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Business Model Innovation-Related Theoretical Perspectives and Current Vietnam Entrepreneurial Behaviour

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Abstract

The aim of this paper is to explore whether different, preferably innovation-related theories may contribute to a better understanding of entrepreneurial behaviour. The entrepreneurial characteristics of innovativeness, pro-activeness and risk-taking expected to characterize entrepreneurial behaviour are addressed and five different theoretical perspectives that deal with these three entrepreneurial characteristics are reviewed on how these perspectives can contribute to the understanding of current entrepreneurial behaviour in Vietnam

Keywords: *Innovation theories, entrepreneurial behaviour, business model*

1. Introduction

Entrepreneurship have received lot of attention in society during the latest decades since entrepreneurship is viewed as crucial for economic growth and enabling organizations to quickly be able to adjust to new situations in order to stay competitive in an ever increasing competitive and more knowledge-based environment (Hitt, Ireland, Camp and Sexton, 2002).

To be successful, a firm must have the capacity to innovate faster than its best competitors. Essentially, this capacity is about identifying new ways of doing business, developing new technologies and products, and entering new markets in novel organizational forms (Teng, 2007).

Against this background, there is a continual need for organizational renewal, innovation, constructive risk-taking, and the conceptualization and pursuit of new opportunities (Miller, 1983). These activities are often collectively called corporate entrepreneurship (Covin and Slevin, 1991), firm behaviour (Covin and Slevin, 1991), entrepreneurial orientation (Lumpkin and Dess, 1996; Dess et al., 2008) and strategic orientation (Venkatraman, 1989). These terms have been used to describe the phenomenon of entrepreneurship at the organizational level. In this study, we will use the term *entrepreneurial orientation* to refer to strategy making practices that entrepreneurs or firms use in identifying and launching successful ventures (Lumpkin and Dess, 1996). This construct has been studied in different ways according to the purposes of the researcher. Miller (1983), for example, introduced psychological and individual concepts such as innovation, risk taking, and proactiveness into the firm's context.

As a result, new forms of entrepreneurship have appeared. While entrepreneurship has traditionally been viewed as individual-level related to create new organizations, entrepreneurial orientation represents a framework and a perspective towards entrepreneurship that is reflected in a firm's or entrepreneur's ongoing process and organizational culture (Lumpkin and Dess, 1996; Dess et al., 2008). Over the past years, entrepreneurial orientation has widely been touted by executives and researchers alike as an effective means for revitalizing companies and improving their performance (Zahra and Covin, 1995; Antoncic and Prodan, 2008). Recently, there has been a growing interest in the use of entrepreneurial orientation as a means for corporations to enhance the innovative abilities of their employees and, at the same time, increase corporate success through the creation of new ventures (Kuratko et al., 1990). As noted by Shendel (1990), a broader view of entrepreneurship would include not only the popular view of entrepreneurship, but also one that recognizes the notion of re-birth of on-going organizations.

This paper focuses on the entrepreneurial characteristics of innovativeness, pro-activeness and risk-taking expected to characterize entrepreneurial cooperation. Thereafter I review if and how the selected five different theoretical perspectives deal with these three entrepreneurial characteristics and also summarize how these perspectives can contribute to the understanding of current Vietnam entrepreneurial behaviour.

2. Entrepreneurial Characteristics

We will hear more thoroughly present the three widely accepted characteristics of entrepreneurship that by definition also should be relevant to address the theme of this paper: entrepreneurial collaboration/partnerships.

Innovativeness

Innovativeness ranges from incremental to radical. Incremental innovation is critical to sustaining and enhancing market shares (Baden-Fuller and Pitt, 1996) and focuses on improving existing products and services to satisfy customer demands (Bessant, 2003). Innovative entrepreneurial organizations are often first-to-market with new product offerings (Covin and Slevin 2001) and radical breakthroughs serve as the basis for future technologies, products and services (Hamel, 2002). A radical innovation is defined as the commercialization of products or technologies that have a strong impact on (a) the market, in terms of offering wholly new benefits, and (b) the organization, in terms of generating new business (O'Connor and Ayers, 2005). Therefore, in this paper is innovativeness understood as a firm's tendency to be creative and original in areas such as products, services, processes, strategies and structure.

2.1. Proactiveness

Proactiveness occurs when an organization anticipates future problems, needs, or changes. The concept is related to the act of initiative in the entrepreneurial process and involves a wide variety of activities including identifying opportunities and market trends, and exploiting opportunities by introducing new products and services (Lumpkin and Dess, 1996; 2001).

