

**THE MODERATING EFFECT OF SOCIAL
CAPITAL IN RELATION
TO ENTREPRENEURIAL ORIENTATION AND
FIRM PERFORMANCE**

ALIREZA JALALI

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**THE MODERATING EFFECT OF SOCIAL CAPITAL IN RELATION
TO ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE**

by

ALIREZA JALALI

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DEDICATION

If it was not for the encouragement that was given by my parents in my early years to continue school, I would have never succeeded. Their total support is simply outstanding.

This work is dedicated to my mother, Farah angiz Jangjoo, without whose caring support, it would not have been possible, and to the memory of my father, Mohammad reza Jalali and brother, Iman Jalali, who passed on a love of reading and respect for education.

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LIST OF ABBREVIATIONS

GDP	Gross domestic product
SMEs	Small and medium enterprises
UNIDO	United Nations Industrial Development Organization
RBV	Resourced-based views
EO	Entrepreneurial orientation
SC	Social capital
RT	Risk-taking
INN	Innovativeness
USD	United states dollar
NA	Not available
€	Euro sign
R&D	Research and development
FDI	Foreign direct investment
EU	European Union
DOS	Department of statistics
OPEC	Oil producer exporter countries
EIU	Economist Intelligence Unit
Ibid	In the same place
CRM	Customer relationship management
CIB	Central Bank of Iran
SCI	Statistical Centre of Iran

**KESAN PENYEDERHANA MODAL SOSIAL KE ATAS ORIENTASI
KEUSAHAWANAN DAN PRESTASI FIRMA**

ABSTRAK

Kepentingan orientasi keusahawanan (EO), pandangan berasaskan sumber (RBV), jenis rangkaian modal sosial (SC) dan perusahaan kecil dan sederhana (PKS) telah menjadi fokus utama dalam persekitaran industri pembuatan. Memandangkan persekitaran pembuatan yang sangat kompetitif, keupayaan dan kebolehpercayaan perusahaan kecil dan sederhana (PKS) adalah sangat penting untuk mencapai prestasi PKS yang dikehendaki, iaitu pertumbuhan keuntungan. Tambahan pula, literatur menegaskan bahawa penyelidikan yang lebih mendalam diperlukan dalam bidang keusahawanan dan prestasi firma. Dalam usaha untuk menangani keperluan ini, kajian ini mengkaji 1. Hubungan di antara EO dan prestasi SME dalam industri pembuatan dan 2. Kesan penyederhanaan rangkaian intra dan ekstra industri dalam EO dan hubungan prestasi PKSs pembuatan. Kaedah kuantitatif diaplikasikan melalui soal selidik. Instrumen pengumpulan data dalam kaedah kuantitatif dijalankan sepanjang soal selidik dan kesahihannya diukur berdasarkan kesahihan kandungan. Populasi kajian ini adalah PKS dalam industri pembuatan di Tehran dan Hamedan. Pensampelan rawak perkadaran berstrata digunakan dan daripada 351soal selidik yang diedarkan, hanya 150 borang kaji selidik yang dikembalikan, iaitu pada kadar pulangan 25 peratus. Sebuah model dihipotesis dan dianalisis melalui regresi berganda. Hasilnya menunjukkan bahawa EO

secara positif memperbaiki prestasi PKS pembuatan. Sebagai contoh, inovasi, proaktif dan pengambilan risiko adalah berkaitan secara positif terhadap pertumbuhan keuntungan. Sebuah model juga telah dihipotesis dan dianalisis melalui regresi berhierarki untuk menjawab persoalan kajian yang kedua dan ketiga. Hasil kajian menunjukkan kesan penyederhanaan intra industri yang signifikan ke atas hubungan antara EO dan prestasi PKS pembuatan. Keputusan menunjukkan bahawa rangkaian intra industri yang tinggi mampu menyederhanakan hubungan di antara inovasi dan kemampuan pertumbuhan keuntungan dan juga mampu menyederhanakan hubungan di antara pengambilan risiko dan pertumbuhan keuntungan. Sumbangan dan batasan daripada kajian ini turut dibincangkan dengan sewajarnya.

