

Cooperative's Social Capital and Entrepreneurial Orientation: A Conceptual Framework

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Abstract

The present article seeks to advance the theoretical knowledge on the social origin of entrepreneurial orientation (EO) by reviewing and synthesizing available research into a conceptual framework that explains the antecedent of EO especially in the less explored area such as social capital. The framework presents the reconceptualization of EO into entrepreneurial behavior (adjoining innovativeness and proactiveness) and managerial attitude towards risk (risk-taking). In addition, the framework identified three dimensions of social capital: structural, relational and cognitive that influence the development of the cooperative ability to exploit and discover entrepreneurial opportunities as well as coping with the risk they may face. Based on the arguments in this article, two major propositions were developed to refine our understanding of the social origin of EO. Finally, theoretical and practical implication were discussed.

Keywords: Social Capital, Entrepreneurial Orientation, Entrepreneurship, Cooperative

1. Introduction

Cooperatives plays an important role in the world economy. It is an enterprise collectively owned and democratically governed by a group of patrons (Benos, Kalogeras, Verhees, Sergaki, & Pennings, 2016; Feng, Friis, & Nilsson, 2016). It is defined by the International Cooperative Alliance (ICA) as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (Maslinawati, Intan Waheedah, & Arun, 2013). It is also another form of social enterprise because of its contribution to social and economic development in a sustainable manner (ICA & ILO, 2015; Riva & Garavaglia, 2016). Cooperative place an importance in securing job and better work environment, good salary pay, provide extra revenue through profit-sharing and distribution of dividends (Zeuli & Cropp, 2010). It is also often put forward as a vital organizational form to promote community development and sustainable business models (Purtik, Zimmerling, & Welp, 2015). However, if a cooperative does not succeed as a business, it will not succeed in creating wealth and reducing poverty (CCA, 2012). While being community owned and democratically controlled enterprise, cooperative must succeed as a business (CCA, 2012; SKM, 2011).

In today's aggressive competitive environment, firms are in constant change and involve in entrepreneurial creativities (Kantur, 2016). Cooperatives need to be more creative, innovative and efficient with entrepreneurial strategy in meeting to be in tandem with the private sector. Therefore, organizations that are risk taker, promote exploration of new things and give importance to innovation achieved a great popularity (Kantur, 2016). Previous studies suggested that entrepreneurial orientation (EO) is the main component for the success of the organization (Covin & Slevin, 1989; Merz & Sauber, 1995; Wiklund & Shepherd, 2005) and a source of competitive advantage (Lumpkin & Dess, 1996; Runyan, Droge, & Swinney, 2008). As a consequence, the lack of entrepreneurial capabilities could not foresee the potential opportunities to be explored and exploited (Wiklund & Shepherd, 2003).

Entrepreneurial orientation (EO) that is generally described as a strategic construct that captures a firm's strategy-making practices, management philosophies, and firm-level behaviors that are entrepreneurial in nature (Anderson, Covin, & Slevin, 2009) has been the discussion by a different scholars in the field of entrepreneurship for more than 30 years (Covin & Miller, 2014). Specifically, its significant influence on firm's growth financially as well as on non-financial aspect (Rauch, Wiklund, Lumpkin, & Frese, 2009). The most popular conceptualization of EO is proposed by Miller (1983) and (Covin and Slevin (1991) and describe EO as a firm's behavior that are characterized by three dimensions namely innovativeness, pro-activeness, and risk taking (e.g. Chien, 2014; Kraus, Ambos, & Semrau, 2016; Rauch et al., 2009). Recently, Anderson, Kreisear, Kuratko, Hornsby, and Eshima (2015) re-conceptualized EO into two dimensions. These are entrepreneurial behavior (adjoining innovativeness and pro-activeness) and managerial attitudes towards risk (risk-taking). The former refers to the firm's ability to commercialize innovative product/services to the market. Whereas, the latter describes manager's inclination to take action strategically even if the outcome is uncertain. However, the study on how firm may stimulate those behavior and attitude is still lacking. According to Wales (2016), the origin of the EO is remained important for further study.

Prior research explored the antecedents of EO but mainly focus on organizational, top managers, leaders and environmental characteristics (Pittino, Visintin, & Lauto, 2016; Wales, Gupta, & Mousa, 2013). However, entrepreneurship arises from social origins (Korsgaard & Anderson, 2011) and it still remain

unexplored (Wales et al., 2013). Specifically, literature on the role of social capital in stimulating EO is still an area for further study (Wales et al., 2013); although it has been proven as an important factor in influencing organizational innovation and performance (e.g. Andrews, 2010; Chen, Zheng, Yang, & Bai, 2016; Leana & Pil, 2006; Terry Kim, Lee, Paek, & Lee, 2013).

