Network Orientation, Dynamic Capability and New Enterprise Performance

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Abstract. Based on the resource dependence theory, this paper proposes the relationship between network orientation, dynamic capability and new enterprise performance on the basis of literature analysis. There are inverted u-shaped relationships between network cooperation and the performance, network attention and the performance and network openness and new enterprise performance, and dynamic capabilities positively moderate the relationship between four dimensions of network orientation and new enterprise performance. Finally, future research and implications are addressed.

Introduction

Uncertain market environment and imperfect business infrastructure indirectly increase the importance of enterprises' own social network. According to the social network theory, the relationship between enterprises and other individuals or organizations can provide funds, technologies and other resources for them to promote enterprise activities or behaviors. Meanwhile, the natural characteristics of "new and small" facilitate start-ups to catalyze and elevate the role of networks, and promote new enterprises to implement the strategic trend of network orientation. Network orientation refers to corporate cooperation, attention and open network attitudes and tendencies[1][2], reflects the willingness of enterprises to build and utilize network relationships. In the context of lack of institutional support in China, it is very common to seek business support through their social network.

In recent years, the relationship between network orientation and competitive advantage and performance has become the focus of attention in the field of entrepreneurship research and strategic management. Most studies support the view that network orientation positively affects the competitive advantage and performance of new enterprises[1][2]. However, the knowledge and theoretical basis of the research on the relationship between network orientation and new enterprise performance still need to be improved. Specifically, based on the social network theory and resource-based theory, existing studies emphasize that new enterprises implementing network orientation usually have abundant network connections, namely, high-quality resource acquisition channels[3], so as to effectively promote new enterprises to achieve competitive advantages and improve performance[4]. However, from the perspective of cost perspective, to successfully adopt the network-oriented strategic approach is bound to invest a lot of time and energy in the network, so whether the new enterprise can also consider the internal operation and management? Will the marginal cost of network-oriented strategic activities exceed the marginal benefit? Moreover, with the increase of investment in the network, the relationship quality between new enterprises and network members is gradually enhanced, forming a strong connection. Then, will the continuous development lead to the closure of the new enterprise network? In addition, from the perspective of capability, environmental adaptability, resource integration ability, operation and management ability will all affect the efficiency and effect of transforming resources into performance, so whether the new enterprise has enough ability to promote the positive conversion of resources acquired from network-oriented activities into performance?
Literature Review and Proposition

Network Orientation

Sorenson et al. (2008)¹ believe that network orientation is the tendency and expectation of enterprises to build cooperative relations with social network members. It is embodied in two aspects: first, outside the organization, enterprises are willing to broaden the cooperation network; Second, compared with the hierarchical organizational structure, enterprises prefer decentralized network teams. Dong (2015a)⁵, on the basis of Sorenson's research, defined network orientation from the perspective of entrepreneurship, that is, the tendency and attitude of enterprises to establish network relations with internal actors and external environment subjects in the process of establishment and growth. Although the above two definitions define different subject scope, they both involve the internal and external network construction of the organization. Therefore, based on the above research results, this study defines network orientation as the psychological tendency and preference of new enterprises to actively build networks in order to obtain resources, identify opportunities and ensure the smooth implementation of entrepreneurial strategies.

Concerning the dimension of Network orientation, Sorenson et al. (2008)¹ analyzed this concept from three aspects: Collaboration, Inclusive Network and Network Team Structure. Khanna and Rivkin (2015)⁶ that can be to interpret Network oriented from four aspects, namely the Network Thinking, Network Construction, Network Focus and Network Openness. Dong et al. (2016)² revised the dimensions of network orientation into three aspects, namely, network cooperation, network attention and network openness by interviewing and testing data of new enterprises in China.

