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, Proativeness, 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
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 & Shephered, 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.
The paper is structured as follows. Section 2 describes the basic concepts, reviews the relevant literature, and presents the research hypotheses to be empirically analyzed. Section 3 provides a description of the methodology utilized in the empirical analysis. Section 4 presents the basic findings, and Section 5 summarizes the results along with their implications.

LITERATURE REVIEW

Resource-Based View (RBV)

Resource acquisition techniques are similar in terms of utilizing organizational resources effectively (Jalali & Jaafar, 2019; Safari & Saleh, 2020), of which, can be broadly encapsulated into physical (such as production techniques protected by patents or trade secrets) and intangible (such as brand equity or operating routines) categories (Safari & Saleh, 2020). According to Safari and Saleh (2020), a firm’s RBV focuses on internal, firm-specific factors and their effect on performance; where pragmatic implementation (which is aided by management and organizational process skills, information and knowledge) shall results in maintained competitive advantage (Barney, 1991). However, Foss and Knudsen (2003) argued that the RBV lacks clear defenision of competitive advantage because of its weakness in providing managers with helpful moral as to which specific resources needs to accumulate to gain an advantage.

Intellectual capital (IC) is an midrange theory which has been suggested by Peteraf and Barney (2003) to cover the weakness of RBV. Roos, Pike and Fernstrom (2012) defined IC as all intangible resources that are fully or partly controlled by the organization and those that contribute to the value creation of the organization. According to the previous studies regarding to IC, most of the researches followed the frame work had found by Bonit (1998) which adopts human capital, structural capital and relational capital. Given the three basic dimensions of intellectual capital, the current study focusses on relational capital as an independent variable between EO and firm performance.

Performance

Performance is the dependent variable of this study and can be defined as the total indicator of the strength of an SME to satisfy their cutomers, suppliers and other stackholders than can be measured based on primary data (Jalali et al, 2020). Previous researchers suggested subjective measure for SMEs since the published data is not available for SMEs and owners prefer not to reveal their data to outsiders. Vij and Bedi (2016) argued that primary data also can be utilized for cross-industry comparison. Thus this study measure the performance in subjective way to indicates the owners’ evaluation of the overall success.

Relational Capital and Performance

Relational capital represents the potential of an organization has due to external intangible resources including knowledge embedded in customers, suppliers, the government, or related industry associations (Hsu & Fang, 2009). Relational capital is organization-stakeholders relationship that shaping up the organization operative systems, of which, consists of customers, suppliers, local government, competitors, community, and allies (Jalali et al, 2020). Hence, relational capital refers to the establishment, maintenance, and development of relations, including the satisfaction level of customer, supplier and strategic partner; as well as the merger of value and customer loyalty (Delgado, 2011). relational capital is formed through relationship with external agents that surround it (Jalali et al, 2022; Reed, Lubatkin, & Srinivasan, 2006). Hsu and Fang (2009) observed positive relationship between relational capital and performance.

Firms should therefore prioritize knowledge in relation to customers and suppliers’ needs and demands to improve their performance and profits by practicing intense interplay, personal visits, frequent communication, and insights into the working of foreign markets (Jalali et al., 2022). Forsgren
(2002, p.264) suggested that “a special aspects of learning from other organizations is learning through the existing business relationships. Inter-organizational learning in a business network implies that deep and long-lasting business relationships facilitate the assimilation of tacit knowledge from the different actors in the network.”

The firm-allies relationship focuses on the cooperation with competitors, suppliers, research centers, and so on, when they are operated on a given on-going basis. Additionally, the relationship serves as a source to the organizational value. Findings of McGuire, Sundgren, and Schneeweis’s (1988) further supported the relationship signification specifically in relation to social responsibility and financial performance.

