

The Relationship among Social Capital, Entrepreneurial Orientation, Organizational Resources and Entrepreneurial Performance for New Ventures

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ABSTRACT

This research examines empirically the relationship among social capital, entrepreneurial orientation, organizational resource, and entrepreneurial performance for new ventures. Data was collected by means of mailing questionnaire to new ventures in Taiwan, and a total of one hundred and four qualified observations were collected. The results obtained in this research indicate that there are significant relationships among social capital, entrepreneurial orientation, and organizational resources. Additionally, the influence of social capital, entrepreneurial orientation, and organizational resources on entrepreneurial performance is significant. The findings suggest that new ventures can speed up information diffusion and look for the opportunities of new technology, new product, niche market, and financial resources through expanding external business

networks and maintaining trust and interdependence between network partners. Important insights to new venture practitioners and researchers are also offered.

Keywords: Social Capital, Entrepreneurial Orientation, Organizational Resources, Entrepreneurial Performance, New Ventures

INTROUDUCTION

Why do some new ventures excel, while others fail? New ventures face increased competition, the question lies at the very heart of entrepreneurship research. In an effort to address it, scholars have studied such things as the characteristics of entrepreneurs, the dynamics of entrepreneurial teams, and the efficacy of new venture strategies. This paper builds on this work by considering the relationship among social capital, entrepreneurial orientation, organizational resource, and entrepreneurial performance for new ventures. The primary purpose of this research is to understand the influence of social capital, entrepreneurial orientation, and organizational resources on entrepreneurial performance for new ventures.

Executives in every company recognize that there is a need to exploit the corporate resources in order to maximize corporate performance and to overwhelm all the other competitors. The Resource-Based View (RBV) asserts that firms gain and sustain competitive advantages by deploying valuable resources and capabilities that are superior, scarce, and inimitable (Barney, 1991; Ou, Abratt, & Dion, 2006; Ray, Barney, & Muhanna, 2004; Roberts & Dowling, 2002).

Likewise, it goes without saying that corporate resources are vital for new ventures. Kakati (2003) discovers that corporate resource is the key factor of survival and development for new ventures; successful entrepreneurs develop various corporate resources to support their business strategies, and then obtain outstanding entrepreneurial performance. Furthermore, entrepreneurs run their new ventures for niche markets. Entrepreneurs provide innovative and high-quality products or service at attractive price to defeat competitors (Lee, Lee, & Penning, 2001). Entrepreneurial orientation can be viewed as a strategic preference, and it reflects how business to utilize its opportunities. Wiklund and Shepherd (2003) report that entrepreneurial orientation enhances the relationship between knowledge-based resources, such as marketing capabilities and technology capabilities, and performance of small businesses. Therefore, entrepreneurial

orientation is what strategies executives of new ventures have at limited organizational resources under environment uncertainties. The characteristic of entrepreneurial orientation contributes to excellent performance. Previous studies have indicated the importance of core competency and external business network for performance from viewpoint of social capital and recourse-base view (Lee, Lee, & Pennings, 2001). Therefore, it is expected that in this study the performance of new ventures will be investigated from viewpoint of entrepreneurial orientation social capital and recourse-base view to extend the knowledge of strategic management.

LITERATURE REVIEW AND HYPOTHESE

1. The Relationship among Social Capital, Entrepreneurial Orientation and Organizational Resources

Social Capital and Entrepreneurial Orientation

For new ventures, their internal organizational resources are limited. It is necessary to interact with external environment more to gain reinforcement. Social capital could be viewed the network connected businesses. Limited social capital means inadequate interactions with external firms, and will cause negative impacts on entrepreneurial orientation. For example, entrepreneurial orientated companies tend to achieve organizational visions and goals independently (Lumplin & Dess, 1996). However, without adequate resources, all strategic intentions and plans are going to fail, and it is disapproving to innovation, which is the keystone for entrepreneurial orientation (Evans, Puick, & Barsous, 2001). Therefore, social capital can have positive effects on entrepreneurial orientation.

On the other hand, entrepreneurial orientation can also have constructive influence on social capital. Higher entrepreneurial-oriented companies have more abilities to gain valuable resources and economic opportunities through their social network (Lee, Lee & Pennings, 2001), and then create more value for customers and businesses. It is difficult for non-entrepreneurial-oriented companies to obtain precious resources from their social capital. Therefore, for new ventures, one can expect a mutual relationship between social capital and entrepreneurial orientation.

