Entrepreneurial orientation and social ties in transitional economies

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\begin{abstract}
Recent research suggests that entrepreneurial orientation (EO) has a more complex effect on performance (i.e. non-linear instead of linear) than previously considered. We extend this view by examining the non-linear effect of each individual dimension of EO (i.e. innovativeness, proactiveness, and risk-taking) on firm performance in the context of a transitional, collectivist economy. Drawing upon social capital theory, we also examine under which social capital conditions (i.e., business and political ties) each dimension of EO is most effective. Using survey data from 137 firms in Vietnam Top 500 Companies, this study shows that innovativeness and proactiveness have inverted U-shaped relationships with firm performance, while the effect of risk-taking on firm performance is also non-linear but in the form of increasing returns. Findings also show that social capital from business ties differentially moderates the effects of EO dimensions on performance. Similarly, social capital from political ties has different moderating effects on the innovativeness-performance and proactiveness-performance linkages. The findings urge managers of firms operating in transitional economies to take the levels of social capital from business ties and political ties into consideration when making their decision on which entrepreneurial strategy to pursue.
\end{abstract}

\section{Introduction}

Research on entrepreneurial orientation in transitional economies has recently received significant attention (Jiang et al., 2016; Bruton et al., 2008). As originally proposed by Miller (1983), entrepreneurial orientation (EO) is defined as a firm’s strategic orientation combining innovativeness, proactiveness, and risk-taking (Covin et al., 2006; Covin and Slevin, 1989). Innovativeness refers to a firm’s tendency to engage in experimentation, support new ideas and depart from established practices (Lumpkin and Dess, 2001). Proactiveness reflects a firm’s propensity to act in anticipation of future demand to shape the environment and to act aggressively towards rival firms in the pursuit of favorable business opportunities (Hansen et al., 2011; Lumpkin and Dess, 2001). Risk-taking is a tendency to take bold actions such as making investments in projects that have uncertain outcomes (Lumpkin and Dess, 2001).

The EO literature has called for further research on the effect of the individual dimensions of EO on firm performance, because each sub-dimension has a different association with key outcome variables (George, 2006). However, what remains unexamined is the effects of the individual dimensions of EO on firm performance, especially in the context of transitional, collectivist economies. Compared to developed economies, transitional, collectivist economies offer a context with several unique characteristics. First,
under a transitional economy setting, firms have to face tremendous instability and underdevelopment in the institutional environment as well as market environment. Such market volatility creates confusion, and difficulties for firms to forecast future market demand and business environment. Therefore, compared to developed economies, in transitional economies, the links between firms’ EO strategies and their performance may follow more complex trajectories than simple, positive ones (Lumpkin and Dess, 2001). Second, unlike individualist cultures, highly collectivist cultures do not appreciate independence, competitiveness and individualism, which are important facilitators for the performance of firms’ innovativeness strategies. Therefore, collectivist values and norms may inhibit the performance of firms with certain levels of innovativeness (Nguyen and Rose, 2009). Third, governments in transitional economies still control a significant portion of scarce resources, which may constrain the effectiveness of firms’ proactive practices (Sheng et al., 2011). The aforementioned distinctive characteristics promote a need for further elaboration of the relationship between each EO dimension (i.e. innovativeness, proactiveness and risk-taking) and performance in the context of transitional, collectivist economies.

Being the second largest transitional economy after China in Asia with a highly collectivist Eastern culture, Vietnam is one of the under-researched economies with respect to entrepreneurship performance (De Jong et al., 2012). Vietnam offers an interesting research context to provide creative and insightful explanations of the effects of EO dimensions on business performance. Compared to other transitional, collectivist countries, Vietnam has a highly active entrepreneurial environment and a relatively young market with more than 61% of the population in the 15–54 age range, who are more willing to adopt entrepreneurial initiatives (Welter et al., 2013). In Vietnam, the coexistence of socialist and market-based capitalist systems, and the government's control over resources, financing, and materials distribution also create a distinctive environment for the performance effects of proactive, innovative or risk-taking strategies (Shultz, 2012). Therefore, the first aim of this research is to examine how each individual dimension of EO (innovativeness, proactiveness and risk-taking) imposes its complex effect on firm performance in the context of a transitional, collectivist economy.

In addition to providing an interesting context to investigate the performance effects of EO dimensions, Vietnam with its long tradition of using social ties to conduct business is also a potential setting to examine the role that social ties plays in the relationship between EO dimensions and firm performance (Sheng et al., 2011; Li et al., 2006). Prior research on the EO-performance relationship shows that the performance implication of EO is context-specific (Wales et al., 2013a; Wiklund and Shepherd, 2005; Lumpkin and Dess, 2001), and the strategic choices made by managers are most effective when they align with social capital embedded in social ties (e.g., business and political ties) (Gao et al., 2017; Boso et al., 2013). Social capital from business ties is built upon a firm’s informal social connections with various market players (including suppliers, business buyers, and competitors), whereas social capital from political ties is developed through a firm’s informal social connections with government officials at various levels (e.g., city councils, national government, regulatory institutions) (Dong et al., 2013; Acquaah, 2007). In transitional economies, social ties that coordinate exchanges through informal, interpersonal social mechanisms (Granovetter, 1985) can act as informal governance mechanisms, allowing firms to better approach government-controlled resources and overcome the limits of weak institutional infrastructures (Xin and Pearce, 1996). Therefore, social ties may influence the effects of innovative, proactive and risk-taking practices on business performance. So, the second aim of the study is to investigate the moderating role of social capital from business and political ties on the relationships between the EO dimensions and firm performance.

By addressing the two aforementioned research purposes, our study makes several contributions to the literature. First, it is among the first studies to examine the complex performance outcome of individual EO dimension in the context of a transitional, collectivist economy. The findings of this study are useful for calibrating our expectations about EO dimensions. Prior research has only found linear effects of EO dimensions on firm performance, except for a recent study by Wales et al. (2013b), who found the nonlinear effect of the aggregated EO on firm performance in developed economies. In this study, we demonstrate that in the context of a transitional, collectivist economy with different institutional and cultural environments, expectation of such effects of EO dimensions is not pertinent. Instead, three dimensions of EO, innovativeness, proactiveness and risk-taking, have differential non-linear impacts on firm performance. Second, the current study enhances our understanding of the role of social ties in the performance effects of entrepreneurial practices in the context of transitional, collectivist economies. It clarifies how social capital from business and political ties imposes important and differential moderating impacts on the link between each EO dimension and firm performance. Our research also offers implications for managers in transitional economies how they should consider social capital from political or business ties their firms possess when they make decisions on innovativeness, proactive or risk-taking strategies to pursue.

Theoretical background and hypothesis development

To answer the questions about how each dimension of EO influences firm performance and how social capital from political and business ties moderates these influences, the conceptual model is developed and displayed in Fig. 1.

Main effects of innovativeness, proactiveness and risk-taking

The literature on entrepreneurship has identified and consistently used three dimensions of EO: innovativeness, proactiveness and risk-taking (Hansen et al., 2011). Innovativeness refers to a firm’s tendency to engage in experimentation, support new ideas and depart from established practices (Lumpkin and Dess, 2001). Innovation in entrepreneurial firms is often considered a vital factor to facilitate growth, increase profit potential, and enhance overall market value (Cho and Pucik, 2005). Innovativeness can also develop firms’ capabilities when it encourages the development of new organizational routines and unique approaches to technologies,
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