Entrepreneurial Orientation and Resource Acquisition: An Environmental Dynamism Perspective

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Abstract

This study attempts to define the three constructs identified in the title and examine patterns of interaction among them. It begins by demonstrating that entrepreneurial orientation influences resource acquisition. It then puts forward a set of parameters to assess the degree to which factor identified as environmental dynamism affect an entrepreneurial orientation resource acquisition equation. The study finds that there are relationships between all three of the constructs, but in two propositions developed in the course of discussion it puts forward issues that may be clarified by future research, which from various angles could show how entrepreneurially oriented firms react differently from more established firms in terms of their acquisition of resources and interaction with environmental dynamism.

Keywords: entrepreneurial orientation, resource-based view, environmental dynamism.

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INTRODUCTION

The resource-based view (RBV) of the firm is an approach that sees strategy and performance as partly determined by the possession of organizational resources (Lin et al., 2009; Chen et al., 2007)—informational and technological assets capable of enabling a firm to improve its sustainable competitive advantage. The RBV of the firm has been empirically supported by such scholars as Barney (1986, 1991), Grant (1991) and Teece, Pisano and Shuen (1997), who argue that in changing circumstances and under pressure a firm needs to form dynamic capabilities that will be equivalent in practical terms to core competencies (Maria & Marti, 2004). In such a scenario, possession of its own distinctive resources is likely to shift the balance of success or failure in favor of a firm.

Miller (1983) argued that entrepreneurial orientation (EO) is an innovative mindset characterised by risk-taking and a proactive approach to marketplace competitiveness. This was a significant milestone in strategic management thinking, and it has linked in with the RBV through findings that firms with greater EO tend to be more effective in resource acquisition (Lumpkin & Dess, 1996; Chen et al., 2007; Hughes & Morgan, 2007).

Environmental dynamism is a wild card associated with unpredictable factors of customer demand, competitor capability, market trends and industry innovation (Dess & Beard, 1984). Where there is abundant opportunity in a dynamic environment, entrepreneurial orientation can contribute to proactive and pre-emptive action that wins successful markets.

The study explores the extent to which social capital and environmental dynamism affect the operation of EO on the resource acquisition activities of a firm.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

Entrepreneurial Orientation

The lack of a precise definition of entrepreneurship is clearly not because of any lack of discussion on the topic (Lumpkin & Dess, 1996, 2001; Dess & Lumpkin 1997; Baker & Sinkula, 2009; Soriano & Dobon, 2009; Kuratko & Audretsch, 2009; Davis et al., 2010). The concepts of the entrepreneur and entrepreneurship are a moving target. At one time the entrepreneur was a great man with an innate capacity to bring forth new market ideas (Schumpeter, 1934). Later there was research aimed at isolating
Entrepreneurial orientation (EO) concerns the strategic methodologies and styles adopted by firms in business activities (Lumpkin & Dess, 1996, 2001; Pearce II et al. 2010). Miller (1983) sees an entrepreneurial firm as one that engages in product market innovation, is risk-taking and produces ‘proactive’ innovations ahead of competitors. Following Miller’s definition, EO has been widely used to describe a consistent pattern of activity and attitudes (Ginsberg, 1985; Morris & Paul, 1987). Lumpkin and Dess (1996) see five dimensions in an EO, but most researchers find three core dimensions sufficient to characterise the construct: innovativeness, proactiveness and risk-taking (Miller, 1983; Zahra, 1991; Hughes & Morgan, 2007; Wiklund & Shepherd, 2005). The present study defines EO as a firm’s strategic orientation, embracing specific entrepreneurial aspects of decision-making styles, methods and practices. These three dimensions may be independently variable (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005; Hughes & Morgan, 2007; Rauch et al., 2009), but this study is content to see EO as essentially comprising innovativeness, proactiveness and risk-taking in whatever combination and whatever measure.

Innovativeness is a firm’s ability to conceive and implement new ideas and methods that may result in new products, services or processes (Li et al., 2008, p118). It implies willingness to support creativity and experimentation. Proactiveness is an insight into the likelihood of a future action that leads to anticipation and action. In the marketplace it can generate a first-mover advantage vis-à-vis competitors (Lumpkin & Dess, 2001). Proactive firms look to what may well be about to happen and are thus able to capitalise on emerging opportunities (Chow, 2006; Keh et al., 2007).

Resource-based View

The concept of the resource-based view (RBV) can be attributed to Penrose (1959) who first suggested that sustained growth is based on internal firm characteristics. After Wernerfelt (1984) proposed the concept of a resource position barrier, the idea that sustainable competitive advantage is derived from differentiated firm resources
began to take shape. The concept was worked over at the hands of various writers: Rumelt (1984), Dierickx and Cool (1989), Reed and DeFillippi (1990), Barney (1986, 1991), Grant (1991), Mahoney and Pandian (1992) and Peteraf (1993). The resource-based view has become a key regular presence at the boardroom table in the formation of firm strategies. Prahalad and Hamel’s core competence view (1990), Sanchez and Heene’s competence-based competitive strategy (1997) and the dynamic capability proposed by Teece et al. (1997) may be seen as compatible with the RBV.