**EO and Performance**

EO enjoys a long tradition which principally can be dated back to the last three decades (Jalali et al, 2013). EO is defined as the processes, structures, and behaviors of firms that are characterized by innovativeness, proactiveness, and risk taking (Jalali et al., 2014). Innovativeness is defined as the willingness to place strong emphasis on research and development, new products, new services, improved product lines, and global technology in the industry (Jalali et al., 2020; Covin & Slevin, 1988). Jalali et al. (2020) and Kropp, Lindsay, and Shoham (2006) assert that the innovativeness component of an EO contributes to new businesses successfulness by improvising the existing business-related procedures and processes in addition to act as a means to distinguish entrepreneurs (Schumpeter & Backhaus, 2003). The interconnection between innovative, creativity and experimentation; of which, gives an impact towards developmental products and services and technological leadership (Hu & Zhang, 2012) as well as firm performance improvement (Jalali et al., 2020; Ramamoorthy, Flood, Slattery, & Sardessai, 2005).

Proactiveness is defined as acting opportunistically to shape the environment by influencing trends, creating demand, and becoming a first mover in a competitive market (Jalali & Jaafar, 2019; Lumpkin & Dess, 1996). Proactiveness is necessary for competitive advantage (Brendle, 2001) where it provides opportunities-based knowledge pertaining competitors and initiatives (Zahra & Covin, 1995) and it return, enables the ability of controlling the market network distribution and establishing brand recognition (Jalali et al., 2022; Wiklund & Shepherd, 2005).

Risk taking is defined as a willingness to commit more resources to projects where the cost of failure may be high (Danso, Adomako, Damoah, & Uddin 2016; Wiklund & Shepherd, 2005). It also implies committing resources to projects where the outcomes are unknown. Meanwhile, Mc Clelland (1961) argues that entrepreneurs are risks takers compared to non entrepreneurs. It is learned that tried-and-true strategies could lead to high mean performance, and risky decision making may lead to performance variation, such that some projects can either fail or succeed in the long term (Danso et al., 2016; McGrath, 2001).

**Relational Capital and EO**

EO refers to firms’ engagement in product innovation and risky ventures in addition to overcome competitors by acting opportunistically (Jalali et al., 2014). Wood and Bandura (1989) noted that the process of individual development would be lagged if the knowledge and skills could be gain only through experience and emphasized on the importance of information as the besic need. Jalali et al. (2014) argued that EO can enhance firm performance, but highly entrepreneurial-oriented firms are limited in achieving business opportunities and better performance if the amount of available internal resources is insufficient.

**Relational Capital and Innovativeness**

Capello and Faggian (2005) observed the positive relationship between relational capital and innovation process. Hsu and Fang (2009) and Jalali et al. (2022) noted that individuals who have stronger relational capital have a greater opportunity to access different resources and information
which leads to improve the firm’s technology development capability. In addition, Xie, Gao, Zang, and Meng (2020) argued that a successful innovation decision relates to the ability to understand customers and supplier needs. Jalali et al. (2020) and Geroski (1995) stressed that the extent to which firms create a working relationship with their stakeholders can be crucial in improving the innovation capacity of the firm. Moreover, Capello and Faccian (2005) and Jalali et al. (2020) noted that there is agreement on the fact that relational “physical proximity” among firms plays an important role in increasing the innovative capacity of the firms.

Relational Capital and Proactiveness

Drawing on Austrian economics (Siegel and Renko, 2012), opportunity recognition and development is a function of the distribution of information in society. Jalali and Jaafar (2019) mentioned that an entrepreneur’s proactive capability is affected by the information that they already received and any given entrepreneur will explore only those opportunities related to his or her prior information and knowledge. The entrepreneur’s relational capital and prior knowledge are the most significant antecedents of proactive ability.

Drawing on the theory of opportunity identification (Ardichvili and Cardozo, 2000) the entrepreneur’s social networks and prior knowledge are the most important antecedents of proactive ability. Jalali et al. (2017) argued that “entrepreneurs who have extended networks identify significantly more opportunities” than solitary entrepreneurs. Hence, we propose that specific characteristics of relational capital which connect entrepreneurs with customers, suppliers and other resources will directly impact proactiveness.

Relational Capital and Risk-Taking

Risk-taking refers to how individuals make decisions under conditions of ambiguity (Kahneman & Tversky, 1979) and Jalali et al. (2022) asserted that relational capital facilitates a firm to reduce uncertainties linked with risk-taking. Social information theory suggests that building social relationships enhances the individuals’ attitudes and behaviors. Danso et al. (2016) argued that relationship with competitors may lead to sharing information on how to deal with environmental uncertainties. Furthermore, Jalali et al. (2020) argued that relationship with government can facilitate entrepreneurs to access to market information and relationship with communities can reduce ambiguities associated with risk-taking.