H1: There is a significant mutual relationship between social capital and

entrepreneurial orientation for new ventures.

Social Capital and Organizational Resources

Internal resources are the organizational skills for transforming inputs into outputs. A firm with outstanding resources has an enhanced chance of finding a suitable partner for any type of alliance it contemplates (Caruana, 1997). As a result, organizational resources help firms enhance their social capital. Conversely, business can utilize its social capital to obtain desired technology, human capital, or financial resources, which have positive influence on internal resources (Burt, 1992). In other words, firms with favorable social capital have an enhanced chance of identifying profitable opportunities, and acquiring complementary external resources (Burt, 1992; Teece, 1987).

New ventures are encouraged to seek complementary external resources through their social network since they have relatively fewer internal resources. The external resources new ventures obtained may enhance their capability (Teece, 1987). Thus, one can predict that there is a mutual relationship between social capital and organizational resources for new ventures.

H2: There is a significant mutual relationship between social capital and organizational resources for new ventures.

Entrepreneurial Orientation and Organizational Resources

Entrepreneurial orientation can be viewed as a strategic preference, and it reflects how business to organize in order to utilize its opportunities. According to Resource-Based View, organizing can develop the relationship between businesses and their resources (Barney, 1995). Wiklund and Shepherd (2003) report that entrepreneurial orientation enhances the relationship between knowledge-based resources, such as marketing capabilities and technology capabilities, and performance of small businesses. In fact, highly entrepreneurial-orientated firms are likely to make the most of their internal resources to create better performance. However, entrepreneurial orientation cannot stand alone. Highly entrepreneurial-orientated firms are limited in achieving better performance if there is no adequate amount of internal resources for them to utilize.

For new ventures, the interaction between entrepreneurial orientation and organizational resources will have positive impacts on performance. In contrast, without

entrepreneurial orientation, firms with adequate resources remain unlikely to make the most of their internal resources; without sufficient resources, entrepreneurial-orientated firms are constrained on capturing business opportunities for profits. Therefore, one can anticipate that there is a mutual relationship between entrepreneurial orientation and organizational resources for new ventures.

H3: There is a significant mutual relationship between entrepreneurial orientation and organizational resources for new ventures.

2. The Relationship among Social Capital, Entrepreneurial Orientation, Organizational Resources and Performance

Social Capital and Performance

Strong cooperative relationship between organizations, namely, social capital, increases mutual trust between companies, and it reduces the transaction cost of exchanging resources between organizations. Social capital can be observed as the network that connects businesses, and thus it facilitates business to perform well and to achieve competitive advantages (Batjargal, 2003; Benson, 1998; Florin, Lubatkin & Schulze, 2003; Pennings, Lee, & Van Witteloostuijn, 1998).

For new ventures, social capital plays an important role in identifying entrepreneurial opportunities and securing external resources. Aldrich and Zimmer (1986) discover that social network is essential to opportunity identification, idea test, and resource acquirement for startups. New ventures are likely to have brilliant perspectives if they strongly develop their social capital at their initial stage of business. In addition, previous research indicates that the influence of entrepreneurial network on organizational development is positive (Hansen, 1998). The tie between new startups and venture capital companies facilitates the startups to enhance their performance (Lee, Lee & Pennings, 2001).

Therefore, the components of social capital, namely, social interactions, relationship quality, and external ties, benefit new ventures to receive resources and knowledge, to reduce the transaction cost between organizations, and to have positive influences on performance. Consequently, one can hypothesize that as the social capital of new venture becomes more favorable, the better performance will be.

H4: There is a positive relationship between social capital and new venture performance.

Entrepreneurial Orientation and Performance

Entrepreneurial orientation is the main source of innovation and change (Miner, 1997). Previous studies indicate that entrepreneurial orientation is the key resources for new ventures to obtain sustained competitive advantages, and there is a positive relationship between entrepreneurial orientation and new venture performance (Covin & Miles, 1999; Covin & Slevin, 1991; Lado & Wilson, 1994; Lee, Lee & Pennings, 2001; Lumpkin & Dess, 1996; Zahra & Garvis, 2000; Zahra, Nielsen & Bogner, 1999). Additionally, Wiklund & Shepherd (2003) state that entrepreneurial orientation moderates the relationship between knowledge-based resources and performance positively.

