



# Entrepreneurial orientation and network board diversity in network organizations

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## ARTICLE INFO

### Article history:

Received 27 December 2011

Received in revised form 8 April 2013

Accepted 8 April 2013

Available online 13 May 2013

Field Editor: Dimo Dimov

### Keywords:

Entrepreneurial orientation

Upper echelon

Interfirm networks

Diversity

Board tenure

## ABSTRACT

This study extends the concept of entrepreneurial orientation (EO) to the network level to investigate how diversity among officers serving on network organization boards affects network-level entrepreneurial orientation (NEO). Using data from 53 strategic network organizations across five years, we found that insider/outsider and functional diversity among network board members promotes NEO. The results also demonstrate that board group tenure moderates the influence of diversity in opposite ways. The impact of board insider/outsider diversity is stronger in networks in which board members lack long tenure. On the contrary, the effect of functional diversity on network entrepreneurial orientation is stronger in network organizations with tenured boards.

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## 1. Executive Summary

Entrepreneurial orientation (EO) was first introduced as a firm-level concept, and scholars have analyzed EO exclusively at that level. We, however, suggest that EO should also be studied at other levels of analysis such as network organizations. This is a totally different setting for the pursuit of EO. The influence of firms on network-level strategies is limited, and the strategy-making power and authority is vested within network governing bodies—the so-called network boards. This creates conditions for EO to manifest at the network level. We refer to this as network-level entrepreneurial orientation (NEO) and define it as the promotion of *collective* routines and conditions to offer opportunities for the network's firms to engage in joint endeavors to develop new innovations; experiment with frame-breaking renewal; commit to uncertain projects that potentially use new and existing resources effectively; and facilitate engaging the network's companies in proactive initiatives.

Development of NEO poses non-trivial challenges. For example, network member firms must accept that they have less power to influence entrepreneurial decisions than the collective governing body. The network board represents multiple stakeholders and aims to implement the best strategy for the entire body of participating firms. As such, board composition becomes a key factor that affects the development and promotion of NEO. Strategizing within networks is complex and could be further exacerbated by the complexities with the network boards themselves since boards have to reconcile political agendas of network members trying to protect their own interests. We outline how unique decision biases of network boards can influence NEO.

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This study investigates how diversity among officers serving on network organization boards influences NEO. We extend the mainstream upper echelons reasoning meant for traditional corporate boards and top management teams to develop and test a theory of how network board decisions influence NEO. Specifically, we discuss in detail how functional background diversity and inside/outside diversity facilitate NEO. While doing so, we suggest a moderating influence of board group tenure on the relationship between the two aspects of board diversity. We argue that the different qualities of functional background diversity and inside/outside diversity bring about divergence in thought and action. As a result, the influence of functional background diversity on NEO is strengthened in tenured board groups whereas the importance of inside/outside diversity for NEO is reduced in tenured boards. This highlights how the effects of different types of diversity change as boards attain tenure. Results obtained from a longitudinal analysis of strategic network organizations confirm our expectations. We conclude that board diversity is important for network boards and for entrepreneurial orientation at the network level.

Several theoretical and practical implications emerge from our findings. For entrepreneurial orientation research, we introduce, define, and validate EO at a network level (NEO), study a peculiar governance device that operates at the meso-level and is distinct from the mechanisms typically investigated, enhance the understanding of different types of diversity as boards attain tenure, and re-evaluate the relevance of the upper echelons framework in the network board context with respect to incentives, role enactment, and the collective striving of board members. For practice, our study is particularly useful because it assists in establishing a foundation upon which well-grounded decisions regarding EO at the network level could be made. The study also emphasizes that the strategy making process ascends from the sole firm level to the network level and that NEO is different from EO. This means that management should acknowledge that not all network member firms have to be entrepreneurially oriented to make the network organization entrepreneurial, and vice versa. As a result, this suggests a novel way of looking at the extent to which individual organizations need to pursue EO.