Danso et al. (2016) noted that relational capital may facilitate individuals by providing access to information which is a very useful part of entrepreneurial opportunity. In addition De Carolis et al. (2009) argued that relational capital facilitates entrepreneurs with significant information about their potential customers, suppliers, and other resources which acts as a security blanket for the individual and could back not only the sense of control over an unclear result but also reinforce risk-taking ability of the entrepreneurs. Hence, we suggest that relational capital will directly impact risk-taking capability.

The Mediating Role of EO Between Relational Capital and Firm Performance

Firms seem to be deeply dependent on their resources, especially with regard to information but also with respect to the existence of opportunities can be gained from this information (Jalali et al., 2022; Eisenhardt & Schoonhoven, 1990). It is said that resources availability may not affect firm performance directly; rather it may stimulate firm-specific strategic behaviours that in return, influences firm performance (Jalali et al., 2022; Porter, 1980). In short, the precise means by which firms utilize the available resource in enhancing their performance remain unclear. Atuahence-Gima and KO (2001) argue that firms need to acquire resources and turn them into product and services. Here, EO affects specific strategic decisions and resource utilization that influences opportunity exploration (Jalali et al., 2014; Atuahence-Gima & KO, 2001).

Establishing different sets of networks allows entrepreneurial ventures to generate understanding among exterior resource providers concerning the entrepreneurial innovative activities of the ventures
(Nguyen, An, & Ngo, 2020), an action that leads to improving legitimacy and achieved through “piggybacking” on the validity of organizations from other industries (Jalali et al., 2021; Jalali et al., 2022). Therefore, innovativeness and product development can benefit from cooperative relationships with organizations outside the industry (Corrêa, Queiroz, & Shigaki, 2021).

EO helps firms to translate its resources with respect to available information into increased firm performance (Lumpkin & Dess, 1996) and in line with this, it is deemed practical to relational capital availability and for increasing chances of attaining competitive advantage and superior performance, nevertheless, this is associated with risks. Regardless, it is asserted that by working through the risks, firms are then abled to tune opportunities into competitive advantage (Rosenbusch et al., 2013). The availability of different resources enables firms to exploit new opportunities and facilitate risk-taking (Jalali et al., 2020). This is practical for resource availability amongst stakeholders, apart from increasing the chances of attaining competitive advantage and superior performance, despite being associated with risks. By working through the risks, firms can turn opportunities into competitive advantages (Danso et al., 2016).

Wiknuld and Shepherd (2005) state that resources availability enables firms to absorb potential losses associated with an EO, and firms with higher degree EO are proactively seek to acquire information provided by environmental munificence (Jalali et al., 2022; Rosenbusch et al. 2013) for the purpose of exploiting the potential opportunities offered by intangible resources. proactiveness may affect strategic decision among relational capital and also resource utilization that can influence opportunity exploration (Jalali et al., 2022; Kosa, Mohammad, & Ajibie, 2018). Therefore, resources alone are not able to affect performance directly (Bature, Sallehuddin, Rosli, & Saad, 2018).

**METHOD**

**Research Framework**

The above discussion provides a support for the conceptual framework (Fig.1).

In relation to the above, the four main hypotheses are listed below:

**H1:** Relational capital is positively related to SMEs performance.

**H2:** EO is positively related to SMEs performance.

**Figure 1. Conceptual framework with path coefficient**
H3: Relational capital is positively related to the EO.
H4: Relational capital is positively related to performance through EO.

Sample and Data Collection

To test the hypotheses, a survey method was used to seek responses from some typical manufacturing SMEs in the Tehran and Isfahan provinces of Iran. These provinces were chosen because they are the first and the second largest provinces in Iran. Using a preliminary draft questionnaire, a pilot test was conducted with 20 firms from Tehran, whose responses were then excluded from the final study. The questionnaire was revised using the feedback from the pilot study and also in accordance with a sample frame provided by the 2008 Iran Statistical Year Book, which was created by a random sample of manufacturing enterprises. A total of 1000 enterprises were approached from March to September 2012, and 580 enterprises agreed to participate. The survey questionnaire, along with a preaddressed postage-paid return envelope and a cover letter describing the purpose of the research, was mailed to the 580 firms that agreed to participate. A reminder e-mail was sent to those who had not answered within two weeks. A total of 150 responses were received, yielding a satisfactory effective response rate of 26% (150/580). This response rate is satisfactory since the published data for the small-scale industry is not accessible and owners are reluctant to reveal their data outsiders (Jalali et al., 2020).

