



Explicating the relationship of entrepreneurial orientation and firm performance: Underlying mechanisms in the context of an emerging market

Lin Cui^a, Di Fan^{b,*}, Feng Guo^{a,c}, Yi Fan^a

^a Research School of Management, College of Business and Economics, Australian National University, Canberra, Australia

^b School of Management, Curtin Business School, Curtin University, 408.4031, Kent St. Bentley, Perth, WA 6102, Australia

^c School of Management, Harbin Institute of Technology, 92 West Dazhi Street, Nan Gang District, Harbin 150001, China

ARTICLE INFO

Keywords:

Entrepreneurial orientation
Absorptive capacity
Boundary-spanning
Institutional voids
Market-supporting institutions
Emerging market

ABSTRACT

This research examines the mechanisms through which entrepreneurial orientation (EO) affects firm performance in an emerging market context. We argue that EO drives firms to develop the dynamic capabilities of absorptive capacity (ACAP) and boundary-spanning (BS), and that these capabilities enhance firm performance. Moreover, the effectiveness of these knowledge- and network-based dynamic capabilities in mediating the EO-performance relationship is contingent on the institutional conditions firms are exposed to. We test our hypotheses using multi-sourced data on Chinese high-tech firms in business-to-business (B2B) markets. Our results show that ACAP and BS mediate the positive effect of EO on firm performance, and that as the development of market-supporting institutions improves, the mediating effect of ACAP becomes stronger while that of BS weakens.

1. Introduction

Entrepreneurial orientation (EO) reflects the strategic posture of a firm to continuously engage in risk-taking, innovative, and proactive behaviours which will ultimately influence firm performance (Covin & Slevin, 1989; Hoskisson, Covin, Volberda, & Johnson, 2011). While the antecedents, outcomes, and performance contingencies of EO have been extensively researched, theoretical development and empirical investigation regarding the generative mechanisms underlying the EO-performance relationship are currently lacking (Wales, Gupta, & Mousa, 2013). It remains unclear what capabilities firms generate from their EO which in turn enable them to attain positive market performance. Understanding these generative mechanisms requires the examination of the mediators that play a pivotal role in delivering the performance effect of EO (Lumpkin & Dess, 1996; Wales, Gupta, & Mousa, 2013). These mechanisms and their contingencies carry significant business implications for prioritizing resources to the capability developments that deliver performance outcomes for entrepreneurial firms. In this study, we address this knowledge gap by asking: *What are the capability development mechanisms that allow firms to convert their EO into performance outcomes? What environmental contingencies promote/hinder such mechanisms for entrepreneurial firms?*

Recent studies have attempted to identify the missing link between EO and firm performance. For instance, Kollmann and Stöckmann

(2014) examined exploratory innovation and exploitative innovation as mediating variables within the EO-performance relationship. Similarly, other studies have also investigated learning related constructs, such as information acquisition and utilization, to reveal the mechanisms mediating the EO-performance relationship (Keh, Nguyen, & Ng, 2007; Wang, 2008). These studies offer insight into the *knowledge-based capability* through which entrepreneurial firms create value. They suggest that firms with risk-taking, innovative, and proactive behavioural tendencies are likely to seek novel knowledge from their dynamic environments to improve their processes and product offerings, which in turn enhances and sustains their competitiveness.

Another stream of EO research focuses on the institutional context within which entrepreneurial firms operate (Covin & Miller, 2014; Dess, Pinkham, & Yang, 2011). This stream of research highlights that when information and market transactions are not sufficiently facilitated by market-supporting institutions, firms with non-market channels to access critical information and resources will have a competitive advantage over those that do not (Peng & Luo, 2000). Such business environments are commonly found in, but not limited to, emerging markets, where the underdevelopment of market-supporting institutions presents “institutional voids” (Khanna & Palepu, 1997), leaving profit opportunities for those entrepreneurial firms who can effectively integrate and leverage network resources, such as social capital (Covin & Miller, 2014), to bridge these voids. This *network-based capability* of

* Corresponding author.

E-mail addresses: lin.cui@anu.edu.au (L. Cui), david.fan@curtin.edu.au (D. Fan), guofeng229@hit.edu.cn (F. Guo), u47131333@anu.edu.au (Y. Fan).

<https://doi.org/10.1016/j.indmarman.2017.11.003>

Received 2 August 2015; Received in revised form 7 September 2017; Accepted 6 November 2017
0019-8501/ © 2017 Elsevier Inc. All rights reserved.

value creation by entrepreneurial firms has been relatively under-explored in the EO literature.

This study aims to provide an integrated understanding of the capability development mechanisms underlying the performance effect of EO. Through integrating dynamic capabilities and institutional perspectives, we identify the development of knowledge-based and network-based dynamics capabilities driven by EO, and reveal the institutional contingencies that promote or hinder the development of such capabilities. We argue that a high EO drives firms to upgrade their processes and/or products by engaging in external searches for novel knowledge using the dynamic capability of knowledge acquisition, assimilation, transformation, and exploitation, formally known as ACAP (Zahra & George, 2002). Meanwhile, in an emerging market context, an entrepreneurial firm can also seek to differentiate itself by integrating and leveraging network resources to bridge institutional voids and to seize innovation and business opportunities that are unavailable to its competitors (Xin & Pearce, 1996). This method of achieving entrepreneurial success through network connections highlights the dynamic capability of boundary-spanning (BS) (Aldrich & Herker, 1977; Dollinger, 1984). Furthermore, the relative effectiveness of ACAP and BS as dynamic capabilities that transmit EO into competitive advantages is contingent on institutional development in a firm's operating environment, such that entrepreneurial firms will prioritize the development of ACAP over BS when market institutions are better developed.

