

## *Review*

# **A study on entrepreneurial orientation and resource acquisition: The effects of social capital**

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**Entrepreneurial Orientation (EO) has emerged as an important construct within the strategic management and entrepreneurship literatures over the past two decades. Empirical studies on the determinants of firm's resource acquisition have shown a fairly consistent positive relationship between the EO of the firm's senior management and firm's resource acquisition capability. Studies aimed at understanding this relationship have primarily focused on analyzing the separate dimensions of EO, or on isolating contingency variables that are thought to moderate this relationship. However, there has been limited research on the mechanisms that might moderate the influence of EO on firm's resource acquisition capability. According to the Resource-Based View (RBV) of the firm, resource acquisition tends to be considerably more challenging for enterprises. The RBV implies that differential endowment of organizational resources is an important determinant of strategic actions and performance. Previous research has shown that social networks can give firms an important advantage in the acquisition of valuable resources. The resource acquisition benefits derived from social networks are particularly important for enterprises because they can help firms to overcome market information hurdles and enable them to develop new capabilities in an efficient manner. The proposed study will seek to evaluate the roles of social capital in accounting for the influence of EO on resource acquisition.**

**Key words:** Entrepreneurial orientation, resource-based view, social capital.

## **INTRODUCTION**

Entrepreneurial Orientation (EO) has emerged as an important concept in the strategic management and entrepreneurship literature over the past two decades. As originally proposed by Miller (1983), EO involves an organization's willingness to innovate and rejuvenate its market offerings (innovativeness), to take risks by trying out new and uncertain products and services (risk-taking) and to be more proactive than its competitors in seeking out new marketplace opportunities (proactiveness). Resource acquisition tends to be considerably challenging

for firms (Knight, 2001; Chiao et al., 2006; Zhao and Hsu, 2007). The resource-based view (RBV) of the firm implies that the differential endowment of organizational resources is an important determinant of strategy and performance (Lin et al., 2009; Chen et al., 2007). Resources include the assets, capabilities, information, knowledge, technologies and so forth, a company controls that enable it to conceive of and implement strategies designed to improve its effectiveness and efficiency, and to obtain differential advantage in foreign markets (Collis, 1991; Porter, 1991; Wernerfelt, 1984). The most critical resources are those that are superior in use and are hard to imitate or supplant (Auh and Menguc, 2009; Porter, 1991). The RBV helps to explain how superior managerial orientations, strategic approaches

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and other such factors can serve as important advantages for firms.

The principal feature of social capital is that it inheres in the relationships between actors rather than in physical assets such as financial capital and in the collection of interpersonal ties that people maintain in varying contexts (Bruton et al., 2007; Chen et al., 2007; Adler and Kwon, 2002; Tsai, 2000; Coleman, 1990). Previous research has shown that one of the important advantages of social networks is an increased ability to acquire valuable resources (Knoke, 2009; Chisholm and Nielsen, 2009; Francis et al., 2009; Runyan et al., 2007; Tsai, 2000; Barney, 1991; Nahapiet and Ghoshal, 1998; Gulati, 1999). The resource acquisition benefits derived from a social network are important for enterprises because they can help firms to overcome market information hurdles and develop new capabilities in an efficient manner. The proposed study will examine the role of social capital in explaining the positive influence of entrepreneurial orientation on resource acquisition. Specifically, the study will explore the extent to which social capital acts as moderating variables on the relationship between entrepreneurial orientation and resource acquisition.

## LITERATURE REVIEW AND DEVELOPMENT OF PROPOSITIONS

This section reviews the literature on the various constructs related to the proposed research. Based on this review, propositions on the relationships between these constructs are then developed. The various constructs reviewed are shown in Figure 1, which also displays the expected relationships that form the basis of the propositions.