The sample was crosssectional. Furthermore, face-to-face interviews with the experts were conducted in order to increase the questions’ readiness level. An issue pertinent to survey methodology is nonresponse bias. We followed the convention of comparing the respondents of the second wave with those of the first wave along with all the survey items (Stanley & Wisner, 2001) and did not find significant difference. Furthermore, we split the final sample into two groups, depending on the dates they were received. The early wave group consisted of 67 responses whereas the late wave group consisted of 83 responses. The t-tests performed on the responses of these two groups yielded no statistically significant differences on demographic characteristics (at 99 percent confidence interval). We thus conclude that there is no significant nonresponse bias in this study.

In order to rule out social-desirability bias in the measurement of the variables, respondents were assured in the cover letter that the responses would remain strictly confidential (Zahra & Covin, 1995). The respondents were asked to remember only the situations in their companies during the most recent three-year period in order to avoid recollection errors.

MESURES

Independent Variable

Echoing the work done by Castro, Saez, and Lopez (2004); Roos et al. (2012), relational capital was assessed using eight items that are related to relationships with customers, suppliers, government, competitors, allies, community, Strategic partner, and stakeholders. A five point likert (Likert, 1930 ranging 1 to 5 (1= “very low relation” to 5= “very high relation”) was employed.

Mediator Variable

To measure dimensions of EO, we used 13 items ‘EO’ scale (Naldi et al., 2007; Covin and Slevin, 1989), which has dominated research on EO (Rauch et al., 2009). According to Kreiser, Marino, & Weaver (2002), the scale is the most commonly used instrument in operationalizing EO. For risk taking, we also add three items based on self-efficacy theory (Bandura, 1977) which measures an individual’s belief that he or she is capable of mobilizing “the motivation, cognitive resources, and courses of action needed to exercise control over events in their lives” (Wood & Bandura, 1989, p.364).
Dependent Variable
In accordance to Davidsson (1989), growth and profitability were chosen for the purpose of firm performance measurement. Growth item was further detailed using Khatri’s (2000) characterizations namely the percentage growth in total sales in the last three years (labeled “sales growth rate”) and the percentage growth in profit in the last three years (labeled as “profit growth rate”) and also the percentage growth in profitability in relation to competitors’ profitability in the last three years.

ANALYSES AND RESULTS

PLS Method
This study uses the Partial Least Squares (PLS) method for hypothesis testing. PLS is a component-based structural equation modeling (Vinzi, Chin, Henseler, & Wang, 2010) that has been widely used in management research (Henseler, Ringle, and Sinkovics, 2009; Jalali et al., 2020). PLS excludes assumptions of homogeneity in variance and covariance of dependent variable. In addition, PLS is able to simultaneously test the structural and the measurement models, providing a more complete analysis for the inter-relationships (Chin, 2010).

PLS analysis is done by considering the composite reliability, average extracted variance, value of R2, and bootstrap for the t-values (Chin, 2010; Henseler et al., 2009). This study regards firm performance as a formative indicator (Diamantopoulos, 1999) and relational capital and EO as reflective indicators, also we considered EO as the second order construct for innovativeness, proactiveness and risk-taking. The Smart PLS and two-step analysis approach (Akter, D’Ambra, & Ray, 2011) was used to analyze the collected data. Bootstrapping method (1000 resamples) was used to determine the significance levels of the loadings, weights, path coefficients and indirect effect of EO as a mediator between relational capital and firm performance.

Testing the Measurement Model
To operationalize the second-order factor, PLS can be used to estimate the two-stage model through the repeated use of a manifest variable (Akter et al., 2011). In the first stage, we used both convergent and discriminant validity for all first-order factors (Relational capital, innovativeness, proactiveness, risk-taking and performance) In the second stage, the approved indicators of innovativeness, proactiveness and risk-taking were used for a second-order construct (EO) to test the structural model (Akter et al., 2011).