Dynamic Capabilities

Dynamic capability is one of the important capabilities in the field of strategic management research. It is an important capability for enterprises to respond to environmental changes quickly, allocate resources effectively and develop new products or services. It is also an important source of long-term competitive advantage for enterprises. Dynamic capability refers to the ability of an enterprise to update itself by restructuring various resources and capabilities in the face of changing environment. Organizational capabilities are embedded in organizational structures and processes to explore ways of integrating and restructuring resource allocation to match the changing market and technological environment through a dynamic path. At present, many scholars divide the dynamic capability dimension according to the research purpose of teams.

Propositions

According to the resource dependence view, enterprises are most concerned about survival, and survival needs resources. "New and small" birth defects make new enterprises face serious resource constraints. From the perspective of network theory, enterprises can obtain external resources at low cost-effective through the network, and the resources are usually heterogeneous. Network cooperation, network attention and network openness are three dimensions of network orientation, and the positive linear relationship between them and enterprise performance has been confirmed by many scholars⁴, but some studies also show that the relationship between them is nonlinear. Network cooperation emphasizes the communication and cooperation between new enterprises and internal and external network subjects. Cooperative network is an important path to acquire resources and knowledge. It mainly benefits the organization in two ways. Secondly, the cooperation network established outside the organization becomes the channel for non-redundant information and heterogeneous resources transmission, through which new enterprises can identify opportunities and obtain resources. However, when new enterprises invest excessive resources in network cooperation, establish close cooperative relations with network members, and form strong connections with each other but lack weak connections, the network tends to be closed. In a closed network, it is difficult for new enterprises to access new information and knowledge, and occupying a central position in the network will gradually reduce the willingness to innovate, therefore, enterprises are faced with the risk of being eliminated in the process of competitors' innovation. In
addition, Wilkinson and Young(2002) \cite{7} believe that expanding network cooperation and responding to network activities will make enterprises’ business more closely connected with the network, and this behavior pattern will lead to a more complex and chaotic environment. In other words, the excessive network behavior of enterprises will not be able to effectively adapt to their business environment. However, the inertia of network dependence leads to the decline of enterprises’ environmental adaptability. Therefore, the following proposition is proposed in this study:

Proposition 1: there is an inverted u-shaped relationship between network cooperation and the performance of new enterprises. Compared with the new enterprises with moderate network cooperation, the performance of the new enterprises with low network cooperation tendency and over-dependence on network is poor.

Network attention means that enterprises tend to establish good cooperative relations with external contacts and actively deal with opinions and suggestions of network members, so as to form diversified and heterogeneous external network structure. When the new enterprise pays less attention to the network or only invests a small amount of resources in the network, the external network is scarce and stakeholders lack the cognition of the enterprise, so the new enterprise cannot obtain heterogeneous resources through the network, and can only passively rely on its own resources to carry out actions \cite{7}. However, the lack of resources is not conducive to new enterprises to explore valuable opportunities in the market, and they are unable to carry out high-risk innovation activities to increase market share, so they can only maintain the current operating situation, which is not conducive to the improvement of performance. However, if new enterprises pay too much attention to the Internet, the “new and small” birth defects make enterprises subject to serious resource constraints. When the enterprise will be most resources to expand the network or Internet connection in order to maintain high density high strength invest a lot of resources, so due to the limited resources, is used to identify or develop new opportunities and meet the demand of customers and other stakeholders of resources may be limited by significant constraints, the negative effects of will offset the network brought about by the marginal revenue. Moreover, time is the scarcest resource, and how it is allocated will have profound economic consequences. At this time, new enterprises face the dilemma of time resources due to excessive attention to the network, which will lead to no time to pay attention to the internal operation and management of the enterprise, resulting in disorderly allocation of resources, which will not be conducive to the implementation of customer-oriented product development strategy; Similarly, due to the limitation of resources, it is difficult for enterprises to implement market development strategy to expand or segment the market. In the long run, the above problems will affect the sustainable development of enterprises, and the direct consequence is the increase of internal operating costs and the gradual decline of enterprise performance. Therefore, the following proposition is proposed in this study:

Proposition 2: there is an inverted u-shaped relationship between network attention and the performance of new enterprises. Compared with new enterprises with moderate network attention, new enterprises with low network attention and excessive network attention have poor performance.