This paper is filling the gap by proposing a framework focusing on the influence of social capital dimensions (structural, relational and cognitive) on EO, particularly within the cooperative sector. The context of cooperative is significant to our topic since cooperative is a member-owned, member controlled and member benefiting governance structures (Zeuli & Cropp, 2010). Unlike other institution in which comprise of two players or organization own by investor whereby the power is held by the investor. Cooperatives are described by strong cooperation from its members in terms of decision making and benefits distribution (Marwa & Aziakpono, 2015). Thus, it is somehow that members know each other and their operation is derived from trust and social capital since the members are the owners and users of services and share a mutual bond (Marwa & Aziakpono, 2015).

Our paper mainly addresses the important gap in the literature on the antecedents of EO (Wales, 2016) that is still scant compared to performance result of EO while limited attention has been dedicated to the role of social capital (Wales et al., 2013). Social capital theory suggests that social relationships among organizational members and with outside actors is an important intangible resources (Burt, 1997); and that is prerequisites for information sharing, knowledge creation, risk-taking, and innovation (Chen et al., 2016). Therefore, this paper contends that social capital will significantly influence EO.

This article is structured as follows. In section 2, we outline the relevant literature and argument on the relationship between social capital and EO followed the proposed research framework and relevant hypothesis. Finally, the suggestion for further studies is explained.

2. Entrepreneurial Orientation (EO)

EO has been developed in the literature with two different conceptualizations of its constructs (Covin & Wales, 2012). The first one is EO conceptualized as a basic unidimensional strategic orientation by Covin and Slevin (1989) that is adapted from the pioneering work of Miller (1983). This concept comprises of three dimensions namely two behavioral (innovativeness & pro-activeness) and attitudinal (risk taking) (Anderson et al., 2015). Innovativeness is a tendency of a firm in engaging in and supporting the generation of new ideas and creative processes that may lead to new products/services; pro-activeness refers to taking the initiative by anticipating and pursuing new opportunities while risk taking is firm's willingness to engage in calculated business-related risks in the marketplace, even when their outcomes are uncertain (Lumpkin & Dess, 1996).

The second concept of EO is described by Lumpkin and Dess (1996) and expands the initial dimensions that characterized EO by introducing two additional dimensions namely competitive aggressiveness which is referred to firms successfully outperform industry rivals and autonomy that is refers to the ability of the firms to independently pursuit opportunities. Lumpkin and Dess postulate that these five components of EO is a multidimensional construct and may vary independently in defining EO (Covin & Wales, 2012). However, despite the difference on the conceptualization of its constructs, both share the same idea that EO reflects "the organizational processes, methods and styles that firms use to act entrepreneurially" (Lumpkin & Dess, 1996, p. 139).

3. Social Capital

Social capital is commonly used in different areas such as sociology, anthropology, politics, economics and organizational studies. Social capital is the planning of human resources to a better movement of information to make a profit (Ostrom, 1994). However, Putnam (1995) described social capital as the potentials activities of a group within the organization, that influence economic goals of its members. Social capital is an intangible resource, and a term originally used to describe relational resources, occurring in cross-cutting personal ties (Tsai & Ghoshal, 1998). According to Nahapiet and Ghoshal (1998), social capital facilitates the creation and sharing of intellectual capital in the firms and that the absence of social capital has negative effects.

Social capital has been measured differently by many scholar. Chloupková, Svendsen, and Svendsen (2003) state that social capital is consist of voluntary membership in an organization, trust and community participation. The additional common dimension of social capital is established by Putnam (1993) namely networks, norms, and trust. Numerous research highlights that networks are equal to social capital. Norms postulate what activities suitable or not, while trust is the assurance with others to continue a good relationship regardless of risk and uncertainty as well as exploitation.

However, Tsai and Ghoshal (1998) describe that the main element of social capital at the firm level and differentiate the three dimensions of social capital: the structural dimension, the relational dimension, and the cognitive dimension. Structural social capital is referring to a social networking and communication that a firm can use to obtain a particular resource and to simplify business operation. Relational social capital is the trust and honesty within the organization and its members while cognitive social capital relates to common goals and objectives that promote mutual understanding within the organization. These three social capital constructs are commonly used in business management research (Lee, 2009).

Furthermore, the correlation among social capital dimensions exist. For example, in structural social capital through the social networking can create trust and trustworthiness within the organization that is also referred to relation social capital (Tsai and Ghoshal 1998). According to Chow and Chan (2008), these two types of social capital can be regarded as inter-organizational and interpersonal trust inside an organization. In addition, cognitive social capital may also develop within the organization through a mutual understanding of the organization's goals and mission (Tsai and Ghoshal 1998).