As a result, the characteristics of entrepreneurial orientation, such as innovation, and risk acceptance, assist entrepreneurs to anticipate new markets, to support innovative ideas, and to have positive impacts on new venture performance. Consequently, one can hypothesize that as the entrepreneurial orientation of new venture becomes more favorable, the better performance will be.

H5: There is a positive relationship between entrepreneurial orientation and new venture performance.

Organizational Resources and Performance

The Resource-Based View asserts that firms sustain competitive advantages by deploying valuable resources that are superior, scarce, and inimitable (Barney, 1986; Barney, 1991; Ou, Abratt & Dion, 2006; Ray, Barney, & Muhanna, 2004; Roberts & Dowling, 2002; Wernerfelt, 1984). It goes without saying that it is easier for business with adequate strategic resources to survive, develop and profit (Chandler & Hanks, 1994; Grant, 1991). The literature seems consistent regarding organizational resources and performance. Many previous studies indicate that there is a positive relationship between organizational resources and business performance (Bharadwaj, 2000; Chandler & Hanks, 1994; Hultink, Atuahene-Gima & Lebbink, 2000; Lerner & Almor, 2002; Li & Ogunmokun, 2001; Ursula & Celeste, 1998; Zahra & Nielsen, 2002).

Furthermore, Kakati(2003) discovers that resource-based capabilities decide the

fortune and development of new technology startups. Besides, Lee, Lee, and Pennings (2001) indicate that technology capabilities and financial resources are the key predictors for new ventures' performance.

The authors assert that the most important resources include marketability (Spanos & Lioukas, 2001), technology capabilities (Lee, Lee, & Pennings, 2001; Spanos & Lioukas, 2001), and financial resources (Lee, Lee, & Pennings, 2001). For new ventures, the effect of marketability trickles down from the company itself to the product, assisting future success, reducing the cost of introduction, and helping faster market penetration (Caruana, 1997; Robertson and Gatignon, 1986). R&D and technology capabilities help new ventures create sustained competitive advantages that are inimitable. Financial resources are strategic for new ventures to support the needs of marketing and R&D activities. The importance of marketability, technology capabilities, and financial resources are emphasized for new ventures. Therefore, the components of organizational resources, namely, marketability, technology capabilities, and financial resources, benefit new ventures to have optimistic performance. Accordingly, one can hypothesize that as the organizational resources of new venture becomes more favorable, the better performance will be.

H6: There is a positive relationship between organizational resources and new venture performance.

METHODOLOGY

1. Measurement

Independent variables, namely, social capital, entrepreneurial orientation, and organizational resources, are measured by 13, 22, and 11 items, respectively. Items are developed in part by Yli-Renko, Autio, and Sapienza (2001), Lumpkin and Dess (1996), Lee, Lee, and Pennings (2001), Spanos and Lioukas (2001), and Baum, Locke and Smith (2001). Environmental uncertainty variable is measured by 6 items, specifically, government, technology, customers, economic conditions, intensity of rivalry, and social conditions. Dependent variable, entrepreneurial performance, is measured by 7 factors, to be precise, return on investment, return on equity, return on assets, sales growth, profit growth, growth on number of employees and market share growth.

2. Research Design

This research was designed to investigate the relationship between social capital, entrepreneurial orientation, and organizational resources and entrepreneurial performance for new ventures in Taiwan. This study consisted of a survey to collect data from Taiwanese new ventures, which were founded after 1995 due to data availability. Data was collected by means of mailed questionnaires.

The study population consisted of 510 qualified new ventures, which were provided by Taiwan Securities and Futures Institute. The majority of the qualified new ventures in this study were traditional manufacturers and electronic manufacturers.

3. The Sample

Data was collected by means of mailing questionnaire to start-ups in Taiwan in 2004. A total of one hundred and four qualified observations were collected, with qualified respondent rate of 20.39 percent.

Of the sample, 81.73 percent of respondents indicated that they established the new venture according to founder's former work experience. Work experience helps the founder accumulate financial resources and understand their rules in the particular industry. Besides, the majority of the respondents in this study (95.19%) declared that their social network had positive impact on entrepreneurial performance.