**THE MODERATING EFFECT OF SOCIAL CAPITAL IN RELATION
TO ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE**

ABSTRACT

The importance of entrepreneurial orientation (EO), resource-based view (RBV), network types of social capital (SC) and small and medium enterprises (SMEs) have become the main focus in the manufacturing environment. In view of the highly competitive manufacturing environment, the ability and reliability of small and medium enterprises (SMEs) is very important in order to achieve desired SMEs performance namely growth-profitability. In addition to that, literature argues that further research is required in the area of entrepreneurship and firm performance. In order to address this need, the study investigates 1. The relationship between EO and Manufacturing SMEs performance and 2. The moderating effect of intra- and extra-industry network in EO and manufacturing SMEs performance relationship. Quantitative method was done through survey. Instrumentation of data-gathering in quantitative method was done through questionnaires and its validity was measured by content validity. The population of this study was industrial SMEs in Tehran and Hamedan. Proportionate stratified random sampling was employed and out of 351 questionnaires sent out, only 150 questionnaires were returned, yielding a return rate of 25 percent. A model is hypothesized and analyzed by multiple regressions. The result implies that EO positively improved manufacturing SMEs performance. For instance, innovativeness, proactiveness and risk-taking are

positively related to growth-profitability. A model is also hypothesized and analyzed by hierarchical regression to answer the second and third research question. The significant moderating effects of intra-industry network were also found on the EO and manufacturing SMEs performance. The result implies that the high intra-industry network strongly moderates the relationship between innovativeness and growth-profitability and also strongly moderates the relationship between risk-taking and growth-profitability. Contributions and limitations of the study are also discussed accordingly.

Chapter 1

Introduction

1.1 Introduction of the chapter

This chapter provides an overview of the background of the study, problem statement, research questions, research objectives, significance of the study, scope of the study, and definitions of variables. The organization of this thesis is explained at the end of this chapter.

1. 2 Background of the study

A new era in the history of Iran's policy formulation emerged in 1997, when many economic variables came under the control of the government, the exchange rate was stabilized, inflation was brought under control by the central bank through the adoption of a contractionary monetary policy and budget control, and the period of per-capita income decline finally came to an end (United Nation Industrial Development Organization [UNIDO], 2003). The resulting restoration of socio-economic stability has helped the Iranian economy to go through a transitional stage of development from a relatively closed and controlled economy to a more open market-oriented economy. Inflation went down from 23.2% in 1997 to 16.3 % in 2011 (Central Bank of Iran [CIB], 2011), although wage increases did not compensate for inflation during this period and purchasing power of the labour force suffered a decline during this period. In addition,

the study has shown that only modest improvements were recorded in terms of income distribution. In the early 21st century, the service sector constituted the largest percentage of gross domestic product (GDP), followed by the manufacturing industry. In 2010, GDP was estimated at \$357 billion. The GDP figure is projected to double in the next five years (Ministry of Economic Affairs and Finance, 2010). In 2009, the ratio of research to GDP was 0.87% against the government's medium-term target of 2.5% (Economic intelligence Unit [EIU], 2009). However, real GDP growth will remain relatively sluggish, averaging 2.2% a year in 2012-2016, insufficient to improve the unemployment rate (EIU, 2009).

Thus, generating employment is an overwhelmingly important issue in Iran since 2000. According to data released by the statistical Centre of Iran, national unemployment rate rose up to 11.3 per cent in the third quarter of 2009, 1.8 per cent more compared to 2008. Up to 750000 people entered the labour market each year in Iran, where more than two-third of the population of 70 million is under 30 (Statistical Centre of Iran [SCI], 2010).

The significance of small and medium-sized enterprises (SMEs) in economic growth has made them basic root in the last policymaking (Hoffman , Parejo , Bessant, & Perren, 1998). SMEs are a major part of the industrial economies (Robles-Estrada & Gomez-Suarez, 2007; Eikebrokk & Olsen, 2007). Their eternity and improvement has therefore been a leading issue. Beck, Demircuc-Kunt and Levine (2005) found the relationship

between the size of the small and medium enterprises (SMEs) sector, economic growth, and poverty alleviation by using a sample of 45 countries, and found a strong and positive association between the importance of SMEs and GDP per capita. According to the SCI (1999) that categorizes businesses into four classes, i.e. businesses with 1-9 employees (micro enterprises), 10-49 employees (small enterprises), 50-99 employees (medium enterprises), and more than 100 workers (large enterprises). SMEs constitute 94% of Iranian firms, they are the main source of employment and they are flexible (Kamalian, Rashki, & Arbabi, 2011). As has been proven in many developing economies, the SMEs sector can be instrumental in employment generation, and can help to absorb not only the natural growth of the labour force but also manpower shed from the state-owned enterprises as a result of their rationalization or privatization.