Network opening regards the organization as a network group, and emphasizes the decentralization, decentralized management and smooth and harmonious network communication within the organization\cite{1,6}. According to the trait motivation theory, employees are easily motivated to actively build personal relationship networks in the context of open networks. With the improvement of the openness of the internal network of the organization, the atmosphere of the organization gradually becomes loose, and the power system between the upper and lower levels is weakened, which tends to be decentralized and open management mode. In addition, the formal and informal communication channels are conducive to the positive and timely feedback and communication between employees on the implementation of strategies, so as to make a wide range of comments, brainpower and improve decision-making efficiency and operational efficiency. However, the trait stimulation theory points out that such situational effect will encourage employees to actively expand their workplace relationship network, and it is easy to form small groups among organizational members. Based on the different interests of various groups for new
enterprises limited resources to produce conflict, although based on the theory of cooperation, competition can effectively manage conflict, but the new businesses need to pay a lot of resources processing organization internal friction, conflict, reduce organizational effectiveness. Moreover, individual-centered network members form strong connections, destroy the internal stability of new enterprises, and limit enterprises' ability to cope with environmental changes. In addition, the over-open network causes the communication cost of enterprises to rise. Internal communication itself is characterized by frequent and scattered communication, and the ineffective rate of information transmission among small groups that are in charge of their own affairs is more significant, and even invalid transmission occurs, leading to the increase of communication and coordination costs and the decline of operational efficiency. Therefore, this study believes that the performance of new enterprises will decline under the overly open network. Therefore, the following proposition is proposed in this study:

Proposition 3: there is an inverted u-shaped relationship between network openness and new enterprise performance. Compared with new enterprises with moderately open network, new enterprises with low open network and excessively open network have poor performance.

According to the capability view, although enterprises can obtain a large number of heterogeneous resources through the network, how to transform static resources into dynamic performance advantages requires enterprises to match their capabilities. By changing dynamic capability, the influence of new enterprise network orientation on performance may change. In other words, dynamic capability may regulate the relationship between network orientation and performance.

The moderating effect of dynamic capability on the relationship between network orientation and performance is mainly manifested in four aspects. Firstly, in a dynamic changing environment, dynamic capability is a necessary condition for strategy implementation and enterprise excellence [6]. Second, dynamic capability plays an important role in the identification of valuable resources and efficient allocation of resources by enterprises. Third, in the face of uncertain environment, the dynamic ability promotes the flexibility of enterprise organization and fits the strategic development; Fourth, dynamic capability is conducive to the construction of a learning organization, constantly revising the organization's actions to promote the implementation of strategies. Enterprises with strong network orientation share information and knowledge and exchange resources in network relationship channels. According to the resource-based view, enterprises gain competitive advantages in the network with strong density and wide span, but the performance brought by network orientation in the dynamic environment is limited. Dynamic capability can better escort the organization in the rapidly changing environment. Meanwhile, it can also effectively allocate resources and improve operational efficiency in the static environment. Therefore, with the same strength of network orientation, enterprises with strong dynamic capability have a far higher effect of transforming resources into performance than enterprises without dynamic capability. Dynamic capability strengthens the advantages brought by network, and thus adjusts the relationship between network orientation and performance. Therefore, the following proposition is proposed in this study:

Proposition 4: dynamic capabilities positively moderate the relationship between network orientation and new enterprise performance.

Conclusions

In order to solve the above problems, we put forward a point of view which is inconsistent with the existing proposition that there are potential moderating effects and curve effects between network orientation and new enterprise performance. In this study, resource-based theory and trait motivation theory are introduced to help explain the findings of previous studies and show the nonlinear relationship between network orientation and new business performance. Then the boundary condition of dynamic capability is studied to further fill and enrich the framework model. The above relationships exerted a very interesting and pioneering research topic in management and all hypotheses should be tested in the near future.
References