Given that both reflective and formative measures were known, the analysis started with an assessment of the reflective measures using both convergent and discriminant validity analyses. Factor loadings, composite reliability, and average variance extracted were used to assess convergence validity. The loadings for all reflective items except one item from relational capital (personal ties with alies) and one item from risk taking (obtain financing for a new business) that were deleted exceeded the recommended value of 0.5. Composite reliability values (Table 1), which showed the degree to which the items indicated the latent construct, ranged from 0.92 to 0.94, and exceeded the recommended value of 0.7. The average variance extracted was in the range of 0.67 to 0.79, which exceeded the recommended value of 0.5.

Discriminant validity was conducted by comparing the average variance extracted from each construct with its communal variances shared with other constructs. Table 2 gives the inter-construct correlations (below the diagonal) and square roots of the average variance extracted (on the diagonal) of the first-order constructs. This table shows that the square root of the average variance extracted for all first-order factors was higher than their shared variances. This finding reaffirmed the discriminant validity of the model constructs.

To assess the measurement model of a formative construct, we first considered the VIF and found that all the items had a VIF of less than five (Gannon, Rasoolimanesh, & Taheri, 2020). Secondly,
<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Scale type</th>
<th>Loadings/weights</th>
<th>AVEb</th>
<th>CRb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational capital</td>
<td>the extent to which maintain personal ties with Customers</td>
<td>Reflective</td>
<td>0.90</td>
<td>0.70</td>
<td>0.94</td>
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<tr>
<td></td>
<td>the extent to which maintain personal ties with suppliers</td>
<td></td>
<td>0.55</td>
<td></td>
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<td></td>
<td>the extent to which maintain personal ties with government</td>
<td></td>
<td>0.79</td>
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<td></td>
<td>the extent to which maintain personal ties with competitors</td>
<td></td>
<td>0.92</td>
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<tr>
<td></td>
<td>the extent to which maintain personal ties with Internal networks</td>
<td></td>
<td>0.87</td>
<td></td>
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<tr>
<td></td>
<td>the extent to which maintain personal ties with Communities</td>
<td></td>
<td>0.90</td>
<td></td>
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<tr>
<td></td>
<td>the extent to which maintain personal ties with Stakeholders</td>
<td></td>
<td>0.86</td>
<td></td>
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<tr>
<td>Firm performance</td>
<td>Increase in average profitability from total sales in the last 3 years</td>
<td>Formative</td>
<td>0.87</td>
<td>“N/A”</td>
<td>“N/A”</td>
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<td></td>
<td>Increase in total sales in the last 3 years</td>
<td></td>
<td>0.96</td>
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<td></td>
<td>Increase in profitability in relation to your competitors’ profitability in the last 3 years</td>
<td></td>
<td>0.29</td>
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<tr>
<td>Risk-taking (RT)</td>
<td>A strong tendency toward getting involved in high risk projects</td>
<td>Reflective</td>
<td>0.95</td>
<td>0.75</td>
<td>0.94</td>
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<td></td>
<td>Start a business without adequate human resources</td>
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<td>0.71</td>
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<td></td>
<td>Live with uncertainty from return on investment</td>
<td></td>
<td>0.82</td>
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<tr>
<td></td>
<td>Live in high competitive risk environment</td>
<td></td>
<td>0.96</td>
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</tr>
<tr>
<td></td>
<td>Endurance against market risk</td>
<td></td>
<td>0.88</td>
<td></td>
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<tr>
<td>Proactiveness (PR)</td>
<td>Identify new markets according to the customer demands related to the current products or services</td>
<td>Reflective</td>
<td>0.68</td>
<td>0.67</td>
<td>0.92</td>
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<td></td>
<td>Try to find new technology for finalizing the farmer knowledge related to sale techniques and relation with other sellers or marketing of new products or services</td>
<td></td>
<td>0.77</td>
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<td></td>
<td>Takes on a very competitive oriented “beat-the-competitor” position</td>
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<td>0.78</td>
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<td></td>
<td>Our company is very often the first company to introduce new products or services</td>
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<td>0.89</td>
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<tr>
<td></td>
<td>Our company is very often the first company to introduce new administrative systems, methods of production etc</td>
<td></td>
<td>0.93</td>
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<td></td>
<td>Normally we react upon initiatives taken by our competitors and initiate changes upon which our competitors react</td>
<td></td>
<td>0.84</td>
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<tr>
<td>Innovativeness (IN)</td>
<td>Our company is strongly emphasize R&amp;D</td>
<td>Reflective</td>
<td>0.70</td>
<td>0.79</td>
<td>0.94</td>
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<td></td>
<td>A lot of new products or services have been introduced by our company during the last few years</td>
<td></td>
<td>0.67</td>
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<td></td>
<td>There has been small changes of the present product/services during the last few years</td>
<td></td>
<td>0.57</td>
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<tr>
<td></td>
<td>Develop creative solutions to compete with other rivals to increase market share</td>
<td></td>
<td>0.63</td>
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</table>
we considered the correlation of the indicators with the latent construct, and found items that had significant weights and were also significantly correlated with the latent constructs (Gannon et al., 2020). Thus no item were deleted.