Proactiveness implies that entrepreneurs create and control the situation and initiate things to happen rather than reacting to events in the environment. To be proactive also means that the entrepreneur act opportunistically in seeking out attractive niches and creating the necessary resources to entry new markets, and thereby gain advantages (Lumpkin and Dess 2001).

2.2. Risk-Taking

Risk-taking refers to an organization's willingness to venture into an uncertain and unknown environment or commit a large portion of resources to ventures with uncertain outcomes. The level of risk-taking is often used to describe entrepreneurship and Miller and Friesen (1978:923) defined risk-taking as *"the degree to which managers are willing to make large and risky resource commitments – i.e., those which have a reasonable chance of costly failures"*.

We have now outlined the entrepreneurial characteristics and in the coming sections, and we will review if and how the selected five different theoretical perspectives deal with these three entrepreneurial characteristics understood to be fundamental in entrepreneurship and hence also in entrepreneurial collaboration.

2.2.1. Transaction Cost Theory

Transaction cost theory (Coase, 1937; Williamson, 1975, 1985, 1991) has received significant attention in the literature on inter-organizational collaboration. It has its origin in economics and views the firm as a production unit. A transaction is a transfer of goods or services between economic actors, and Coase (1937) argues that the explanation for the existence of transactions in the firm can be found in the cost linked to organizing production through the price mechanism on the market. These costs of transactions are incurred in making economic exchanges and consist of costs in searching for a supplier or a partner or a customer, the cost of establishing, monitoring and enforcing the implementation of the contract and all the costs necessary to coordinate the work of people and machines that are involved in the production processes, where production costs include the costs of creating and distributing the goods or services being produced (Child and Faulkner, 1998; Dyer, 1997; Kogut, 1988).

Transaction costs theory assumes that firms are profit maximising, and that profit maximisation involves costs minimisation (Rindfleisch and Heide, 1997). Competitive advantage is reached when activities in a firm are conducted better compared to other firms and when these activities are difficult to imitate for other firms within an acceptable time frame and cost (Madhok, 2002). In these two senses we may state that transaction cost theory has a vague connection with the ideas of proactivity. The assumption of bounded rationality and opportunism in transaction cost theory is dealing with how to handle risk and risk-taking and, according to (Williamson, 1981), the assumption of bounded rationality and opportunism together with the three main transaction dimensions; asset specificity, uncertainty, and the frequency with which transactions recur, are important when selecting a suitable governance structure to manage a transaction. Bounded rationality indicates that decision makers are constrained and that their rationality is limited, which makes it difficult for them to handle complexity. This gives the decision makers the opportunity to behave opportunistically. Opportunism in turn makes provision for self interest seeking behaviour.

2.2.2. Social Exchange Theory

The need for social exchange is according to Levine and White (1961) created by the scarcity of resources and actors' needs to engage others to obtain valuable inputs. This shifts the attention from intra-organizational to inter-organizational relations, where e.g. a state or a community are to be viewed as a system composed of individual organizations as system parts, varying in kind and frequency in their relationships with each others. An efficient way to get access to these resources is by entering into exchanges with other organizations. In these exchange relations it is assumed that the partners have the same (Levine and White, 1961) or similar objectives (Blau, 1964).

There are important differences between social exchanges and economic exchanges, as social exchanges may or may not involve benefits with an objective economic value. In contrast to economic exchanges, the benefits from social exchanges are often not contracted explicitly, and it is voluntary to provide benefits. As a result, exchange partners are uncertain if and when they will receive benefits (Das and Teng, 2002). This is due to that a social exchange relationship involves reciprocal commitment in the form of a moral obligation to repay the partner by providing him benefits in the

future. Reciprocity or repayment in kind is probably the best-known exchange rule and if the repayments never occur or if it is doubtful if the repayment will occur, the relationship is becoming weaker (Muthusamy and White, 2005).

2.2.3. Resource Dependence Theory

Resource dependence theory argues that all organizations, in order to survive, must engage in exchanges with their environment to obtain resources. The theory views access to external resources as key to survival or prosperity since this is the foundation for competitive advantage (Casciaro and Piskorski, 2005).

