



Entrepreneurial orientation (EO) and human resources outsourcing (HRO): A “HERO” combination for SME performance

Kristin C. Irwin^a, Karen M. Landay^a, Joshua R. Aaron^b, William C. McDowell^{c,*}, Louis D. Marino^a, Patrick R. Geho^b

^a University of Alabama, 361 Stadium Drive, Tuscaloosa, AL 35487, USA

^b Middle Tennessee State University, MTSU Box 75, Murfreesboro, TN 37132, USA

^c Bradley University, 1501 W. Bradley Ave., Peoria, IL 60625, USA

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ABSTRACT

Small/medium enterprises (SMEs) constitute most firms in the United States; thus, the issues that impact their performance are significant for many stakeholders. A factor that enhances firm performance is a firm's adoption of an entrepreneurial orientation (EO). However, studies do not extensively examine the role of human resources, which are important for SMEs, in the EO/performance relationship. The current study extends the knowledge-based view (KBV) of the firm, which focuses on knowledge generation and application as a source of competitive advantage. Specifically, we examine the impact on SME performance of an EO's interactions with human resources outsourcing (HRO) and strategic human capital (HC). The results show that strategic HC moderates the relationship between EO and SME performance; further, the use of HRO is important for SMEs that have a competitive advantage based on HC. We also test the interactions of HC and EO, and provide theoretical and practical implications.

1. Introduction

According to the Census Bureau of the United States, 99.7% of U.S. firms employ fewer than 500 workers (Small Business and Entrepreneurship Council, 2016). Further, of the 22.9 million net new jobs created from 1993 to 2013, 63% are in small businesses (Small Business Administration Office of Advocacy, 2014). Thus, the performance of these small- and medium-sized enterprises (SMEs) is greatly important to a variety of stakeholders. A factor that enhances SMEs' performance is firms' entrepreneurial orientation (EO). EO is characterized by firm behavior that involves taking risks and being innovative and proactive (Covin & Slevin, 1989, 1991). It is also a proven predictor of firm performance (e.g., Wiklund & Shepherd, 2003). However, given the complex relationship of SMEs' resource investments and firm performance, it is likely that additional factors beyond EO are at work.

Despite the acknowledgment that (1) human resources (HR) management is vital for small and entrepreneurial firms (Bendickson, Muldoon, Ligouri, & Midgett, 2017) and that (2) SMEs often rely on external parties for HR services (e.g., Klaas, 2003), few studies explore the combination of EO and HR practices. Given that resource

insufficiency (Dada & Fogg, 2016; Klaas, McClendon, & Gainey, 2000) often characterizes SMEs, the interaction of EO, which is a resource-intensive strategic posture (Covin & Slevin, 1991), with human capital (HC), which is a key resource in small firms (Coder, Peake, & Spiller, 2017; Lepak & Snell, 2002), deserves additional attention. A broad definition of HC is as “a unit-level resource that is created from the emergence of individuals' knowledge, skills, abilities, and other characteristics” (Ployhart & Moliterno, 2011, p. 128). In order to enhance SMEs' focus on innovation and proactiveness for competitive advantage, we offer a new insight: The outsourcing of traditional HR functions (i.e., recruitment and training) can act as a lever to strengthen the relationship between EO and firm performance in SMEs.

The current study uses the knowledge-based view (KBV) of the firm (Grant, 1996) to examine the relationships between HR, EO, strategic HC, and firm performance. In addressing this under-researched area, we make four contributions to the literature. First, to the best of our knowledge, no other study examines the effects of outsourcing specific HR functions, as opposed to simply the effects of general HR management practices, on SME performance (e.g., Hayton, 2003). Second, although HC has a strong relationship with firm performance overall (Crook, Todd, Combs, Woehr, & Ketchen Jr., 2011), empirical testing of

* Corresponding author.

E-mail addresses: kirwin1@crimson.ua.edu (K.C. Irwin), kmlanday@crimson.ua.edu (K.M. Landay), joshua.aaron@mtsu.edu (J.R. Aaron), wmcowell@bradley.edu (W.C. McDowell), lmario@cba.ua.edu (L.D. Marino), patrick.geho@mtsu.edu (P.R. Geho).

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HC as a competitive advantage is somewhat limited, and even more so for SMEs. Thus, we add to the understanding of the effects of HC strategy on SMEs. Third, we expand the EO literature by showing that specific human resources outsourcing (HRO) enhances the EO–SME performance relationship, with strategic HC acting as an influencer. Finally, in a departure from much of the EO literature (with the exceptions of Dada & Fogg, 2016 and Wiklund & Shepherd, 2003), we utilize the KBV as a lens to examine factors that impact SMEs' firm performance.

2. Theoretical development and literature review

2.1. Knowledge-based view

The KBV builds on the resource-based view (RBV) articulated by Barney (1991) and conceptualizes “the firm as an institution for knowledge application” (Grant, 1996, p. 113). Within this perspective, knowledge is a firm's source of competitive advantage (Spender & Grant, 1996). Specifically, the generation of new knowledge rather than the exploitation of existing knowledge (Nickerson & Zenger, 2004) contributes to a firm's competitive advantage. Grant (1996) suggests that instead of viewing knowledge and knowledge creation as organization-level activities, we consider the individuals who are involved. In essence, the KBV is about how individuals create, acquire, protect, and transfer knowledge in support of an organization's goals.