## ENTREPRENEURIAL ORIENTATION AND RESOURCE ACQUISITION

### Entrepreneurial orientation

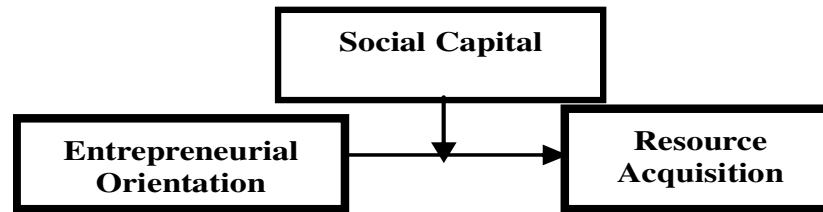
The term 'entrepreneurial orientation' has been used to refer to the strategy-making processes and styles adopted by firms in their entrepreneurial activities (Lumpkin and Dess, 1996; 2001). Miller (1983) considers that an entrepreneurial firm is one that engages in product market innovation, undertakes risky ventures and is the first firm to come up with 'proactive' innovations ahead of competitors. Following Miller's definition, numerous scholars have adopted the term 'entrepreneurial orientation' to describe a fairly consistent set of related activities or processes (Ginsberg, 1985; Morris and Paul, 1987). Although, Lumpkin and Dess (1996) consider entrepreneurial orientation to have five dimensions, there is widespread agreement amongst researchers that this construct has three core dimensions: innovativeness, proactiveness and risk-taking (Hughes

and Morgan, 2007; Wiklund and Shepherd, 2005; Zahra, 1991; Miller, 1983). Innovativeness refers to a firm's tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services, or technological processes (Li et al., 2008; p118). Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace, thereby creating a first-mover advantage *vis-à-vis* competitors (Lumpkin and Dess, 2001). Risk-taking refers to a tendency to take bold steps such as venturing into unknown new markets, committing a large portion of firm resources to ventures with uncertain outcomes and/or borrowing heavily (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005; Keh et al., 2007; Baker and Sinkula, 2009). In line with previous research, the proposed study will define entrepreneurial orientation as a firm's strategic orientation, capturing the specific entrepreneurial aspects of decision-making styles, methods and practices.

### Resource acquisition

In the proposed study, the various strands of the extant literature will be examined on the basis of the resource-based view (RBV), an approach that focuses on the key factors for success in individual firm behaviour that lead to the achievement of firm-specific advantages based on a portfolio of different core skills and routines, coherence amongst them and unique proprietary know-how (Wang et al., 2009; Runyan et al., 2007). Under the RBV, resources are regarded as the main concept to be analyzed. However, scholars have been inconsistent in the terminology use to describe firm resources. Different researchers have referred to resources (Barney, 1991), intangible resources (Hall, 1992), capabilities (Grant, 1991), distinctive competences (Selznick, 1957), core competences (Prahalad and Hamel, 1990), strategic assets or strategic resources (Amit and Schoemaker, 1993), critical resources (Wernerfelt, 1989), firm-specific competences (Pavitt, 1991) and valuable resources (Collis and Montgomery, 1995; Grant, 1991).

In spite of the significance of the RBV, it is a concept that goes by no means unchallenged due to the instability of the industrial structure as a whole, whereby the competitive market landscape is undergoing constant rapid change (Eisenhardt and Martin, 2000). Firms that subscribe to the RBV alone do not go far enough to attain a competitive advantage in such a volatile environment. For this reason, firms should build up a distinctive capacity and seek to integrate and reconfigure their internal and external resources to allow them to respond to dynamic changes in today's competitive environment. Although, the RBV emphasizes both internal and external firm resources as sources of competitive advantage, the proposed study will focus on three elements of firm-specific resources: productive resources, human capital and tacit knowledge acquisition. Productive resources



**Figure 1.** Research framework.

include physical, intangible and financial resources. Physical resources include plant, production equipment, land and raw materials. Intangible resources patents, trademarks and other forms of intellectual property, contracts, client databases, strategic alliance systems, distribution networks and supplier relationships. Financial resources include internal capital and external financial resources.

Human capital has long been argued to be a critical resource for differentiating financial performance amongst firms (Chen and Lin, 2003; Hatch and Dyer, 2004; Carpenter et al., 2001; Hitt et al., 2001; Pfeffer, 1994). Instead of using training to develop the requisite skills (internal human capital development), firms may find it easier and timelier to adapt human capital by hiring new people (external human capital acquisition) who already possess the requisite skills for the new setting. Thus, human capital is pliable and organizations can increase the flexibility of their human capital to prepare for change either through their hiring practices or via their training and development practices. Knowledge seems to have become a critical source of sustained organizational competitive advantage (Leonard and Insch, 2005; Berman et al., 2002; Drucker, 1993; Quinn and Rivoli, 1991; Toffler, 1990). Nonaka (1994) highlights that it is important to distinguish between two different types of knowledge within organizations: explicit knowledge and tacit knowledge. Explicit knowledge is knowledge that can be formally and systematically stored, articulated and disseminated in certain codified forms (Becerra-Fernandez and Sabherwal, 2001). In contrast, tacit knowledge is deeply rooted in action, experience, thought and involvement in a particular context (Alavi and Leidner, 2001) and is thus difficult to transform into explicit form to allow such knowledge to be easily transferred and shared (Berman et al., 2002). Tacit knowledge is the most important asset for both organizations and individuals (Berman et al., 2002). Based on the resource-based view, tacit knowledge, rather than explicit knowledge, resides in organizational members and is a critical resource that is difficult to imitate and can lead to competitive advantages (Conner and Prahalad, 1996). Tacit knowledge may encompass the concepts of skill (Berman et al., 2002) and practical know-how (Koskinen et al., 2003). Bock et al. (2005) argue that an individual will not share his/her knowledge when the knowledge is