According to UNIDO (2003), the most important goals of the current government policies towards SMEs with regard to the industrial sector are: a) upgrading productivity and human resource efficiency; b) upgrading technical and professional know-how and the skill level of the labour force; c) reducing governmental monopolies and promoting competitive economic activities; d) providing facilities to investors in small industries; e) supporting the growth of exports of non-oil products and technical and engineering services and f) reinforcing the electrical industries by coordinating investments.

In order to support the development of SMEs, entrepreneurship issues should be emphasized by the government. The role of entrepreneurs in developing communities has

been considered as a special issue by planners and policy-makers of the Islamic Republic of Iran for the last decade (UNIDO, 2003). Thus, relevant measures and mechanisms have been proposed to develop entrepreneurship in the private sectors as well as civil societies in third and fourth economic and social development program of the Islamic Republic of Iran. Since the turn of the century, as a first step, a plan named “Karad” involving more than 50 universities has been undertaken to train entrepreneurs and to carry out research into entrepreneurship by the Ministry of Sciences, Research and Technology (UNIDO, 2003). In addition to the universities, the government has also attempted to support entrepreneurial individuals and firms by establishing supportive legislation and providing necessary facilities. The lack of awareness on entrepreneurship could also be overcome by having one institute offering courses in entrepreneurship (UNIDO, 2003).

Organizational performance can be influenced by decisions resulting from a strategic planning process (Eriksen, 2008). The early strategy planning is important in determining the type of business (Miles & Snow, 1984). The field of strategic planning can develop with specifically focusing on market and EO such as processes with promising new technologies, being willing to seize new product-market opportunities, and having a predisposition to undertake risky ventures (Lumpkin & Dess, 1996). However, the trend has been to use concepts from the strategy planning process literature to model firm-level entrepreneurship (Covin & Slevin, 1989, 1991; Miller, 1983). According to Ruckert, (1992), strategy planning is a key organizing focus for market orientation and EO.

Market orientation (MO) is posited to reflect the extent to which firms establish the satisfaction of customer needs and wants as an organizing principle of the firm (Jaworski & Kohli, 1993). Empirical evidence suggests that the activities involved in becoming market oriented provide a unifying focus for efforts and projects of individuals within the organization, thereby leading to superior performance (Haugland, Myrtveit, & Nygaard, 2007; Wang, Hult, Ketchen, & Ahmed, 2009). EO is posited to reflect the extent to which firms establishes the identification and exploitation of untapped opportunities as an organizing essential of the firm (Lumpkin & Dess, 1996).

Empirical research reports independent direct effects of both MO (Wang et al., 2009) and EO (Casillas, Moreno, & Barbero, 2010) on performance. EO is the way of how strategies can be organized; it refers to a firm's strategic orientation, capturing specific entrepreneurial aspects of decision-making styles, methods and practices (Lumpkin & Dess, 1996). Although a firm's entrepreneurial processes may facilitate the pursuit of new entry opportunities that enhance its performance, adopting a strong EO is increasingly considered as necessary but insufficient for wealth creation by new ventures (Covin & Slevin, 1989; Ireland, Hitt, & Sirmon, 2003; Lumpkin & Dess, 1996).

A better understanding of the conditions which an EO enhances a firm's performance may thus require a contingency perspective that emphasizes on the importance of fit among a firm's strategic posture and other constructs of interest (Lumpkin & Dess, 1996). Portes and Sensenbrenner (1993) conceptualized social capital as the expectations for action within a group or organization that affects economic goals of its members.

While business owners can build up social capital amongst themselves, it is the community aspect of social capital that is important in this study. Social capital may help to create competitive advantage for a firm, through the exchange of information among members (Nahapiet & Ghoshal, 1998). Thus identifying the conditions under which particular relationships enhance or constrain entrepreneurial behaviours and performance represents an important research agenda (Lee, Lee, & Pennings, 2001). Miller (1983) defined EO as the organization's innovativeness, risk-taking and proactiveness.

