ENTREPRENEURIAL ORIENTATION, EXTERNAL TIES OF TOP MANAGEMENT TEAM, AND FIRM PERFORMANCE: A THEORETICAL MODEL

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ABSTRACT

Extending existing literature on entrepreneurial orientation of firms, the paper theoretically explains the effects of the external ties of top management team members on entrepreneurial orientation–firm performance relationship. The intra-industry and extra-industry ties of top management team members strengthen the positive relationship between entrepreneurial orientation and firm performance. Future research directions in the field are also discussed.

Keywords: Entrepreneurial Orientation, Management Team, Firm.

INTRODUCTION

Entrepreneurial orientation (Miller, 1983) of firms influences to take innovative, risk-taking, and proactive decisions, and subsequently contributes to the firm performance. However, top management team members influence strategic decisions of organizations. Specially, various types of external industry ties of top executives (Chesbrough, 2003; Laursen & Salter, 2006; Nambisan & Swahney, 2007) determine the amount of information flow from external environment to the firm. In the subsequent sections, the paper theoretically discusses the impact of external ties of top management team members on entrepreneurial orientation–firm performance relationship.

METHODOLOGY

Entrepreneurial Orientation and Firm Performance

Entrepreneurial orientation of firms contributes to the development of strategic choices based on innovativeness, risk-taking, and proactiveness. Innovative decisions help to reconfigure existing resources, create new products or services, and generate above average performance. Risk-taking decisions provide opportunity to seek higher economic benefits. Proactiveness helps to siege new opportunities quickly before the competitors. Hence, entrepreneurial orientation of firm enhances competitive advantage (Dess & Lumpkin, 2005), and subsequently contributes to the firm performance (Keh et al., 2007). Based on the above reasoning, we propose the following propositions.

Propositions: Entrepreneurial orientation of firms positively influences firm performance.

The Effects of External Ties of Top Management Team

The role of knowledge as the source of organizational innovation and performance has been recognized in the knowledge based view of the firm (Denrell et al., 2003; Zahra & George, 2002). One of the main conduits to access external knowledge to the firm is external ties of top executives (Chesbrough, 2003; Laursen & Salter, 2006; Nambisan & Swahney, 2007). Managerial ties play a role of conduit by providing possibilities and opportunities to approach external resources (Shu et al., 2012). Specially, top executives in the top management teams of the firms play a vital roles to absorb external knowledge at the firm level. Some of the advantages of external ties are different types of managerial views about the external environment and strategic alternatives (Geletkanycz & Hambrick, 1997). In global value chain, firms fill up the structural holes through network-based external ties and reduce knowledge asymmetries (Oliver et al., 2008). In the context of new ventures, the external advice networks positively influence the firm performance (Vissa & Chacar, 2009). External relationships act as the sources for the growth and competitiveness of entrepreneurial firms (Lechner & Dowling, 2003). External ties are useful to recognize opportunities such as products, processes, markets etc (Schumpeter, 1934) and will positively influence the entrepreneurial orientation–firm performance relationship.

Available knowledge at the industry level generates new ideas inside the firms (Audretsch et al., 2005; Cooper, 1973). Executives' boundary spanning ties of inside and outside their industry affects organizational strategy and performance (Geletkanycz & Hambrick, 1997). The influence of managerial ties on firm innovation is indirect (Shu, Page, Gao, and Jiang, 2012). So, the indirect effects of intra-industry and extra- industry ties of top executives on the effects of entrepreneurial orientation will also be evident.

Past literature examined the effects of different characteristics of networks in firm performance. Strong ties are important for innovation irrespective of network structures (Rost, 2011). Exchanges of technological, market and managerial knowledge through external ties contribute to the complex process of innovation (Sammarra & Biggiero, 2008). The boundary-spanning ties and interpersonal connections of top managers contribute to a corporation's innovativeness through absorptive capacity (Gao Xu Yang, 2008). New ventures' ties with service intermediaries such as technology service firms, accounting and financial service firms, law firms, and talent search firms enable the ventures to plug into these networks and contribute to the ventures' product innovation by broadening the scope of their external innovation search and reducing their search cost (Zhang & Li, 2010). In addition to internal R and D, external knowledge acquisition plays an important role in innovation activities (Cassiman & Veugelers, 2006). Principal benefits of networking as identified in the literature include: risk sharing; obtaining access to new markets and technologies; speeding products to market; pooling complementary skills; safeguarding property rights when complete or contingent contracts are not possible; and acting as a key vehicle for obtaining access to external knowledge (Pittaway, Robertson, Munir et al., 2004). Social ties help in gathering non-redundant information from networks and initiating innovative performance (Ruef, 2002). Shorter path lengths and larger connected components correlate with increased innovation (Fleming, King III, and Juda, 2007). Even in regional innovation processes, social capital is significant and comparable with the importance of human capital (Hauser et al., 2007).