Assessment of Tow Stage EO Model
This study specifies EO as a second order hierarchical reflective construct consisting of three first orders reflective construct (Innovativeness, proactiveness, and risk-taking), which overall representing 15 items. Thus the degree of explained variance of this hierarchical construct is reflected in its component that is innovativeness 53 percent, proactiveness 75 percent and risk-taking 39 percent (See $R^2$ in Table 3). The entire path coefficient from EO to its components are significant at $p<0.01$. Here, the CR & AVE of EO are above the cut off value, 0.79 and 0.56, respectively.

Testing the Structural Model
Table 4 presents the following: [1] the predictor (relational capital) has significant influence on the mediator (EO) ($\beta = 0.67, p<0.01$) (H1). [2] EO has significant influence on the criterion variable (firm performance) ($\beta = 0.39, p<0.01$) (H2), [3] the predictor (relational capital) has

Table 2. Inter-construct correlation for first order constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>SD</th>
<th>Performance</th>
<th>Innovativeness</th>
<th>Proactiveness</th>
<th>Risk-taking</th>
<th>Relational capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>3.92</td>
<td>0.85</td>
<td>&quot;N/A&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovativeness</td>
<td>4.56</td>
<td>0.59</td>
<td>0.58</td>
<td>0.89</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactiveness</td>
<td>4.53</td>
<td>0.66</td>
<td>0.63</td>
<td>0.47</td>
<td>0.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-taking</td>
<td>3.57</td>
<td>0.89</td>
<td>0.40</td>
<td>0.21</td>
<td>0.32</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>Relational capital</td>
<td>4.33</td>
<td>0.78</td>
<td>0.77</td>
<td>0.50</td>
<td>0.62</td>
<td>0.35</td>
<td>0.84</td>
</tr>
</tbody>
</table>

Table 3. The degree of explained variance of EO (Second order) reflected in its components (First order)

<table>
<thead>
<tr>
<th>Entrepreneurial orientation (CR=0.79, AVE, 0.56)</th>
<th>Innovativeness</th>
<th>Proactiveness</th>
<th>Risk-taking</th>
</tr>
</thead>
<tbody>
<tr>
<td>$R^2= 0.532$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\beta = 0.729$</td>
<td></td>
<td>$R^2= 0.750$</td>
<td>$R^2= 0.391$</td>
</tr>
<tr>
<td>$P&lt;0.01$</td>
<td>$\beta = 0.866$</td>
<td>$\beta = 0.625$</td>
<td>$P&lt;0.01$</td>
</tr>
</tbody>
</table>

Table 4. Summary of the structural model

<table>
<thead>
<tr>
<th>Effects on endogenous variable</th>
<th>Path coefficient ($\beta$) t value (bootstrap)</th>
<th>Path coefficient ($\beta$) t value (bootstrap)</th>
<th>Variance explained ($R^2$) Non-mediated model</th>
<th>Mediated model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational capital - Firm performance</td>
<td>0.77** (24.78)</td>
<td>0.26** (4.72)</td>
<td>0.60</td>
<td>0.68</td>
</tr>
<tr>
<td>Relational capital - EO</td>
<td>0.67** (13.04)</td>
<td>0.68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EO - Firm performance</td>
<td>0.39** (6.27)</td>
<td>0.45</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
significant influence on the criterion variable in the absence of the mediators’ influence ($\beta = 0.77$, $p < 0.01$) (H3).