Entrepreneurial firms seek to leverage internal knowledge and capabilities as strategic advantages to differentiate themselves from the competition (Wiklund & Shepherd, 2003). Additionally, firms must pay attention to the knowledge-creation process in order to meet performance objectives when applying EO in dynamic, competitive environments (Li, Huang, & Tsai, 2009); thus, organizations actively engage in activities to increase knowledge creation (Prado-Gascó, Pardo, & Pérez-Campos, 2017). Freeing up resources, such as financial capital or HC, enables a firm to focus on its products and services. Hence, SMEs that have high levels of EO but are resource constrained can benefit from HRO. Alternatively, SMEs that have low levels of EO and are independent of resource constraints see fewer benefits from HRO, given such firms lack of focus on innovation and proactiveness.

Research supports the appeal of HRO for SMEs. Kreiser (2011, p. 1033) states, “the higher the firm's EO, the more willing and able it is to acquire existing knowledge-based resources from its external environment.” Dada and Fogg (2016) elaborate on this by showing that firm engagement moderates the relationship between EO and organizational learning. We build on this foundation to suggest that sourcing non-core functions such as recruitment and training (i.e., learning) externally is associated with higher levels of EO and subsequently improved firm performance.

2.2. Entrepreneurial orientation and SMEs

EO is commonly defined as a pattern of entrepreneurial behaviors or postures in which firms regularly engage. Further, the dimensions of risk taking, innovation, and proactive behavior characterize this pattern (Covin & Slevin, 1989, 1991; Kilenthong, Hultman, & Hills, 2016). Such a definition originates from the work of Mintzberg (1973) and Khandwalla (1976/1977) regarding managerial disposition; however, other scholars have expanded it to include innovative strategies based on executive goals and temperaments (Miller & Friesen, 1982). Some scholars also discuss EO as an organizational-level phenomenon (Lumpkin & Dess, 2001) and a multi-dimensional domain-focused construct that includes autonomy and competitive aggressiveness (Lumpkin & Dess, 1996). Organizations benefit from high levels of EO because it provides the ability to discover new opportunities to create competitive advantage (Pett & Wolff, 2016; Wiklund & Shepherd, 2005).

Extensive research on SMEs validates the positive relationship of EO

with firm performance (e.g., Hayton, 2003), shown the nonlinear impacts of EO dimensions (Kreiser, Marino, Kuratko, & Weaver, 2013), and illustrated the importance of organizational learning (Dada & Fogg, 2016) and the knowledge-creation process (Pett & Wolff, 2016). Thus, aligned with prior research, we hypothesize the following.

H1. An SME's EO has a positive relationship with firm performance.

2.3. Human resources outsourcing

Despite substantial interest from stakeholders, the HRO literature remains underdeveloped. The literature often examines HR as a whole, thereby making it difficult to consider the effects of various functions. Empirical HRO studies are generally in one of two categories: (1) those that examine HRO antecedents (i.e., the factors that lead a firm to decide to use HRO) and (2) those that examine HRO outcomes (i.e., the outcomes that change because of HRO use). In addition to firm performance, other HRO outcomes include variables such as perceived HRO benefits (Klaas, McClendon, & Gainey, 1999), perceived HR effectiveness (Shih & Chiang, 2011), and firm growth (Arbaugh, 2003). In order to expand our understanding of the role of HRO knowledge in organizations, we examine traditional HR functions such as recruitment and training because they lie in the middle ground between transactional (e.g., payroll) and strategic (e.g., long-term planning; Lepak, Bartol, & Erhardt, 2005) functions.

First, regarding the antecedents of the outsourcing of functions such as training and recruitment, Klaas, McClendon, and Gainey (2001) find that this outsourcing relates to the organizational characteristics of HR's strategic involvement, promotional opportunities, and pay levels. However, the extent to which firms outsource HR functions is context specific. In a sample of Vietnamese firms, Nguyen and Chang (2017) classify recruitment and training as non-core activities and find that increased emphasis on HR cost reduction results in increased outsourcing of non-core activities. Specific to recruitment, Dasborough and Sue-Chan (2002) find that mimetic forces, trust in a third-party recruitment agency, and a need to reduce internal personnel are associated with an external party performing more recruitment activities. Ordanini and Silvestri (2008) establish that a greater knowledge focus within a firm relates negatively to the number of outsourced recruitment activities. Thus, given the variety of antecedents, it is difficult to draw any conclusions from this group of studies.

Second, regarding outcomes, the findings about HRO's effects on firm performance are mixed. The use of objective and subjective measures in studies makes comparisons difficult (e.g., Salimath, Cullen, & Umesh, 2008). In Australia, Sheehan and Cooper (2011) use performance outcomes such as perceived organizational effectiveness and perceived financial performance. The authors find that firm size moderates the effect of HRO on performance. More specifically, they discover a positive relationship for small firms and a negative relationship for large firms. In an American sample, Salimath et al. (2008) use financial measures of firm performance and determine that HRO is a positive predictor. Thus, given the lack of commonality among outcome measures, it is challenging to generalize about HRO's effects on firm performance.

2.4. Entrepreneurial orientation and human resources outsourcing

HRO is currently an understudied area with limited research focusing on SMEs and EO. However, a few studies indicate that HR and HR-related functions can impact the relationship between EO and firm performance. For example, Grünhagen, Wollan, Dada, and Watson (2014) find that HR operational autonomy has a positive moderating effect on the EO–performance relationship in franchise systems in the UK. Additionally, Messersmith and Wales (2011) discover that the practices and philosophies of human resources can impact the relationship between EO and sales growth in young firms.

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