Intra-industry Ties and Extra-industry Ties of Top Executives

External ties of top executive can be divided into two categories such as intra-industry ties and extra-industry ties. Intra-industry ties such as trade-association ties of top managers led to the adoption of a resource-imitation strategy (Yoo et al., 2009) that can have a positive effect on the speed of the innovation. On the other hand, extra-industry ties such as professional-association ties led to the adoption of a resource-substitution strategy (Yoo et al., 2009) that can have a positive effect on the innovation radicalness in the process of innovation. With respect to environment, ties as board memberships in strategically related firms are effective in decision making during stable environment due to efficient implementation and ties as board memberships in strategically different firms are effective in decision making during unstable environment due to heterogeneous ideas (Carpenter & Westphal, 2001). Similarly, intra-industry ties are effective for implementation and innovation speed; and extra-industry ties are effective for heterogeneous ideas and innovation radicalness in the process of innovation. High level of ties among the groups inside an organization reduces the conflicts among the groups (Nelson, 1989). Similarly, high level of ties among the firms inside an industry would reduce the conflicts in terms of implementation of innovation process which in turn would increase the innovation speed. By facilitating trust building and cooperation, cohesive alliances provide a normative environment that guarantees the actual execution of knowledge recombinant processes (Padula, 2008). By exposing firms to novel and varied knowledge flows, sparse alliances break the tendency of cohesive alliances to produce redundancy, and make it possible for the knowledge recombination that take place across cohesive relationships to actually bear the fruits of innovation (Padula, 2008). In terms of degree of innovativeness, incremental innovation would be prevalent in the presence of professional managers whereas radical innovation can be observed in the presence of entrepreneurs (Lipparini & Sobrero, 1994). Professional managers possess excellent knowledge about the industry with limited new radical ideas from other domains like entrepreneurs. So, extra-industry external ties would help to bring those new ideas and increase the innovation radicalness in innovation through entrepreneurial processes whereas intra-industry ties would increase the innovation speed by professionally managing the implementation process. Both innovation speed and innovation radicalness are positively related to the firm performance. So, both intra-industry and extra-industry ties positively influence the entrepreneurial orientation–firm performance relationships. Based on this reasoning, we propose the following propositions (Figure 1).

Proposition 2a: The positive relationships between entrepreneurial orientation and firm performance strengthen in the presence of intra-industry ties of top management team members.

Proposition 2b: The positive relationships between entrepreneurial orientation and firm performance strengthen in the presence of extra-industry ties of top management team members.

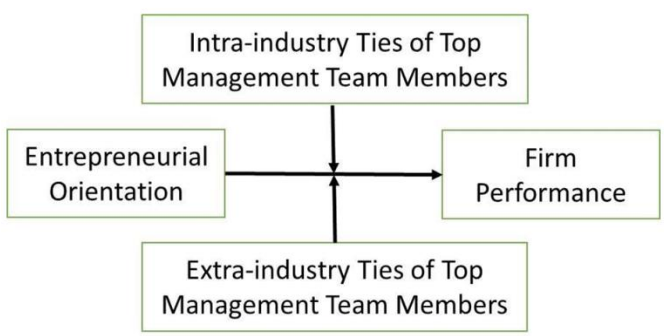

FIGURE 1
THE MODEL

DISCUSSION AND CONCLUSION

The paper theoretically discusses the effects of intra-industry and extra-industry ties of top management team members on entrepreneurial orientation–firm performance relationship. Future research can extend the study in many ways. Firstly, empirical data analysis can be carried out to test hypotheses. Secondly, roles of other types of ties such as family ties, professional ties can be examined in future research. Finally, future research can study the effects of other contextual factors in the relationships.

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