confirmed the resulting improved performance of entrepreneurial companies. Although there are some differences in the correlations, the relationship between EO and financial (self-reported and archival) and non-financial measures as performance indicators is positive (Rauch et al., 2009). Business performance in our study is assessed via a three-dimensional measure (Vorhies & Morgan, 2005). Based on the findings of Rauch et al. (2009), we propose that

H1. The higher the firm’s EO, the better the firm’s performance.

2.2. Positive impact of cross-functional cooperation and competition on the EO–performance relationship

Moderators of the EO–performance relationship can be internal or external. Although external moderators like the market environment (Covin & Covin, 1990; Dess, Lumpkin, & Covin, 1997; Wiklund & Shepherd, 2005), external networks (Lee, Lee, & Pennings, 2001; Stam & Elfring, 2008), and national culture (Arbaugh, Cox, & Camp, 2005) have been widely investigated and are thought to affect EO, internal moderators have been under-researched (Wales et al., 2013). Some of the few studies that have addressed internal moderators consider organizational processes (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005), leverage of resources (Floyd, Lane, 2000), and social behavior (Chan Kim & Mauborgne, 1998; Hornsby, Kuratko, & Zahra, 2002)—that is, behavior that is embedded in the social system of the organization and coalitions (Pfeffer & Salancik, 1977). Social capital has been analyzed on both an internal and an external basis, but since the “potential for being entrepreneurial (...) exist[s] in the social relations of the organization” (Hall, Melin, & Nordqvist, 2001, p. 205 as cited in Chirico, Sirmon, and Sciascia, 2011, p. 320), these relationships should move to the center of the analysis. DeClercq et al. (2010) and DeClercq et al. (2013) focused on the social behavior and social interactions of the players in firms and these behaviors and interactions’ impact on the EO–performance link. These interactions are normally either cooperative or competitive in nature, which are the two sides of the coin of resource distribution in an organization. Therefore, we take into account cross-functional cooperative social behavior and for the first time cross-functional competitive (social) behavior.

DeClercq et al. (2010) analyzed social interactions and their impact on collaboration with regard to knowledge-sharing in an EO–performance model. Their argumentation stressed the importance of the internal social environment (DeClercq et al., 2010). The impact of social capital (internal and external) and antecedents like trust have been shown in studies in the EO field. We understand and measure cross-functional cooperation using the two constructs from Luo, Slotegraaf, and Pan (2006) and use the umbrella of the coalitional view when departments and their members cooperate in an informal, “voluntary and personal” (Tsai, 2002, p. 181) mode of interaction. This cross-functional cooperation is a major and essential part of organizational success especially in a global economy (Marcus & Le, 2013), and also a resource that might foster competitive advantages.

We argue that the impact of EO on performance in a cross-functional cooperative social environment increases, as this behavior and the resulting assimilation of knowledge foster first-mover advantages. In large organizations knowledge and other resources that are key to success are often spread across departments (Floyd & Lane, 2000) and need to be combined.

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