These three dimensions have been adopted by most previous studies (Kreiser, Marino, & Weaver, 2002 ; Tarabishy, Solomon, Fernald, & Sashkin, 2005; Zhang & Zhang, 2012). Innovativeness is an organization's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services or technological processes, as well as the pursuit of creative, unusual, or new solutions to problems and needs (Lumpkin & Dess, 1996; Lumpkin & Dess, 2001; Certo & Certo, 2009).

Risk taking refers to a firm's tendency to engage in high-risk projects and managerial preferences for bold versus cautious actions in order to achieve firm objectives (Miller, 1983). Proactiveness is the process of anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of the life cycle (Lumpkin & Dess, 2001).

Entrepreneurship is defined as the creation of new business enterprises by individuals or small groups, with the entrepreneur assuming the role of society's major agent of change, initiating the industrial progress that leads to wider cultural shifts (Kent, Sexton, & Vesper, 2009). The need for entrepreneurship is very significant as modern organizations have to consider the ever changing and challenging environment. The environment is becoming more complex with the development of information technology where only the organizations that can effectively use digestible information and utilize the cognitive abilities of their human resources can assure their survival, growth and profitability. However, this requires creativity, innovation, strategic thinking and entrepreneurship in providing products and services (Goldsmith, 1995).

Entrepreneurship area deals with an enlarged range of theories and approaches and it has been studied in many different ways, with very different purposes. The resource-based views (RBV) of the firms have become one of the most widely used theoretical frameworks in the management literature (Beard & Sumner, 2004; Runyan, Huddleston, & Swinney, 2006). Several authors (Lippman & Rumelt, 1982; Jacobsen, 1988; Day & Wensley, 1988; Grant, 1991; Barney, 1991; Rumelt, 1991; Amit & Schoemaker, 1993; Day, 1994; Finney, Campbell, & Powell, 2005; Gordon, Lee, & Lucas, 2005; Janney & Dess, 2006; Runyan et al., 2006, Hunt & Davis, 2012) when referring to the RBV, have done more in a strategic context, presenting resources and capabilities as essential features to gain a sustaining competitive advantage and, consequently, to a superior performance. RBV categorized the resources as tangible or intangible in nature and one of the most important intangible resources is EO (Runyan et al., 2006).

1.3 Problem statement

The SCI (1999) categorizes businesses into four classes, i.e. businesses with 1-9 employees (micro enterprises), 10-49 employees (small enterprises), 50-99 employees (medium enterprises), and more than 100 workers (large enterprises). Statistics show that the share of added value of SMEs in Iran is less than the large enterprises. The added value of 94% of small and medium Iranian enterprises is just about 10% of the whole added value in the country (Kamalian et al., 2011). Table 1.1 shows that small and medium enterprises have the least share of value added in comparison with large Iranian enterprises between the years 2005 to 2009. The statistics proved that there is a need to pay more attention to SMEs in Iran.

Table 1.1. The added Value of enterprises in Iran according to the firm size

Large	Medium	Small	Firm size
Value added	Value added	Value added	Year
4444.9	377.9	875.1	2005
5172.3	368.3	846.8	2006
6099.6	418.6	847.5	2007
6046.8	457.0	782.3	2008
6321.3	450.5	866.9	2009

Source: Institute for trade study and research, 2009

UNIDO, (2003) has identified that one of the most important problems in Iran which is related to the industry is internal barriers including existence of traditional structure in different aspects of management, human power and machinery, inexperienced managers

and employees and non-personal abilities of managers and owners such as entrepreneurial abilities and orientation.

Another problem which is related to the Iranian industry is the inaccessibility to several kinds of information such as marketing data, information about SMEs technology and financial situation to help investors choose healthy work for investment, scientific and technical information and information about raw material providers and buyers (UNIDO, 2003). These kinds of barriers prevent from fostering strong EO among organizations. However, social capital can be used to solve this problem by providing entrepreneurs with the access to the information to increase venture performance.

A few studies have merely investigated the particular relationship between EO and the firms' growth (Covin, Green, & Slevin, 2006; Moreno & Casillas, 2008; Zhang & Zhang, 2012). A superior judgment of the situations under which EO reinforcement may need a contingency perspective that emphasizes the significance of fit among a firm's strategic position and other compounds of interest (Lumpkin & Dess, 1996). In addition, Peng and Lue (2000) argued that although making ties may facilitate the performance of entrepreneurial firms, not all ties do so equally. Thus, more research on different dimensions of entrepreneurship and firm performance are necessary (Kreiser et al., 2002; Rauch & Frese, 2000).