The RBV is a concept of very broad application and so tends to be difficult to define very precisely. Like other such general concepts, specific illustration of its application may illustrate its potential application. The RBV asserts that it is better to focus on sustained building of core resources rather than continuously adjusting operations in line with changes in the environment, because competitive advantage may be a more reliable benchmark for growth than a policy of responding to the external environment. Core resources to be valuable in strategic terms should possess a certain tacit complexity (Schoemaker, 1990), should be exclusive (Wernerfelt, 1984), and ought not to be be accumulated rapidly (Dierickx & Cool, 1989). To be core source of sustained competitive advantage, a resource must be valuable, rare, imperfectly imitable and not substitutable. The possession of these characteristics will confer a level of immunity from ready takeover by other companies. Barney challenges an assumption that there is a natural, dominant trend to homogeneity and argues that a sustainable competitive advantage will emerge when no current or potential competitor can continue successfully duplicating what it offers. This implies heterogeneity rather than a situation where resources are homogeneous and perfectly mobile and whatever can be done by one firm can be done by another. The argument is that barriers to entry exist in fact where resources are heterogeneous and there is imperfect mobility, and sustained competitive advantage arises out of the application of specific resources by particular firms (Penrose, 1959; Barney, 1991; Grant, 1991; Wernerfelt, 1984). In a RBV of the firm, differences not only between firms in the same industry have been noted (Hansen & Wernerfelt, 1989) but also differences within the narrower confines of groups within industries (Cool & Schendel, 1988). The effects of firm-specific resources on performance as noted by Mahoney and Pandian (1992) again strengthen the argument that the possession of specific core resources is critical for the firm’s achievement and maintenance of a sustainable competitive advantage.
Entrepreneurial Orientation and Resource Acquisition

EO is a strategic preference that will be realized in the way firms survey the opportunities before them and organize their affairs in order to take advantage of these opportunities. In a RBV, organization can develop the relationship between businesses and their resources (Barney, 1995). Wiklund and Shepherd (2003) point out that EO enhances the relationship between knowledge-based resources and skills-based capabilities such as marketing. Chen et al. (2007) however note that the performance of entrepreneurially oriented firms will be limited if their stock of utilizable resources is inadequate.

It follows that firms need to examine their allocation of resources in relation to effectively implementing decided strategies (Gale, 1972; Miller & Friesen, 1978; Lyon et al., 2000). When it becomes clear that value creation lies in the effective organization of resources, issues of innovation invention as well as issues of the creation and management of knowledge become prominent. At this point in the macroeconomic environment, social factors such as laws and regulations become very relevant (Lepak et al., 2007). From the literature, factors making innovation more likely for firms include an uncertain environment (Brown & Eisenhardt, 1997), the possession of unutilized resources (Van de Ven et al., 1989), the presence of entrepreneurial managers (Brown & Eisenhardt, 1997), participation in wide social networks (Smith et al., 2005) and an organizational capacity to transmute knowledge into new knowledge (Nahapiet & Ghoshal, 1998; Smith et al., 2005).

The issues of risk and proactive business operation deserve attention. In the current global economic situation, the dangers of risk exposure hardly need to be mentioned. However it is worth noting that risk-oriented firms tend to seek new resources (Lumpkin & Dess, 1996; Hughes & Morgan, 2007). The proactive firm aims in the short term to maximize first-mover advantage and in the long term to influence market directions if it can do so (Slater & Narver, 1995; Lumpkin & Dess, 1996, 2001; Hughes & Morgan, 2007).

At this point in tracing the link between EO and resource acquisition, it could be asserted that proactive firms seek specific and valuable resources to enhance their competitive advantage. Further, we assert that innovative firms, in order to introduce new products and services and to undermine the position of their competitors, are
likely to explore the possibility of unique resources. The following proposition then emerges:

*Proposition 1: Entrepreneurial orientation is positively related to resource acquisition.*

*Environmental Dynamism*

The particular business environment is a highly significant contingency element in a firm’s operation, and a firm’s activities may prove to be at a different level in different environments (Gilley & Rasheed, 2000). A resource-based view of the firm sets down the external environment as a critical condition for success in the strategic management of resources (Burns & Stalker, 1961; Porter, 1980; Wernerfelt, 1984; Amit & Schoemaker, 1993).