regarded as valuable or important. Thus, tacit knowledge sharing can only be facilitated by forms of intrinsic motivation such as sociability and friendship (Osterloh and Frey, 2000).

According to the resource-based view, organizing can develop the relationship between businesses and their resources (Barney, 1995). Wiklund and Shepherd (2003) point out that entrepreneurial orientation enhances the relationship between knowledge-based resources, such as marketing capabilities and technology capabilities, and small business performance. The ability of highly entrepreneurially oriented firms to achieve better performance will be limited if they have inadequate resources to utilize (Chen et al., 2007). Research has suggested that risk-oriented firms tend to seek new resources (Hughes and Morgan, 2007; Lumpkin and Dess, 1996). The goal of proactive firms is to maintain first-mover advantage in the short term and shape the direction of the market environment in the long term (Hughes and Morgan, 2007; Lumpkin and Dess, 1996; 2001). Therefore, proactive firms seek specific and valuable resources to enhance their competitive advantage. Furthermore, to introduce new products and services, innovative firms are likely to explore unique resources and new possibilities to undermine their competitors. Thus;

**Proposition 1a:** Entrepreneurial orientation (innovativeness) is positively related to the acquisition of resources (productive resources).

**Proposition 1b:** Entrepreneurial orientation (innovativeness) is positively related to the acquisition of resources (human capital).

**Proposition 1c:** Entrepreneurial orientation (innovativeness) is positively related to the acquisition of resources (tacit knowledge).

**Proposition 2a:** Entrepreneurial orientation (proactiveness) is positively related to the acquisition of resources (productive resources).

**Proposition 2b:** Entrepreneurial orientation (proactiveness) is positively related to the acquisition of resources (human capital).

**Proposition 2c:** Entrepreneurial orientation (proactiveness) is positively related to the acquisition of resources (tacit knowledge).

**Proposition 3a:** Entrepreneurial orientation (risk-taking) is positively related to the acquisition of resources (productive

(productive resources).

Proposition 3b: Entrepreneurial orientation (risk-taking) is positively related to the acquisition of resources (human capital).

Proposition 3c: Entrepreneurial orientation (risk-taking) is positively related to the acquisition of resources (tacit knowledge).

## **SOCIAL CAPITAL, ENTREPRENEURIAL ORIENTATION AND RESOURCE ACQUISITION**

### **Social capital**

Social capital is a somewhat broad term that has assumed a variety of different meanings and definitions (Woolcock, 1998). Cohen and Prusak (2001) state that social capital consists of the stock of active connections amongst people: the trust, mutual understanding and shared values and behavioural aspects that bind the members of human networks and communities and make cooperative action possible. Hence, viewed broadly, social capital encompasses many aspects of a social context such as the social ties, trusting relations and value systems that facilitate the actions of individuals located within that context. Drawing on a comprehensive review of previous studies on social capital, Coleman (1988) refers to social capital as a variety of entities with two elements in common: they all consist of some aspect of a social structure and they facilitate certain actions of the actors – whether individuals or corporate actors – within that structure. Nahapiet and Ghoshal (1998) refer to these different aspects of social context as the structural, relational and cognitive dimensions of social capital. Lin (2001) proposes that social capital encompasses three intersecting aspects of structure and action: structural (embeddedness), opportunity (accessibility) and action-oriented (use) aspects.