Empirically, this study uses multi-sourced data from 411 Chinese firms to test the theorized moderated mediation relationships in an emerging market business-to-business (B2B) context. We focus on small-to-medium sized enterprises (SMEs) operating in four high-tech industrial clusters embedded in sub-national locations with varying degrees of marketization. We combine multi-respondent survey data with archival data in our analyses using the structural equation modelling (SEM) technique. We find strong support for the hypothesized mediating effects of ACAP and BS that link EO to positive performance outcomes. We also find that, as hypothesized, a high level of marketization in a firm's institutional environment strengthens the mediating effect of ACAP and weakens the mediating effect of BS.

Overall, this study makes three contributions to the EO literature. First, we shed new light on the underlying generative mechanisms associated with EO, which has been a significant knowledge gap in the extant literature (Wales et al., 2013). We link EO as a behavioural construct (Covin & Lumpkin, 2011) to dynamic capability development as a mechanism of performance achievement, where we identify two types of capabilities, which are knowledge-based and network-based respectively. Second, we deepen the understanding of the institutional contingencies on the EO-performance relationship. We find that the mediated performance effect of EO through ACAP and BS is moderated by the external institutional environment, which suggests that the effectiveness of capability development towards entrepreneurial success is institutionally contingent. This finding has important resource allocation implications for entrepreneurial firms. Third, we extend EO research into a novel empirical context – B2B firms in an emerging market. Our empirical findings further strengthen EO as a useful construct for explaining business success in a variety of institutional and industrial contexts.

2. Theory and hypotheses development

Entrepreneurial firms gain competitive advantages through their capabilities in leveraging exclusive information and resources that are not available to competitors (Shane & Venkataraman, 2000). Research suggests that firms may achieve entrepreneurial advantages in two ways. First, firms can create new and unique resource bundles that are not available to rival firms, and then benefit from the exclusive understanding about the value of these newly created bundles, before they can be imitated by competitors. Creating new resource bundles requires

firms to engage in acquisition, assimilation, transformation, and exploitation of external knowledge through a set of organizational routines and processes reflective of a dynamic capability known as absorptive capacity or ACAP (Zahra & George, 2002). Second, market interventions by government or powerful economic actors (e.g. market monopolies and business groups) can create competitive barriers that hinder the free flow of information and efficient transactions in both factor and product markets. Accordingly, firms can obtain information and resource advantages by penetrating those barriers (Peng & Heath, 1996), which requires firms to establish and utilize network-bridging social capital through managerial capabilities characterized by boundary-spanning or BS (Cao, Simsek, & Jansen, 2015; Park & Luo, 2001).

In an emerging market context, both the abovementioned dynamic capabilities (i.e., ACAP and BS) are viable channels for entrepreneurial firms to achieve superior performance. Market liberalization exposes emerging market firms to global competition, which enhances their competitive awareness and motivates them to engage in vicarious learning and the acquisition of strategic assets. ACAP enables emerging market firms to not only simply “copycat” foreign firms, but to also effectively identify complementary assets and integrate them with their existing competencies to create unique and valuable new resource bundles (Luo, Sun, & Wang, 2011). When institutional development unfolds gradually, market institutions remain largely underdeveloped in major emerging economies, which creates institutional voids (Khanna & Palepu, 1997, 2010; Tracey & Phillips, 2011). Firms that are able to span network boundaries to overcome such institutional voids are able to secure substantial competitive advantages (Xin & Pearce, 1996). Recognizing the development of these two types of dynamic capabilities as alternative processes through which entrepreneurial firms create a competitive edge, we propose two parallel mediating mechanisms that link EO with performance outcomes via ACAP and BS respectively. Furthermore, we argue that the effectiveness of the knowledge-based (i.e., ACAP) and network-based (i.e., BS) dynamic capabilities is likely to vary depending on the institutional environment in which the entrepreneurial firm operates. As market-supporting institutions develop, the value of relational assets decreases while that of market-oriented competitive resources, such as business know-how and technology, increases (Peng, 2003). Therefore, the mediating effects of ACAP and BS are differentially moderated by market institutional development, as entrepreneurial firms perceive a different value in investing in these alternative dynamic capabilities.

Next, we elaborate on the arguments for the two parallel mediating mechanisms and their institutional contingency which led to our research hypotheses. In addition to theoretically derive these hypotheses, we conducted in-depth qualitative case studies to contextualize our arguments. Four case firms were selected, based on their representativeness of the industry, (see Appendix A for details of the case studies) for in-depth semi-structured interviews with senior executives. The interviews took place between June 2016 and April 2017. We followed the practice of Pahnke, Katila, and Eisenhardt (2015) to integrate qualitative information in our hypothesis development.

2.1. The mediating role of ACAP

ACAP was originally defined as the “ability to recognize the value of new information, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990: 128). Zahra and George (2002: 186) extend this definition to add that ACAP is “a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability”. We argue that developing ACAP is a viable channel for entrepreneurial firms to obtain competitive advantages as reflected in superior market performance for two main reasons.

First, by definition, ACAP as a dynamic capability allows firms to maintain competitively distinctive in fast-changing technological and

Download English Version:

<https://daneshyari.com/en/article/7431653>

Download Persian Version:

<https://daneshyari.com/article/7431653>

[Daneshyari.com](https://daneshyari.com)