4. Social Capital as a predictor of EO

Wales et al. (2013) suggest that although antecedents of EO has been examined, its origin as an organizational phenomenon remain unclear. Therefore, there is a little understanding on the origin of EO. According to Korsgaard and Anderson (2011), entrepreneurship arises from social origins; however, it remain unexplored. Thus, literature encourages researchers to continue to advance the theoretically grounded framework especially area which is relatively unexplored such as social capital in order to develop a variable in explaining and predicting EO (Wales, 2016; Wales et al., 2013).

Entrepreneurs and entrepreneurship are socially situated (Gedajlovic, Honig, Moore, Payne, & Wright, 2013) and the key aspect of the entrepreneurial process is the utilization of social capital by the entrepreneur (Ferri, Deakins, & Whittam, 2009). Given its usefulness in value creation and productivity, social capital is widely regarded as a facilitator for entrepreneurship (Shi, Shepherd, & Schmidts, 2015) and in the absence of social networks may affect the business operations (Anderson & Miller, 2003)

According to Gedajlovic et al (2013), social capital helps explain processes and outcomes of social interactions at multiple levels of analysis and across a diverse set of situations and contexts. Thus, by utilizing social capital, the entrepreneur is able to compensate or aggregate personal, limited amounts of other types of capital such as financial and human capital. Indeed, social capital is conducive to opportunity discovery or creation from uncertain and ambiguous environments (Greve & Salaff, 2003), and can be mobilized through the networks to help access and acquire other forms of capital or resources to exploit the opportunity (Arregle, Hitt, Sirmon, & Very, 2007).

Scholars have studied social capital in different phenomena of interest and has been used in examining its relationship towards various entrepreneurship concept, variables and constructs including entrepreneurial family business (Shi et al., 2015); organizational performance (Terry Kim et al., 2013); firm seeking financing (Uzzi, 1999); and new venture innovation (Yang, 2016). Thus, those works support the idea that social capital plays an important role in the entrepreneurial success in both established and new venture organization.

5. Social Capital Theory

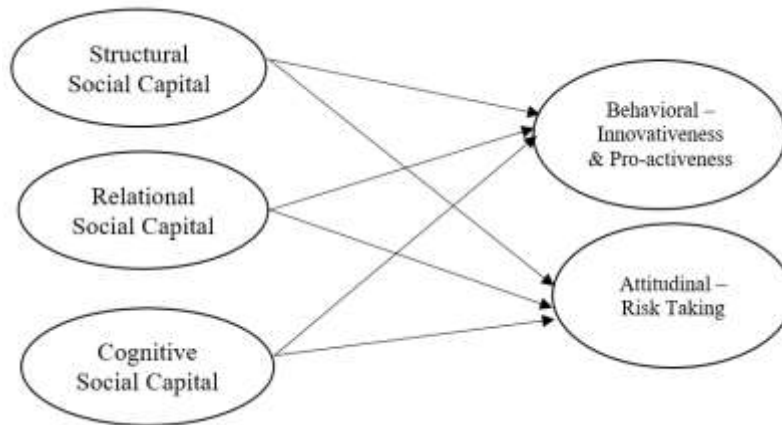
Social capital theory refers to the ability of actors to extract benefits from their social structures, networks, and memberships (Portes, 1998). Social capital theory suggests that social relationships among organizational members and with outside actors confer vital resources such as information, advice, social support, and friendship, all important preconditions for information sharing, knowledge creation, risk-taking, and innovation.

This paper is proposing a framework on the influence of social capital towards EO. According to Kaasa (2009), entrepreneurship arises from social origin. Social capital provides networks that facilitate the discovery of opportunities as well as the identification, collection, and allocation of scarce resources (Uzzi, 1999). Thus, social capital may also assist with the entrepreneurial exploitation process, by providing and diffusing critical information and other essential resources (Davidsson & Honig, 2004). Miles (2012) outlined benefits that social capital provide and these includes lower turnover rates, lower organizational failure rates, firm growth and enhanced entrepreneurship. Social capital provides a good basis to develop entrepreneurial endeavors and facilitates the fulfillment of competitive advantage (Huang & Wang, 2013; Kaasa, 2009).

Kaasa (2009) posits that social capital significantly influence entrepreneurial activities and help achieve competitive advantage of a firm. Therefore, social capital plays a significant part in entrepreneurial transaction because entrepreneur is resulted from social environment and lack of social networks may affect the business operations (Anderson & Miller, 2003). This means that the basis of entrepreneurial activity and strategic opportunity establish through a good network. Thus, social capital influence on EO is underpinned by social capital theory.