## 2. Introduction

The concept of entrepreneurial orientation (EO), which captures how decision makers build business routines and structural arrangements to support innovative ideas and creative projects, has been studied at the firm level (Lyon et al., 2000; Rauch et al., 2009; Wiklund and Shepherd, 2003). Over time, researchers have repeatedly emphasized the importance of developing high EO to promote new innovations and facilitate decisions that encourage proactive initiatives (Covin and Slevin, 1986, 1989; Lumpkin and Dess, 1996) and this has encouraged scholars to understand the factors that promote the development of EO (Lumpkin and Dess, 1996; Lyon et al., 2000; Wiklund, 1999).

The growing popularity of horizontal network relationships and the gradual shift of economic activity from the firm level to the network level bring to the fore the challenge of developing EO at the network level as well. We refer to EO conceptualized at this higher organizational level as network-level entrepreneurial orientation or NEO. Formal network organizations typically assign the task of developing strategy to the network-level's governing bodies (e.g., the network board group) rather than any single firm (Das and Teng, 2002; Gulati, 1998; Uzzi, 1997). This group of decision makers ensures that collective routines and conditions offer opportunities to engage in joint endeavors commonly associated with innovation, risk-taking, and proactiveness for the network's firms. Although this places the EO discussion on another level of analysis, the challenge to develop EO remains and may become particularly daunting. For example, member firms must motivate collective actions yet consider politics to preserve some sense of individual interests and accept that they have less power to influence EO decisions. Indeed, the benefits of EO are meant to be shared among partners. Perhaps most important is that an individual firm depends significantly on decisions the board group enacts. Who participates in the network board, therefore, is an important issue to consider.

Previous research has demonstrated that top management and the composition of top management teams (TMTs) influence firm-level EO (see e.g., Auh and Menguc, 2005; Brunninge et al., 2007; Gabrielsson, 2007; Srivastava and Lee, 2005; Zahra, 1996; Zahra et al., 2000). Extending this logic to the network context, significant insights can be gained by studying how network board characteristics (something we assert resembles traditional TMTs) influence network-level EO. To investigate this notion, we isolate the influence of two types of network board diversity—insider/outsider diversity and functional diversity—on NEO. We focus our research to diversity because it is the most frequently examined area in firm-level studies of upper echelons (Finkelstein and Hambrick, 1996; Jackson et al., 2003); thus, it could provide robust insight for theorizing at the network-level, where upper echelons reasoning and network board composition factors have not yet been studied widely (Provan and Kenis, 2007; Thorgren et al., 2009). We suggest that network boards are similar to the upper echelons of corporate organizations (Carpenter et al., 2004; Finkelstein and Hambrick, 1990; Hambrick, 2007; Hambrick and Finkelstein, 1987; Hambrick and Mason, 1984; Tuggle et al., 2010), such that their biases affect the kind of decisions they are likely to make. Yet, their potential biases differ substantially from those common among traditional corporate boards and TMTs. Indeed, possible biases include becoming a victim of the political agendas of network members with unequal motivation to contribute and protecting their own interests, which may interfere with developing NEO.

We contextualize the effects of network board diversity to show that the mechanisms driving the intentions and behavior of network boards differ distinctly from those at the corporate level. We advance Hambrick's (1994) upper echelons framework in the network board context vis-à-vis corporate boards with respect to incentives, role enactment, and the collective striving of board members. We argue that the process to select the network board and the risks of orchestrating board members' activities motivated by self-interest create unique dynamics that offset some effects of diversity but not others. In doing so, we contribute to the upper echelons theory (Finkelstein and Hambrick, 1990).

To date, whether the upper echelons arguments apply to this novel context has not been ascertained; we believe this is a gap in the literature. We also take this line of reasoning one step further and suggest it is important to consider the moderating effects of board tenure. Specifically, extending the upper echelons theory in this contextually unique setting suggests that insider/outsider diversity has

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