The majority of research has been directed towards the moderating role of environmental and organizational factors (Hu & Zhang, 2012), and only a few have examined the moderating role of social capital on the relationship between EO and firm performance (Simsek, Lubatkin, & Floyd, 2003). A research gap exists in understanding how social capital operates and endows benefits to firms that are beyond their start-up phase and are embarking in international activities (Anderson, Dodd, & Jack, 2010; Ellis, 2010). Specifically, 'the RBV's lack of specificity have raised questions as to its status as a legitimate theory, and makes it difficult to design and test empirically' (Reed, Lubatkin, & Srinivasan, 2006). For example, the study that was done by Stam and Elfring (2008) examining the moderating role of social capital between EO and firm performance in Sweden and the context of startup firms. Current study tries to bridge the gap of previous studies on EO and firm performance by examining the relationship between these two variables in Iran and the context of SMEs.

Although research on SMEs and EO has been substantial, these studies have been primarily conducted in the west. Research on SMEs and EO in Iran is scarce (Analoui & Karami, 2003). For example, Talebi and Tjedin (2011) emphasize on the importance of innovation dimension of the EO on SMEs in Iran. Current research tries to bridge this gap by measuring the influence of other dimension of EO such as risk-taking and proactiveness with regard to moderating role of intra and extra-industry network.

Manufacturing sector in Iran share 40% of GDP all over the country and has a very important role in employment. The big proportion of sharing GDP shows the importance

of this sector among all industries in Iran. The government has a plan to have an average annual growth of 11.2 percent in this sector. (Ministry of industry, Mine and Trade, 2013).

The limited empirical evidence suggests that although networks may facilitate the performance of entrepreneurial firms, not all ties do so equally (Peng & Luo, 2000). Thus, identifying conditions under which particular relationships enhance or constrain entrepreneurial behaviours and performance represents an important research agenda (Lee et al., 2001).

1.4 Research objectives

The aim of the present study is to identify the effect of EO on SMEs enterprises performance in Iran. Specifically, the study attempts to explore whether the effect of EO on a firm's performance is stronger for the firm with intra industry network and extra industry network. Thus, the objectives of this study are stated as follows:

- 1- To investigate the relationship between EO and SMEs financial performance in Iran.
- 2- To investigate the effect of intra industry network centrality as a moderator on the relationship between EO and SMEs financial performance in Iran.
- 3- To investigate the effect of extra industry network bridging ties as a moderator on the relationship between EO and SMEs financial performance in Iran.

1.5 Research questions

In this field of research specifically, the present study seeks to address the following questions:

- 1- To what extent does EO affect SMEs financial performance?
- 2- Is intra-industry network centrality moderating the relationship between EO and SMEs financial performance?
- 3- Is extra-industry network bridging ties moderating the relationship between EO and SMEs financial performance?

1.6 Significance of the present study

Nowadays, there is no doubt on the significance of the SMEs for development and the economic growth of the countries. Both developed and developing countries with the proper strategy try to solve the unemployment and produce better work environment and to utilize the SMEs in order to develop the entrepreneurship, and to increase the added value and industrial export. The SMEs are more changeable in comparison with the other larger enterprises and, innovation happens more in these enterprises. They could easily adopt themselves with the changeable environments and they showed a rapid reaction to the environmental factors such as economic, social, political, technical and legal factors. These factors could influence the survival of SMEs in Iran. Data statistics show that 80% of the enterprises have failed, going out of market in the first four years and the other 20% of the enterprises which have remained in the market do not have a noticeable

growth (UNIDO, 2003). Since environment factors can be considered as unforeseen factors, this study focuses on internal resources and capabilities and also their industry network in improving the performance of SMEs in Iran (UNIDO, 2003).

