

# The Mediating Role of Entrepreneurial Orientation Between Relational Capital and Firm Performance: Evidence From Iranian SMEs

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## ABSTRACT

Performance is the entire indicator of the ability of an organization to satisfy its stakeholders that can be measured in subjective way (Primary data) for SMEs. This study explores the mediating effect of entrepreneurial orientation (EO), looking at the relationship between relational capital and performance. A questionnaire was administered to 150 manufacturing small and medium enterprises (SMEs) in Iran. A model relating relational capital to performance through EO is tested using Smart PLS with two stage analysis, and the results turned out positive. Additionally, results indicate positive relationship between relational capital and EO, as well as EO to performance. The main contribution of this study resides in addressing the signification of EO as key mechanism to transform the advantages of relational capital to improve firm performance.

## KEYWORDS

Entrepreneurial Orientation, Innovativeness, Iran, Performance, Proactiveness, Relational Capital, Risk-Taking

## INTRODUCTION

Fundamentally affecting the economic growth, both globally and domestically, customer-based Small and medium enterprises (SMEs) are promised a smooth path towards the global market (Jalali & Jaafar, 2019). Jalali, Abhari, and Jaafar (2022) argued that SMEs focusing on meeting customer demands can successfully enter the universal market. Rashidirad and Salimian (2020) asserted that SMEs account for an estimated two-third of industrial employment in developed countries such as USA and UK. In addition in almost all developing countries across the world, SMEs comprise more than 90 per cent of all jobs and added value and contribute to 40 percent of total GDP (Dias, Rodrigues, Craig, & Neves, 2018).

In Iran, SMEs account for a large portion of enterprises (80 per cent) and contribute nearly 36 per cent of value-added to its national economy (Jalali, Jaafar, & Ramayah, 2020). Smes can significantly contribute to the growth of the economy in Iran (Sadeghi, 2018). Jalali and Jaafar (2019) asserted that SMEs have begun receiving attention from the Iranian government due to their potential in promoting inflection and novel products, as well as in employment, in comparison to large enterprises. Given

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the fact that SMEs are a multi-faceted entity, definition of SMEs vary including micro enterprises with 1 to 9 employees, small enterprises with 10 to 49 employees, and medium enterprises with 50 to 99 employees (Jalali et al., 2020). According to Afshar Jahanshahi, Nawaser, and Brem (2018), political sanctions, such as limited access to various resources (e.g. loans), limited market demand because of economic contraction, limited access to new technologies and information because of the trade embargo, as well as lack of entrepreneurial skills and abilities among entrepreneurs, had tempered with the act of empowering SMEs through innovativeness.

Traditional economy focused on the basic resources necessary for the firm such as land, labour and other classical assets (Jalali et al, 2022; Sullivan, 2000). Jalali and Jaafar (2019) employed the resource-based view (RBV) in order to seek a list of resources (tangible and intangible) that motivates the SMEs competitiveness level. According to the resource-based view (RBV), a firm's resources, particularly intangible ones, are more likely to contribute to the firm's attaining and sustaining superior performance (Hsu & Wang, 2012). To maximize performance, managers need to pursue competitive strategies that best match the conditions of the intangible resources. In other words, the availability rate of intangible resources such as relational capital (Hsu & Fang, 2009) is expected to affect a manager's strategy. Therefore, a manager's strategy must be to deploy its resources to seize opportunities in the market (Hsu & Wang, 2012).

Safari and Saleh (2020) argued that recent business environment places greater emphasis on the informational age rather than the industrial age. In the field of entrepreneurship study Liao and Welsch (2005, p. 350) defined relational capital as the extent to which "an entrepreneur is actually able to receive informational, physical and emotional support". Thus, Jalali et al. (2020) found that firms which develop informal internal and external relationships and smooth the piecemeal allocation to merge and share resources will show a higher level of entrepreneurial behaviour. There are numerous studies in entrepreneurship which show the benefit of social relationship in order to sustain new business (Safari & Saleh, 2020). Moreover, Jalali et al. (2022) examine how an impressive relationship can be sustained over the long term. Despite the previous studies that have been done regarding networks, Cohen and Kaimenakis (2007) argue that few studies have explored intangible resources such as relational capital in SMEs.

Studies has reported the utilization of EO, proactiveness, risk-taking and innovativeness behaviours; in assessing firms' strategical stance to exploration of opportunities is yet maximized (Wiklund & Shepherd, 2005). The elements of EO are behavioral and action oriented. Hence, when it is interconnected to the antecedent notion of relational capital firm capability, SMEs may exhibit the necessary and sufficient conditions to successfully cope with exogenous and endogenous challenges.

Despite the existence of reports documenting on the ability of EO to improve SMEs performance (Chong, Ong, & Tan, 2018; Jalali, Jaafar, & Ramayah, 2013), empirical research has given notable consideration on contingency framework (e.g. Stam & Elfering, 2008 and Jalali, Jaafar, & Ramayah, 2014) but the mediating role of EO in the models of firm performance has been neglected (Rosenbusch, Rauch, & Bausch, 2013). Moreover, Wales, Gupta and Mousa (2013) argued that although a few studies found some antecedents for EO, the principles' of EO as an organic phenomenon remain unknown. This has encouraged researchers to find more antecedents for EO specially in the field of networking and the expansion of research into several country clusters such as Middle East and Latin America where EO remains virtually unexamined. Thus, this article prepares empirical evidence for a missing link in the literature by investigating EO as the key mechanisms, wherein relational capital can influence firm performance.

In addition, most SME studies in Iran have focused only on innovativeness dimension of EO strategies (e.g. Kamalian, Rashki, & Arbabi, 2011 and Jalali et al, 2020) and the role of IT (e.g. Sanayei & Rajabion, 2012). The role of Multidimensional EO in the model of the SMEs performance in Iran remains unclear. Following These, pressing research gap is observed when it comes to understanding the relational capital operative system and its practical international activities. This study seeks to provide empirical evidence to address the literature gap regarding to identifying the mediating role of EO between the relationship of relational capital and SMEs performance.

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