The discussion here now goes to whether the dynamism in the external dynamism of the firm influences the relationship between the level of outsourced activities and firm performance. Change in the external business environment requires firms to strive constantly to adapt (Kim & Lim, 1988; Roth & Van der Velde, 1991; Baron & Tang, 2011). And it becomes crucial to understand the direction of the business market to avoid extensive and prolonged waste of resources (Tan & Litschert, 1994; Lumpkin & Dess, 2001). The business environment has generally been classified under three dimensions: munificence, complexity and dynamism (Dess & Beard, 1984; Fuentes-Fuentes et al., 2004). Environmental munificence is the ability of the environment to provide sufficient resources for the firms which compete within it (Sharfman & Dean, 1991; Fuentes-Fuentes et al., 2004). Environmental complexity relates to the level of understanding of the environment (Fuentes-Fuentes et al., 2004). However this study concentrates on environmental dynamism, which Dess and Beard (1984) explain as the rate of change in the environment and unpredictable nature of the change or as Carpano et al. (1994) and Tan & Litschert (1994) see it, the rate of change and the novelty in the changes or their speed. Other ways of looking at dynamic environments are what Duncan (1972) and Hough & White (2004) saw as factors in a continual state of change. In a perspective of information uncertainty, increasing environmental levels will lead to greater environmental uncertainty—and thus environmental dynamism may be said to relate to the degree of predictability in
environmental changes and the effects of change on the organization (Jaikumar, 1989; Tan & Litschert, 1994; Stevenson, 1996; Lumpkin & Dess, 2001; Zhang, 2007; Hmieleski & Baron, 2009).

**Environmental Dynamism and the Link between Entrepreneurial Orientation and Resource Acquisition**

When a firm is highly entrepreneurially oriented it will probably make optimal use of its internal resources to achieve good performance, but inadequate internal resources will limit its ability to perform. When it comes to new ventures, there is then a relationship between EO and organizational resources. Now the processes in managing resources are affected by the environmental context (Lichtenstein & Brush, 2001). High levels of environmental uncertainty and varying degrees of environmental munificence will mean that competitive advantages are not likely to continue to be sustainable and firms may well develop a series of temporary competitive advantages (Morrow et al., 2007).

Contingency theory offers a framework for understanding the RBV in relation to the business environment. The focus of research along such lines has focused on the value of resources (Priem & Butler, 2001). Miller and Shamsie (1996) find that property-based resources are more valuable in stable environments, while knowledge-based resources are more valuable when environments are less certain. Brush and Artz (1999) find variation in the value of capabilities with respect to a firm’s services and the amount of asymmetry in information in the environment. Aragon-Corra and Sharma (2003) see a firm’s competitive context as affecting the value of its resources as it comes to proactive natural environment strategies, and scarcity of resources may prolong the effects of bad choices in resource management. Thus, as Keats & Hitt (1988) argue, environmental dynamism is likely to affect the scope and nature of resource acquisition. Out of this discussion the following proposition emerges:

**Proposition 2:** Environmental dynamism affects the relationship between entrepreneurial orientation and resource acquisition. A high level of environmental dynamism tends to place pressure on firms to acquire critical resources.
CONCLUSION AND FUTURE RESEARCH

This study has investigated effects of environmental dynamism on the link between EO and resource acquisition. The study suggests that EO is positively related to resource acquisition, and that environmental dynamism is interrelated with EO and resource acquisition capability. Two propositions have been developed out of the discussion in the paper indicate areas where further research may provide more specific information on correlations between the four constructs EO, resource acquisition, and environmental dynamism.

This study finds that there are relationships between all three of the constructs, but in the two propositions developed in the course of discussion issues put forward could be clarified by future research, which from various angles could show how entrepreneurially oriented firms react differently from more established firms in terms of their acquisition of resources and interaction with and environmental dynamism.

As well as clarifying cause and effect relationships among the three constructs, future research may evaluate effects on small and medium sized enterprises (SMEs). For example, Research on the influence of EO on firm performance has usually focused on large enterprises (Zahra, 1996). Despite the importance of SMEs for most of the world’s economies, a very limited number of studies have investigated the influence of EO on SMEs performance (Salavou & Lioukas, 2003; Wiklund & Shepherd, 2005) and the underlying causes of this relationship in SMEs have gone largely unexplored. Further, resource acquisition tends to be much more challenging for SMEs than for larger companies (Milé, 2010; Knight, 2001; Chiao et al., 2006; Zhao & Hsu, 2007). A resource-based view of the firm implies that the differential endowment of organizational resources is a critical area in deciding strategy and performance (Lin et al., 2009; Chen et al., 2007). Finally, with a dynamic environment, EO may help SMEs cope with uncertainty by increasing their proactiveness and risk taking activities and by promoting product, process and service innovation.

REFERENCES