Table 4 summarizes the structural model produced by PLS analysis. This table charts the explained variance by model ($R^2$), standardized path coefficients ($\beta$), and t values observed with the level of significance achieved. To establish the mediating effect, the indirect effect of $a*b$ (Figure 1) must be significant. We calculated the indirect effect of relational capital on performance using the bootstrap approach recommended by Preacher and Hayes (2008), which is more suitable than the Sobel test and causal steps approach (MacKinnon, Lockwood, and Williams, 2004). We applied the t statistic, which is significant at $p < 0.05$. If the t value exceeds 1.96 ($p < 0.05$), we can accept H4 (Fairchild and McQuillin, 2010), that is, relational capital has an indirect effect on performance through EO. Table 4 shows that the indirect effect of relational capital on performance is significant ($\beta = 0.26$, $p < 0.01$). Thus, the result supports H4 and shows that relational capital affects performance through EO.

DISCUSSION AND CONCLUSION

The result of the study indicated the positive relationship between relational capital and EO. This result is supported with the result reported by Jalali et al. (2020) and Jalali et al. (2022) claimed that the components of EO (innovativeness, proactivity, and risk-taking) is affected by different information available for the firm. SMEs with strong relational capital have access to different resources to improve the firm’s innovativeness and proactiveness capability. In relational capital facilitates entrepreneurs by preparing access to different information that serves as a security blanket for SME owners and reinforces risk-taking behaviours.

As previously mentioned, this study observes a significant relational capital-firm performance relationship, as documented by Cohen and Kaimenakis (2005) and Jalali et al. (2020). Thus, our research provides major support to the common perception that entrepreneurs with numerous relationships and more accumulated resources and support from these relationships are better able to improve the performance of the firm. This result shows that entrepreneurs who try to implement an EO and consider the availability of relational capital will be more successful. From this study findings, EO implementation in influencing firm performance depends on the intangible resources availability, influences from external and internal factors and information sources accessible by firm (see Nguyen et al., 2020).

The study results showed that EO positively affected firm performance. This result is supported by the findings of previous studies (Jalali et al., 2014; Covin and Slevin, 1991). EO comprise of innovativeness, proactiveness and risk-taking. New products are introduced to the market through innovation, thus leading to competitive advantage and higher sales and profits. In addition Jalali et al. (2020) risk-taking entrepreneurs invest more in risky projects which lead to more profits. Furthermore, according to Wiklund and Shepherd (2005) Proactive firms find more opportunities ahead of their competitors to sell the products in the market with higher price. EO stimulate a firm’s capability in addressing matters related to technological development, marketable resources and Environmental munificence (Rosenbusch et al., 2013). Strategic EO practice combined with sensible firm-intangible resources such as customer and supplier relationships could contribute to SMEs transitional economic conditions.

In addition, the result of the current study indicated the positive mediating role of EO between relational capital and performance. This result is supported by Lumpkin and Dess (1996) and Jalali et al. (2020) and Jalali et al. (2022) who asserted that components of EO help SMEs to utilize their resources with respect to available information into improve firm performance. These findings are consistent with existing studies that have shown manufacturing SMEs with innovative, risk-taking and proactive strategies might build bridging ties between the relational capital and firms’ performance (Bature et al., 2018).
In conclusion, this study seeks for means to an effective EO practice in managing their relational capital-related opportunities for performance. Despite the importance of EO management in terms of resource availability (Covin & Slevin, 1991), the body of knowledge has little and considerable information on mediating relationships and moderating framework, readily available (e.g.: Stam & elfring, 2008). Thus, neglecting the antecedents of EO can result in oversimplified models of firm performance. In line with this, our results contributed to fill in the gap within the body of knowledge by this result that the relationship between relational capital and firm performance is explained through EO.