SMEs are the most important elements of the country to attract and to employ the majority of the population of the country. Because these enterprises could create more occupation with less capital, the number of occupations which are created by these groups are more than those that are created by large enterprises. The possibility of the creation of occupations as self-employment causes the entrepreneurs to be attracted to these groups of enterprises. These enterprises could create occupations for the youth, adults, women and infirm people. With these kinds of enterprises, we could easily gather the work groups which consist of different kinds of experts without any complex plan and wide changes in the structure of the enterprises. The expenditure of the existence of these enterprises from the industry are less than the large enterprises and because of this reason all countries have a special notice to these groups of enterprises and with the investigation of solving the problems of these groups, they tried to use different advantages of these enterprises. (UNIDO, 2003).

Entrepreneurship is mostly considered as an organizational phenomenon. Studying entrepreneurship at an individual level is not an easy task because there are several contingencies that affect the success of individual entrepreneurs. It is difficult to isolate these characteristics. Hence, it would be more beneficial when entrepreneurship is studied in terms of firm behaviours (Slevin & Covin, 1990). Organizations can also

create value for the society by making changes in the economic environment just like individuals (Covin & Slevin, 1991). Some authors argue that studying and conceptualizing entrepreneurship as an organizational behaviour rather than an individual act is a better approach (Murray, 1984). Furthermore, entrepreneurship as an organizational phenomenon usually related to larger established firms but it can also be applied to smaller organizations (Covin & Slevin, 1991; Wiklund, 1998). Following these propositions, in this study, entrepreneurship is studied at the firm level.

Entrepreneurship is essential for organizations regardless of their size. It is the entrepreneur who has an original idea and tries to make a difference for the market. However, even after the establishment, the firm has to continue this entrepreneurial spirit to protect its market share and to survive in the market for a long period of time. Therefore, entrepreneurship has critical importance also for small established firms. In addition, more studies from different cultural settings on entrepreneurship are advised to be conducted in order to test whether theories are also applicable in different settings (Krieser, Marino, & Weaver, 2002). There is a call for more research especially on different dimensions of entrepreneurship and firm performance (Krieser et al., 2002; Rauch & Frese, 2000).

Previous research has identified the access and use of networks as essential to the success of small professional service firms (Ram & Carter, 2003; Shaw, Lam, & Carter, 2008; Silversides, 2001). Building on such research, this paper identifies theories of

capital, particularly social capital, as appropriate in exploring the impact, which relationships, networks and reputation have on the creation and subsequent development of SMEs. Since very little research has been conducted on this topic in Iran, there is undeniably a knowledge gap in the understanding of this issue with regard to the EO. This study is an attempt to bridge that gap. For SMEs in Iran, an awareness of the characteristics of EO that result in superior firm performance might inspire them to enter into the export market. Therefore, this study offers a significant contribution to both practitioners and researchers. This study provides insights to both proactive and reactive entrepreneurs.

1.7 Definition of key terms

Entrepreneur

Bolton and Thompson (2004) regarded an entrepreneur as a person who habitually creates and innovates to build something of recognized value around perceived opportunities.

Entrepreneurship

Entrepreneurship is defined as the creation of new business enterprises by individuals or small groups, with the entrepreneur assuming the role of society's major agent of change, initiating the industrial progress that leads to wider cultural shifts (Kent et al., 2009).

Entrepreneurial orientation (EO)

EO is a construct involving organization's innovativeness, risk taking and proactiveness. (Miller, 1983).

Risk taking (RT)

Risk taking (RT) is defined as the willingness to be bold and aggressive in pursuing opportunities, and having preference for high-risk projects with chances of very high returns over low-risk projects with lower and more predictable rates of return (Katz & Brockhaus, 1993).

Innovativeness (INN)

Innovativeness (INN) is defined as the willingness to place strong emphasis on research and development, new products, new services, improved product lines and global technological improvement in the industry (Covin & Slevin, 1989).

Proactiveness

proactiveness is acting opportunistically in order to shape the environment by influencing trends and creating demand and becoming a first mover in a competitive market (Lumpkin & Dess, 1996).

Small and medium enterprise (SME)

The Iranian Statistical Year Book for 1999 categorizes businesses into four classes, i.e. businesses with 1-9 employees(micro enterprises), 10-49 employees(small enterprises), 50-99 employees(media enterprises), and more than 100 workers(large enterprises).

Intra-industry network centrality

Intra-industry network centrality is defined as a firm's situation in the complete composition of ties including a network and shows the firm's relational proximity to all other agents in the network (Stam & Elfring, 2008).