While these definitions of social capital have many similarities, Adler and Kwon (2002) introduce some significant nuances. First, the definitions proposed vary depending on whether they focus on the substance, the sources or the effects of social capital. Second, they vary depending on whether their focus is primarily on (1) the relations an actor maintains with other actors – external relations – which have been called ‘bridging’; (2) the structure of relations amongst actors within a collectivity – internal ties – which have been called ‘bonding’; or (3) both types of linkages (Gittell and Vidal, 1998; Putnam, 2000). In sum, social capital is derived from various sources. First, much social capital is embedded within networks of mutual acquaintance and recognition. Second, social capital is available through the contacts or connections networks bring. Third, social capital can be derived from membership of specific networks where such membership is restricted (Nahapiet and Ghoshal, 1998). Based on the above definitions of social capital, the proposed study will adopt Nahapiet and Ghoshal’s

definition of social capital as it is used to access and mobilize embedded resources in an effort to create reciprocal values and accomplish purposive actions. This definition has also been widely adopted in other studies such as those of Anderson and Jack (2002); Tsai and Ghoshal (1998).

### **The moderating effect of social capital on the relationship between entrepreneurial orientation and resource acquisition**

The importance of social networks for entrepreneurial firms has recently received considerable attention (Hite and Hesterly, 2001; Liao and Welsch, 2003; Hite, 2005; Krackhardt, 1995; Larson and Starr, 1993; Larson, 1992). Recent studies have extended the theory of social capital to the field of entrepreneurship research. At the firm level, the entrepreneurship literature has highlighted the significance of social capital in understanding how firms create and manage networks and the potential outcomes of these actions (Florin et al., 2003; Larson and Starr, 1993). Entrepreneurial orientation may contribute to performance by enhancing a firm’s capacity to identify innovative opportunities offering potentially large returns, target premium market segments and secure first-mover advantage (Lumpkin and Dess, 1996; Wiklund and Sheperd, 2005). Nevertheless, other research has shown that firms are often unsuccessful in translating an entrepreneurial orientation into better performance due to a lack of strategic resources (Hitt et al., 2001). The social capital that is embedded in entrepreneurs’ external ties can be considered such a resource: one that is unique to each firm, is largely invisible to competitors, and is difficult for them to imitate (Galaskiewicz and Zaheer, 1999).

Further, firms with a high level of social capital have the ability to acquire valuable resources and economic opportunities (Lee et al., 2001) and to create more value for their customers and businesses. It is difficult for non-entrepreneurially oriented firms to obtain precious resources based on their social capital. Social capital has been seen as social interaction that can bring information, resources and support to entrepreneurs (Puhakka, 2006). In other words, entrepreneurs with a high level of social capital are likely to be able to identify and capture the resources they require (Davidsson and Honig, 2003) in an efficient and effective way.

Proposition 4a: Social capital (structural) moderates the relationship between entrepreneurial orientation (innovativeness, proactiveness and risk-taking) and resource acquisition (productive resources, human capital and tacit knowledge).

Proposition 4b: Social capital (relational) moderates the relationship between entrepreneurial orientation (innovativeness, proactiveness and risk-taking) and resource acquisition (productive resources, human capital and tacit knowledge).

Proposition 4c: Social capital (cognitive) moderates the relationship between entrepreneurial orientation (innovativeness, proactiveness and risk-taking) and resource acquisition (productive resources, human capital and tacit knowledge).

## CONCLUSION AND FUTURE RESEARCH

This short review suggests that social capital moderates the relationship between entrepreneurial orientation and resource acquisition. Specifically, social capital could be seen as the facilitator that enhances entrepreneurial orientation on resource acquisition. Future research could investigate the propositions listed to have further understanding of the extent to which the positive relationship between entrepreneurial orientation and resource acquisition can be accounted for by the moderating role of social capital. For example, the extent to which entrepreneurial orientation is positively related to resource acquisition, and the extent to which the positive relationship between entrepreneurial orientation and resource acquisition can be accounted for by the moderating role of social capital. Further, environmental dynamism could be the barrier or uncertainty towards resource acquisition. Environmental dynamism is associated with a high degree of unpredictability in customer demand and competitors' capabilities, as well as with high rates of change in market trends and industry innovation (Dess and Beard, 1984). In dynamic environments where opportunities are abundant, firms with a greater entrepreneurial orientation perform better because they tend to pursue new market opportunities before their competitors do. The importance of the environment for managing resources suggests that contingency theory logic should be integrated into our understanding of the resource-based view (RBV) (Miller and Shamsie, 1996; Brush and Artz, 1999). Research has shown that environmental dynamism affect entrepreneurial orientation on resource acquisition (Lichtenstein and Brush, 2001). Thus, environmental dynamism is likely to have an effect on the amount of resources needed, as well as on how those resources are acquired and leveraged (Keats and Hitt, 1988).

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