Organizational effectiveness is an external standard of how well an organization is meeting the demands of various groups and organizations concerned with its activities. To attain organizational effectiveness, the organization has to acquire and maintain resources. Similar to exchange theory, Pfeffer and Salancik (1978) claimed that no organizations are in complete control of all the components necessary for its operations. Therefore, organizations must transact with others to acquire the resources needed. Resource dependence theory, contrary to social exchange theory that assume goal congruence, assumes that all organizations attempt to obtain something from the interaction with other organizations, and due to this all organizations have their own goals and preferences for engaging in inter-organizational relationships. Resource dependence theory is not directly focusing on innovativeness, but indirectly innovativeness can be affected by the flow of information and the knowledge that might be an outcome from a relation. The concept of proactivity is not clearly spelled out in resource dependence theory but the assumption that all organizations have their own goals for participating in a cooperation gives space for goal incongruity between the participating actors, which opens up for proactive behaviour. When it concerns risk-taking the theory mostly focuses on how to avoid and also to take advantage of especially environmental risks.

The next theory, presented below, follows this line of thinking when the basic assumption is that exchange is embedded in a particular social structure.

2.2.4. Network Theory

Network theory has its roots in sociology, psychology, anthropology and mathematics (Parkhe, Wasserman and Ralston, 2006). It provides an analytical framework for the study of how the social structure of relationships around a person, group, or organization affects beliefs or behaviors. Causal pressures are inherent in social structure and network theory contributes with methods for detecting and measuring the magnitude of these pressures. It focuses on the relations between and within units instead of on properties of these units. This shifts the focus from individual actors and their attributes to dyads of individual actors and their relational ties. According to Burt (1992), network theory offers a useful analytical framework for describing and predicting organizational structures and processes in terms of relational patterns among actors in a system since the focus is on the relationship between people instead of on the characteristics of people, which creates opportunities to map and evaluate for example informal communication patterns with formal communication structures. These emergent patterns can e.g. be used to explain the actor's exposure to and control over information.

Bridges and structural holes are other important concepts in network theory. A bridge is a connection between actors that lacks ties and if the bridge is removed the net would be disconnected. Granovetter (1973) argued that bridges are the links that make weak ties possible. Burt (1992) deepened the argument by moving the question of which position in a network is best, to the question of how structural arrangements generate benefits and opportunities. He coined the term structural holes referring to the disconnection between two actors or groups of actors, which also can be viewed as a potential area for connection between clusters of actors that are not connected. A structural hole's position creates opportunities for an actor which is not accessible to other actors because of their disadvantageous positions. Actors bridging structural holes have been frequently shown to perform better since they receive information and benefits by controlling the information flow between unconnected actors.

2.2.5. Institutional Theory

Institutional theory is focusing on what causes organizational isomorphism and the discussion above shows that isomorphic behaviours may be understood as a reaction to different kinds of environmental pressures, and where the organizations strives for being legitimized within the environment. One feature is that it puts focus on learning processes and the importance of social learning, imitation and also the cooperation between individuals and organizations.

The unit of analysis is according to DiMaggio and Powell (1983) and Scott (1995) the organizational field, composed by those organizations that constitute a recognized area of institutional life: suppliers, customers, regulatory agencies and other organizations that provide similar services and products.

Institutional theory can as indicate above be used to explain why firms engage in entrepreneurial activities. To see how the entrepreneurial characteristic fit institutional theory, we need to go back to some key assumptions. The explanation above gives an (institutional) view of why a firm behaved the way it did, and the explanation is easy to understand and seems logical. However, as explanation is narrow and gives only a historical perspective since a key assumption in entrepreneurship is that there are new opportunities out there that are not met by current offerings. In contrast, the assumption of institutional theory is that norms and values exist in social activities and the overall logic is then to perform socially conforming activities for gaining legitimacy (Meyer and Rowan, 1977).

2.2.6. The Five Perspectives' Relation to the Vietnam Entrepreneurial Behaviour

In this section an overview of how the five theoretical perspectives relate to the three characteristics of entrepreneurship theory will be provided. A summary of this discussion is presented in Table 1. How these management-related theories contribute to a better understanding on the formation of inter-organizational relationships is thereafter presented.

The center of attention in *transaction cost theory* is on how to organize boundary-spanning activities in order to minimize the firm's production and transaction costs. This focus leads to that innovativeness is a secondary issue that is not directly dealt with.

Social exchange theory explains social change and stability as a process of negotiated exchange between parties. Social exchange theory has a vague link to innovativeness since it explains how firms can take advantage of received information and use it commercially or for other purposes. Necessary conditions for firms to act proactively are indirectly given, due to that social exchange gives the firm not only access to recourses, but also enables the organization to identify new opportunities. Since exchange relations rely on trust which prevents opportunistic behaviour and lowers the inherent risk, social exchange theory is however more concerned with handling the drawbacks instead of the rewards from risk-taking.