Extra-industry bridging ties

Extra-industry bridging ties is defined as the extent to which a firm maintains ties beyond the focal industry network to organizations from other fields (Geletkanycz & Hambrick, 1997).

1.8 Organization of the study

The present thesis is organized as follows:

Chapter one discuss on the introduction and background of the study. The research problems have been explored through the research questions and research objectives. The summary of the study's contributions have been elaborated as well.

Chapter two touch on SMEs in Iran. Chapter three will discuss on the theoretical aspects of overall EO and its dimensions and SMEs. This chapter presents and defines the concepts that are used throughout this study. It reviews the relevant literature to define the theoretical constructs needed for the development of a conceptual model linking EO and SMEs performance with the moderating effect of extra and intra-industry network. A theoretical framework will be presented together with the hypotheses of the present study. The constructs will be specified whereby the hypothesised relationships between these constructs will be stated and discussed in detail.

Chapter four discuss about the methodological and research design of the study, which include measures, questionnaires design (the survey instrument), units of analysis, sampling and pilot testing. The survey instrument is presented in detail with relevant reference to the literature.

Chapter five reveals the results of the study, the relationship of EO and SMEs performance with the moderating effect of extra and intra industry network. The

constructs will be validated through research findings and factor assessment leading to empirical analysis of theoretical model.

Chapter six reviews the discussion of the findings. Concluding remarks and avenues of future research will also be presented in this chapter.

1.9 Summary

The next chapter contains the literature review and we are going to discuss about the background of SMEs in Iran, the concept of EO, resource base view and social capital theory, firm performance, intra and extra-industry network and the framework. At the end of this chapter, we will explain about the planning of the questionnaires.

CHAPTER 2

SMALL AND MEDIUM ENTERPRISES (SMEs)

2.1 Introduction

The chapter is devoted to the definition and importance of SMEs in Iran and other countries. This chapter begins with different types of definition related to SMEs from different countries, continued with the importance of SMEs in developed and developing countries and the role of SMEs in Iran.

2.2 Definitions of Small and medium enterprises (SMEs)

There are many approved definitions of SMEs and the categorization varies according to different industries and different countries (O'Regan & Ghobadian, 2004). Different countries accept dissimilar approach such as employment, sales or investment for defining SMEs (Ayyagari, Beck, & Demirguc-Kunt, 2007). At present, there seems to be no general agreement on the definition for SMEs (Deros, Yusof, & Salleh, 2006). In absence of a certain categorization, a general agreement has been developed around the European Commission (EC) on the criteria for SME classification (O'Regan & Ghobadian, 2004). This definition accepts a quantitative approach impressing "tangible" criteria (employee numbers (up to 250 employees), turnover and balance sheet statistics) (Tiwari & Buse, 2007).

While turnover and balance sheet statistics are parts of the criteria, the important consideration in practice appears to be the employee number based. Even if all three criteria were afforded equal consideration, it could be discussed that the definition fails to take into calculation on the qualification of a modern day small to medium-sized firms.

There are a few different definitions based on number of employees. According to the Word Bank, SMEs are defined as the enterprises that employ 5 to 199 full time employees (Mulhern, 1995). On the other hand, the European commission (EC) defined SMEs as enterprises that employ less than 500 employees. In this case, enterprises were disaggregated into the following three categories (Mulhern, 1995)

- 1- Micro-enterprises- Those employing less than 10 employees
- 2- Small enterprises- Those will 10-99 employees and
- 3- Medium enterprises- Those with 100-499 employees

In the USA, according to the Committee for Economic development as noted in Gaedeke and Tootelian (1991), an SME should have at least two of the following characteristics:

1. Management of the business is independent. Usually managers are also the owners.
2. Capital is supplied by an individual owner or a small group.
3. The area of operation is local, employers and owners reside in one home community, the markets served need not be local.
4. The size of the firm is small relative to the industry.

In the UK, the approach used in defining SMEs is almost similar to the one practiced in the USA (Hashim & Abdullah, 2000). In Iran, the SCI (1999) categorizes businesses into

four classes, i.e. businesses with 1-9 employees (micro enterprises), 10-49 employees (small enterprises), 50-99 employees (medium enterprises), and more than 100 workers (large enterprises).