Furthermore, 94.23 percent of respondents reported that their decisions were made by top management at the initial stage of their business to enhance the operations efficiency. Of the sample, 30.77 percent of respondents spent 1 to 3 percent of total revenue in R&D, while 25 percent of respondent start-ups consumed 3 to 5 percent of revenue in research. It was shown that new ventures lay great emphasis on research and development. Similarly, 36.53 percent of respondents spent 1 to 3 percent of revenue in their marketing mix, while 20.19 percent of observations spent 3 to 5 percent of revenue in the marketing activities, which also received emphasis from top management.

ANALYSIS AND PRESENTATION OF FINDINGS

1. Factor Analysis and Reliability Analysis

Social Capital

In the questionnaire, there are thirteen questions for construct of social capital. The

thirteen social capital items yielded three factors in the factor analysis. All Cronbach's alphas are over 0.73, which means that the instrument has a robust reliability for measuring the construct being studied in this research. The social capital items, which consist of three factors, namely, social interaction, relationship quality, and external network, are utilized in this study.

Entrepreneurial Orientation

The twenty-two entrepreneurial orientation items yielded five factors in the analysis. All coefficient alphas are larger than 0.77, which means that our instrument has a high reliability for measuring the construct of entrepreneurial orientation. These entrepreneurial orientation items, which consist of five factors, namely, proactivity, autonomy, enthusiasm, risk assumption, and innovation, are used in this research.

Organizational Resources

Of the questionnaire, the eleven new venture organizational resources items yielded three factors in the factor analysis, with high Cronbach's alphas (over 0.73). The high coefficient alpha indicates that the instrument has a satisfactory reliability for measuring the construct being studied. The eleven organizational resources items, which consist of three factors, namely, marketing capability, technology capability and financial resources, are employed in the investigation.

Entrepreneurial Performance

The seven entrepreneurial performance items yielded two factors in the factor analysis. Both Cronbach's alphas are over 0.63, which shows that the instrument has an acceptable reliability for measuring the construct of entrepreneurial performance. The seven entrepreneurial performance items, which consist of two factors, namely, profit index and growth index, are utilized in this paper.

2. Canonical Correlation Analysis

Social Capital and Entrepreneurial Orientation

The Canonical Correlation Analysis is employed to investigate the relationship between dependent and independent variables, where three factors of social capital construct are the independent variables; three entrepreneurial orientation factors are

dependent variables. The result of canonical correlation analysis is presented in Figure 1.(only one function)

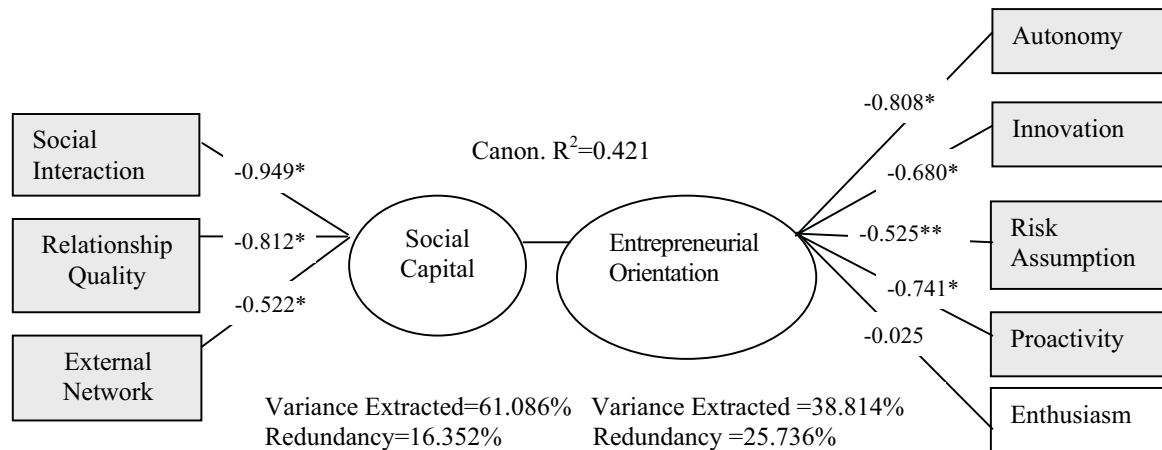


Figure 1 Canonical Correlation Analyses of Social Capital and Entrepreneurial Orientation