Resource dependence theory argues that all organizations must engage in resource exchanges in order to survive. This approach is not directly focusing on innovativeness, but indirectly innovativeness can be affected by the flow of information and the received knowledge that may be an outcome from a relation. The assumption that organizations alter their purposes opens up for opportunistic behaviour, combined with the idea that actors' goals can differ, opens up for proactive behaviour. Also, this theory is focusing on how to reduce the impact from risk. When it concerns risk-taking the theory focuses on how to avoid and also to take advantage of especially environmental risks.

Network theory contributes to a better understanding of how the social structure of relationships around a person, group, or organization affects beliefs or behaviours. Network structures, network position and structural holes give space for innovativeness as well as proactiveness. Moreover, a network with several structural holes gives rich opportunities and confidence in the possible returns especially for the firm that is in a structural hole position.

Institutional theory finally, is valuable since it explains why organizations behave the way they do as a response to institutional pressures from the surrounding environment in order to appear legitimate and to be socially justified. The differences in overall logic between offensive entrepreneurial characteristics and institutional theory highlighting defensive and reactive behavior leads to that the entrepreneurial characteristics in many ways appears to be in opposition to institutional theory. Table 1 below summarizes the five theoretical perspectives relation to the entrepreneurial characteristics:

	Innovativeness	Proactiveness	Risk taking propensity
Transaction cost theory	Focuses on the minimization of production and transaction cost and therefore is innovativeness not an issue.	Proactiveness is not an issue since focus is on preventing opportunistic behaviour rather than taking advantage of it.	Focuses on the drawbacks from taking risks instead of the rewards.
Social exchange theory	Indirect link since firms can take advantage of received information/knowledge and use it for commercial purposes.	Necessary conditions for firms to act proactively are indirectly given by social exchange theory.	Focus is on preventing opportunistic behaviour and thereby lowering the risk.
Resource dependence theory	Innovativeness can indirectly be affected by the flow of information from the relation.	Goal incongruence between actors and opportunistic behaviour opens up for proactiveness.	Risk is reduced by lowering the dependence on others at the same time as the focus is on making other more dependent on them.
Network theory	Innovation can benefit from network structures based on structural holes and weak ties.	Structural holes, network position, and network structures give space for proactiveness.	Brokerage positions give rich opportunities and confidence in the possible returns.
Institutional theory	Imitation rather than innovation is lucrative since there are larger rents for a firm in a second (or even later) mover position.	Firms are more reactive than proactive since they follow the bandwagon instead of breaking new paths trying to pursue new opportunities.	Suggests a risk-averting strategy since the prevailing norms are important to follow in order to be socially justified.

Table 1: The Five Perspectives' Relation to the Characteristics of Vietnam Entrepreneurial Behaviour

Source: Adapted by Authors

3. Conclusion

In conclusion, transaction cost theory, social exchange theory, resource dependence theory, network theory, and institutional theory seems to be more useful for understanding causation-oriented management behaviour in predictable environments rather than effectuation-oriented management behaviour where proactivity, innovativeness and risk-taking are important characteristics. This is not surprising since the theories belong to the field of management, but as previously shown these management theories put little emphasis on the entrepreneurship characteristics. As a consequence, practitioners and scholars interested in the identification and exploitation of previously unexploited opportunities, such as the creation of new resources or combination of existing resources in new ways, the development and commercialization of new products or services or new market entry, need to find stimuli or theoretical support mainly from other sources than the five different management theories reviewed in this paper.

Examples of theories and theoretical concepts that are more helpful for understanding entrepreneurship and effectuation processes are e.g. population ecology theory and theories related to sense-making and organizational learning. A population ecology perspective, building on the understanding that organizational survival, development and diversity results from natural selection processes that to a very limited degree can be controlled or planned by a single company, offers one such theoretical perspective (cf. Hannan & Freeman 1989, or Aldrich 1999); explaining also why firms differ in their ability to acquire and utilize resources. The concept of sensemaking (see e.g. Weick 1995) provides insight into how firms address uncertain and ambiguous situations. Organisational learning theory (e.g. Kogut 1988, Moverly, Oxley & Silverman 1996), eventually, should be helpful by its focus on how organizations cope with changing circumstances and - also together with other actors - learn from previous experiences and external inputs.

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