2.3 The importance of SMEs in general

SMEs are actually the engines of global economic growth (Acs & Preston, 1997). If the SMEs can carry out the customer demands according to the features and quality of the products, they can successfully enter the universal market (Kušar, Duhovnik, Grum, & Starbek, 2004). SMEs perform a significant role to advance the economic development. SMEs in the beginning of research and development (R&D) activities always face capital shortage and require technical support. In most countries, SMEs dominated the artful and commercial foundation (Deros et al., 2006).

More significantly, SMEs played an important role in foreign direct investment (FDI) (Kuo & Li, 2003). Many economists have an opinion that the wealth of nations and the development of their economies forcefully depend upon their SMEs' efficiency (Schröder, 2006). SMEs seem to be proper units to act like network nodes because of their lean structure, active involvement of flexible human resources, compatibility to market evolution, capability to establish subcontracting relations and good technical level of their products (Mezgar, Kovács, & Paganelli, 2000). In the light of the above, SMEs have benefits in terms of adaptability, response time, and innovation volume that make them important players in the new economy (Raymond & Croteau, 2006).

From the human resources perspective, SMEs' employees are allowed to have the authority and responsibility in their own department that can initiate cohesion and develop common purposes during the labour to ensure that a job is properly done (Deros et al., 2006). In consideration of fulfilling a suitable knowledge management strategy in SMEs, cultural, behavioural, and organizational issues are required to be solved before even implementing technical issues (Nunes, Annansingh, Eaglestone, & Wakefield, 2006).

Acs and Preston (1997) argued that the global distribution of SMEs innovations is significant for international economic happiness. From the social capital point of view the classical independence of small firms is substituted by a network environment (Hanna & Walsh, 2002). Relatively, three kinds of technologies are improved by SMEs: small scale technologies, labour intensive technologies and specialized high technology know-how (Acs & Preston, 1997). It is really important to develop the networks in order to improve the innovativeness and resource achievement in the cycle of the management of these technologies.

Dickson and Hadjimanolis (1998) explained that since small companies usually need some of the basic resources for innovation, they must obtain them from external sources outside of the industry, such as other companies, technical institutions and etc. Therefore the entrepreneur that supports his or her company by a strong network can be successful in developing the company. It is also important for the companies to have the ability to network. As firms use internal and external networking, the critical abilities are moving

from firms outside of the industry and also between different departments inside the industry; alliances and innovation will need to move too (Hanna & Walsh, 2002). In addition to the above explanation about SMEs, table 2.1 lists a few studies discussing on different advantages of SMEs such as flexible and fast-response to change, easily adoptive to the new market, quick decision making process, Strong inter and intra-firm relationships , managing a great amount of information and many more.

Table 2.1. Some of the major advantages of SMEs

Advantages	References
Generally dominated by the entrepreneur (owner manager)	(Jones & Macpherson, 2006; Bougrain & Haudeville, 2002; Love & Irani, 2004)
Able to respond quickly to customer requests and market changes and customers focused	(Jones & Macpherson, 2006; Canavesio & Martinez, 2007; Huang, Soutar, & Brown, 2004)
Flexible and fast-response to change, easily adaptive to new market conditions , dynamic in behaviour, developing customized solutions for partners and customers	(Deros et al., 2006; Sarosa, 2007; Abdul-Nour, Drolet, & Lambert, 1999).
Concentrated production and sales in their home country Driven by client demands	(Narula, 2004; Perrini, Russo, & Tencati, 2007).
Quick decision making process (decisions are made by an individual or a small number of people, or a single individual)	(Lawson, Longhurst, & Ivey, 2006; Deros et al., 2006; Axelson, 2005)
Strongly correlated and inter-related with respect to innovation and entrepreneurship High innovatory potential	(Robles-Estrada & Gómez-Suárez, 2007; Gray, 2006; Gunasekaran, Marri, & Grieve, 1999)
More extensive use of external linkages for innovates.	(Laforet & Tann, 2006; Hoffman et al., 1998; Barnett & Storey, 2000)
Strong inter and intra-firm relationships , managing a great amount of information	(Carbonara, 2005; Chen, Tzeng, Ou, & Chang, 2007)
Good at multi-tasking	(Schatz, 2006)
Focused on gaining instant gratification with technology solutions.	(Schatz, 2006)
Informal and dynamic strategies	(Sharma & Bhagwat, 2006)