For the respondent new ventures, there are significant relationships between social capital factors and entrepreneurial performance factors. Explicitly, if certain new ventures fail to have satisfactory social interaction, relationship quality, and external network, it is likely for new ventures to have negative proactivity, autonomy, risk assumption, and innovation (CAN $R^2=0.728$, $F=4.47686$, $P<0.01$, $RI=25.736\%$). Furthermore, it is observed that there are strong interactions between social interaction and autonomy (Canonical Loading = -0.949 and -0.808, respectively). That is to say, unfavorable social interactions for new ventures lead to get low level of autonomy. On the other hand, as the new ventures' level of autonomy becomes more unfavorable, the worse amount of social interactions will be (CAN $R^2=0.728$, $F=4.47686$, $P<0.01$, $RI=29.329\%$).

Social Capital and Organizational Resources

Three factors of social capital construct are utilized as the independent variables, and three organizational resources factors are used as dependent variables in the Canonical Correlation Analysis. The result of canonical correlation analysis is presented in Figure 2.

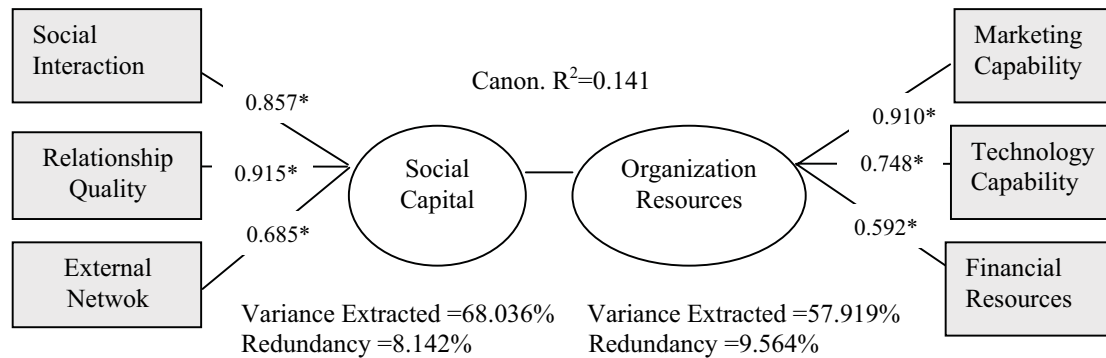


Figure 2 Canonical Correlation Analyses of Social Capital and Organizational Resources

It is observed that there are robust relationships between social capital factors and organizational resources factors for new ventures. If certain new ventures fail to have favorable social interaction, relationship quality, and external network, it is likely for these start-ups to get disadvantages in marketing capability, technology capability and financial resources (CAN $R^2=0.141$, $F=2.45254$, $P<0.05$, $RI=9.564\%$).

Furthermore, it is observed from canonical loading that there are strong interactions between relationship quality and marketing capability. Poor relationship quality leads to constraints in marketing. Then again, as the new ventures' marketing capability becomes more unfavorable, the worse situation of relationship quality will occur (CAN $R^2=0.141$, $F=2.45254$, $P<0.05$, $RI=8.142\%$).

Organizational Resources and Entrepreneurial Orientation

Similarly, the Canonical Correlation Analysis is used to investigate the relationship between dependent and independent variables, where three factors of organizational resources construct are the independent variables; five entrepreneurial orientation factors are dependent variables. The result of canonical correlation analysis is presented in Figure 3.