6. Conceptual Framework

Figure 1. Proposed Conceptual Framework



Proposition 1. Social capital dimensions have a significant relationship towards behavioral components of entrepreneurial orientation

Proposition 2. Social capital dimensions have a significant relationship towards attitudinal component of entrepreneurial orientation

7. Implication for Future Research

The conceptual framework presented in this article may serve as a platform for future empirical study on social capital as the predictor of entrepreneurial orientation especially in the context of cooperative. This article has developed propositions on how may cooperative improved their organization through strong social capital which in turns influence the development of the cooperative ability to exploit and discover entrepreneurial opportunities as well as coping with the risk they may face. An avenue for future research could then be addressed and develop the operationalization of the constructs in the framework and empirically test the proposition to empirically confirm or reject the theoretical assumption in this paper. In assessing social capital dimensions, research could, for example measure the construct similar to previous study (e.g. Chow & Chan, 2008; Liang, Huang, Luc, & Wangd, 2015; Terry Kim et al., 2013; Tsai & Ghoshal, 1998).

Moreover, researcher could measure EO using type II second-order formative EO scale (i.e. reflective first order, formative second order) as recommended by Covin and Wales (2012). As stated in Covin and Miller (2014), EO is a second-order construct formed in the aggregate by some combination of innovative, proactive, and risk-taking. Each of these dimensions makes a unique contribution to the overall construct and may vary independently of one another. Since the dimension in the second-order formative model characterizes by a different concept of the multidimensional construct, EO therefore is not necessarily to have similar antecedents (George & Marino, 2011). Researcher could furthermore measure EO based on a

highly salient yet largely unexplored issue is whether EO is fundamentally a behavioral phenomenon or whether it represents some kind of attitudinal among strategic decision makers (Anderson et al., 2015).

The recent assertion of Anderson et al. (2015) and supported by Wales (2016) that there are advantages in adopting a formative model of EO in which the lower order EO dimensions are separated into an attitudinal and a behavioral components. This may help future research explain whether EO relationships are driven predominantly by EO attitudes or behaviors (Wales, 2016) and this will help studies avoid reporting non-significant EO relationships when indeed there may be significance with one, but not both attitudes and behaviors taken together as the higher order EO construct (Anderson et al., 2015). Thus, future study can use EO as a second-order formative construct consisting of two dimensions – behavioral (innovativeness & pro-activeness) and attitudinal (risk-taking). Researcher could adopt the 9-item scale proposed by Covin and Slevin (1989) consist of three dimensions of innovativeness, risk taking and proactiveness. According to Rauch et al. (2009), since Covin and Slevin's scale has been used by numerous research on EO, it will ensure the high levels of comparability.

Another avenue for future study could be to investigate the influence of social capital towards entrepreneurial orientation in both individual and organizational level to validate the level of social capital within the organization. Moreover, social capital influence on EO can also be investigate in a new venture and small firms as well as large firms to know whose entrepreneurial practices is more benefited from social capital.

Finally, the study on the influence of social capital towards EO of cooperatives in Malaysia is still lacking. Therefore, future study could investigate the level of social capital among cooperatives in Malaysia and to what extent does it influence EO.

8. Implication for Practice

This paper may finally provide implication practically. The review of the literature suggests that entrepreneurship is socially situated and thus the key aspect of the entrepreneurial process is the utilization of social capital by the entrepreneur. Hence, high level of entrepreneurial orientation is influenced by a high level of social capital. Networks are essentials to organizational development and longevity. Having a good relationship with other organization can help interchange information within the network. The networks, for example, may provide entrepreneurs with information about the market, broaden linkages between the members and group. In addition, innovation may also occur due to information exchange (Liang et al., 2015).

Furthermore, trust is essential in every transaction (Arrow, 1972); as people who works together will always find ways to achieve their goals that, in the absence of social capital, would not be possible (Ostrom, 1994). Innovation may be discouraged in a low trust group, due to managers focusing time to prevent malfeasance and less time for innovation, however, the more trust the members or employees share, the more economic benefit they get (Liang et al., 2015). Therefore, trust can create possibilities to cooperate, communicate and coordinate within the organization, and lessen the operational cost and produces economic benefit.

9. Conclusions

This paper has reviewed the previous study into a conceptual framework to help enhance the little understanding on the origin of entrepreneurial orientation particularly its social origin. The role of social

capital as a predictor of entrepreneurial orientation is highlighted as it helps entrepreneurs exploit opportunity or creation from uncertain and ambiguous environments. The conceptual framework provides a theoretical platform from which to further explored entrepreneurial orientation as a socially situated. Based on the literature review, social capital is consisting of three components: structural, relational and cognitive social capital. Social capital is discussed to develop an argument on how it will significantly influence the behavioral (innovativeness & proactiveness) and attitudinal (risk-taking) entrepreneurial orientation. Moreover, this paper advance the theoretically grounded framework especially area which is relatively unexplored such as social capital in order to develop a variable in explaining and predicting EO (Wales, 2016; Wales et al., 2013).

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