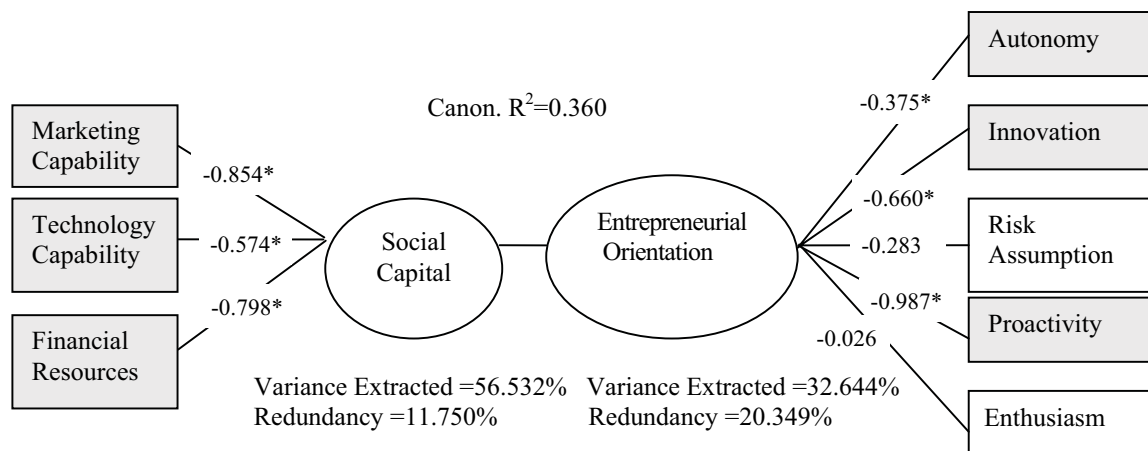


Figure 3 Canonical Correlation Analyses of Organizational Resources and Entrepreneurial Orientation

One can observe that there are strong correlations between organizational resources factors and entrepreneurial orientation factors. If certain new ventures fail to acquire adequate marketing capability, technology capability and financial resources, it is likely for these new companies to have low level of proactivity, autonomy, and innovation (CAN $R^2=0.360$, $F=4.07636$, $P<0.01$, $RI=20.349\%$). Moreover, it is shown that there are robust relationship between marketing capability and proactivity (Canonical Loading = -0.854 and -0.987, respectively). It implies that poor marketing capability for new ventures will damage their level of proactivity. Alternatively, as the new ventures' level of proactivity turns out to be more adverse, the worse marketing capability will be (CAN $R^2=0.360$, $F=4.47686$, $P<0.01$, $RI=11.750\%$).

Regression Analysis on Entrepreneurial Performance

In this research, multiple-regression is employed to test the relationship between social capital, entrepreneurial orientation, and organizational resources and the dependent variables, that is, entrepreneurial performance. The regression analysis on entrepreneurial performance is presented in Table 1

Table 1 Regression Analysis on Entrepreneurial Performance

Regression Model		1	2	3	4	5	6
Independent	Dependent	Growth performance	Profit performance	Growth performance	Profit performance	Growth performance	Profit performance
Social Capital	Social Interaction	0.177*	0.066				
	Relationship Quality	0.244**	0.145*				
	External Network	0.164*	0.174*				
Entrepreneurial Orientation	Autonomy			0.148*	0.039		
	Innovation			0.351**	0.412**		
	Risk Assumption			0.017	-0.022		
	Proactivity			0.372**	0.271**		
	Enthusiasm			-0.003	0.055		
Organizational Resources	Marketing Capability					0.357**	0.303**
	Technology Capability					0.213**	0.184*
	Financial Resources					0.155*	0.054
R ²		0.302	0.285	0.346	0.314	0.311	0.275
Adj-R ²		0.276	0.250	0.318	0.287	0.292	0.253
F Value		15.423	13.394	27.046	22.279	20.614	19.022
P Value		0.000**	0.000**	0.000**	0.000**	0.000**	0.000**
D-W Value		2.013	2.052	2.151	2.076	2.018	2.034

From Table 1, it is observed that as the social interaction, relationship quality, and external network for respondent new ventures become more favorable, their growth increases. As a result, it is beneficial for new ventures to accumulate their social capital, which promotes their business size and market share. Likewise, it is presented that as the new ventures' relationship quality and external network become more favorable, their profit rises. Thus, it is advantageous for new ventures to stress their relationship quality and external network since these social capital components assist the financial

performance.

It is also found in Table 1 that the influence of autonomy, innovation, and proactivity on growth is significant. Also, innovation and proactivity have significant impact on new ventures' profit. It means that these entrepreneurial-orientated components boost growth and profit for new ventures.

The influence of marketing capability, technology capability, and financial resources on new ventures' growth is significant. In addition, outstanding marketing capability and technology capability lead to favorable profit. However, the influence of new ventures' financial resources on their profit is not significant.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

1. Conclusions

Why do some new ventures excel, while others fail? New ventures face increased competition, the question lies at the very heart of entrepreneurship research. In an effort to address it, scholars have studied such things as the characteristics of entrepreneurs, the dynamics of entrepreneurial teams, and the efficacy of new venture strategies. Our paper builds on this work by considering the relationship among social capital, entrepreneurial orientation, organizational resource, and entrepreneurial performance for new ventures. Our findings suggest that new ventures can speed up information diffusion and look for the opportunities of new technology, new product, niche market, and financial resources through expanding external business networks and maintaining trust and interdependence between network partners. This paper examined empirically the relationship among social capital, entrepreneurial orientation, and organizational resources for new ventures. The results obtained in this research indicate that there are significant relationships among social capital, entrepreneurial orientation, and organizational resources.

This research offers some important insights to new venture practitioners and researchers. The first findings of this research indicate that there are significant relationships between social capital and entrepreneurial performance for new ventures. Therefore, if certain new ventures fail to have satisfactory social interaction, relationship quality, and external network, it is likely to have negative impact on their proactivity, autonomy, risk assumption, and innovation. Furthermore, the research result shows that there are strong interactions between social interaction and autonomy. Consequently, poor social interactions of new ventures lead to low level of autonomy. On the other

hand, as the new ventures' level of autonomy becomes lower, the smaller amount of external interactions will be.

Second, the findings of this paper indicate that there are robust relationships between social capital and organizational resources for new ventures. If certain new ventures fail to have favorable social interaction, relationship quality, and external network, it is likely for these new companies to have disadvantages in marketing capability, technology capability and financial resources. Furthermore, there are strong interactions between relationship quality and marketing capability. It implies if the management of new ventures ignores relationship quality among suppliers or buyers, it tends to damage new venture's marketing ability. Then again, as the new ventures' marketing capability becomes more adverse, the worse situation of relationship quality will occur for the new ventures.

Third, the results obtained in this research show that there are strong correlations between organizational resources and entrepreneurial orientation. If certain new ventures fail to acquire adequate marketing capability, technology capability and financial resources, it is likely for these new companies to have unacceptable level of proactivity, autonomy, and innovation. Moreover, it is supported that there are robust relationship between marketing capability and proactivity. It implies that poor marketing capability for new ventures will damage their level of proactivity. Alternatively, as the new ventures' level of proactivity becomes more adverse, the marketing capability of the new ventures will hurt.

Fourth, it is supported in this paper that as the new ventures' social interaction, relationship quality, and external network become more favorable, their growth increases. Therefore, it is beneficial for new ventures to accumulate their social capital, which promotes their business size and market share. Moreover, it is found that as the new ventures' relationship quality and external network become more favorable, their profit rises. Consequently, it is advantageous for new ventures to emphasize their relationship quality and external network since these social capital components assist the financial performance for start-ups.

Fifth, it is found in this research that autonomy, innovation, and proactivity positively influence new ventures' growth. Similarly, innovation and proactivity have positive impact on new ventures' profit. It implies that CEOs at new ventures should call more attention to innovation and proactivity since these entrepreneurial-orientated activities boost growth and profit.

2. Research Limitations

The respondents of this research are founders or top managers at new ventures. One of the drawbacks of mailing questionnaire is that none can guarantee the questionnaire was filled by the target respondents in person. That becomes one of our research limitations.

One of the priorities of a good study is the ability for generalization. A satisfactory research should be widely accepted, and be applicable for several different types of industries in different geographic locations (Reardon, Miller, & Coe, 1995). However, in this research, data is collected from Taiwanese new ventures, which are founded after 1995. The study population only consisted of 510 qualified new ventures in Taiwan, and the majority of the qualified respondents were of the manufacturing industry. The limitations on sample size, industry and geographic location may constraint the generalization and application of this research. It is recommended that further interpretation of the findings for other industries should be made with caution.

3. Recommendations for Future Research

This research shows that social capital, entrepreneurial orientation, and organizational resources influence entrepreneurial performance. Future researchers of new ventures are encouraged to investigate new ventures in a specific industry, for example, service sectors, to compare the differences in different industries. The nature of the influence of social capital, entrepreneurial orientation, and organizational resources for new ventures in different industries remains an interesting issue for future business research.

Given the emphasis on the practical application of data collection, profit information was collected on the subjective basis. Future new venture researchers are encouraged to obtain profit data from real financial reports, instead of subjective impressions of top managers.

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