In addition, this study found that the following EO aspects: innovativeness, proactiveness and risk-taking; are highly influential in enhancing firm performance (see Wiklund & Shepherd, 2005). These aspects stimulate a firm’s capability in addressing matters related to technological development, marketable resources and Environmental munificence (Rosenbusch et al., 2013). Strategic EO practice combined with sensible firm-intangible resources such as customer and supplier relationships could contribute to SMEs transitional economic conditions.

**THEORETICAL IMPLICATIONS**

This study has further highlighted the signification of relational capital in RBV theory when assessing firms performance (see Safari and Saleh, 2020). Of interest, this study provides insights on EO ability in improving the performance level (see also Ward & Leo, 1996). More importantly, this study acknowledges that EO propensity in sustaining superior firm performance when EO enabling the firm to successfully translate those resources into performance. This will motivate the firms and other interested bodies attitudes propensity, especially and generally, in directing the EO procedures and practices. Social information theory vouches for the significant role of the environment on a person’s behavior and cognition. Austrian economics and the theory of opportunity recognition emphasized the significant role of information in uncovering opportunities. Applying these theories to relational capital-firm performance model, we found empirical support for the effect that entrepreneur’s relational capital have on their strategic orientation.

The positive effect of the relational capital on entrepreneurial orientation proposes that the organizational networking should be weighed in as a strong independent variable in the framework of Entrepreneurial orientation and performance. Previous scholars have looked into entrepreneurial orientation by considering this variable as independent variables that influence performance, more or less in certain settings (Jalali et al., 2014, Jalali, Jaafar, & Ramayah, 2017). This present study questioned this approach because self-determining the degree of entrepreneurial orientation may be dependent on the relational capital. This result is consistent with that mentioned by Covin and Slevin (1991), who proposed that both external and internal variables determined entrepreneurial orientation in SMEs. Thus, eliminating the predictors of entrepreneurial orientation can lead to oversimplified models of firm performance. Therefore, to thoroughly investigate the complex nature of the relationships among relational capital, entrepreneurial orientation and performance, scholars would need to incorporate the antecedents of entrepreneurial orientation.

**PRACTICAL IMPLICATIONS**

Iran is a net oil exporting country where both SMEs and big companies have sunk into the swamp of political issues. The adverse effect of political issues could be seen in the bankruptcy of many SMEs, increased unemployment rate, an inflation exceeding 25%, devaluation of the national currency, and the isolation of Iranian banks from access to the Swift system (global network of banking transaction) etc. This is devastating for small firms with small turnover. Based on this research we suggest that Iranian entrepreneurs can lessen the pressure of catastrophic sanction by expanding their relationship with suppliers, customers and other resources and appreciate the power that relational capital has
through EO. Thus, policymakers may provide a suitable condition for SMEs. The availability of financial resources motivates SMEs to better improve the network with their stakeholders, which further intensifies entrepreneurial orientation, and, in turn, performance.

This study suggests that Iranian entrepreneurs should decrease the pressure of political sanction, such as limitation of access to informations (Jalali et al. 2020), by developing relational capital through relationship with external agents that surround it, to place more concentration on proactiveness, innovation and take higher risks for sustenance. Accessing the full range of informations is the key success element for innovation and to improve the confidence level amongst SMEs’ owners to take more risks. This is a prominent cultural component, and the types of relationships significant to Iranian entrepreneurs are indicated in this study. This claim needs the local SMEs to adjust their attitude toward this valuable resource and to make essential changes in their old-fashioned production technologies. This article of the organizations’ relational capital and its exponential growth through strategic postures, such as entrepreneurial orientation, generates a enormous amount of energy that can take Iranian SMEs far beyond their current vision.

LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

Our study contributes to entrepreneurship research as it advances a model of firm performance that includes both relational capital and entrepreneurial behaviour. In our study we found that relational capital have direct impact on firm performance. Peng and Lue (2000) argued that different networks have different effect, thus future study might test other types of networks, such as network density, network centrality and bridging ties with organizations outside the industry. For example Burt (1992) found that structural holes have a direct effect on entrepreneurial behaviour.

While we focused on entrepreneurial behaviour (innovativeness, risk-taking and proactiveness), there is still room for testing the effect of relational capital and other cognitive biases, such as representativeness, illusion of control and overconfidence. In addition, usable information on conceptualization which is readily accessible will help in improving and enhancing future EO dimensions studies. For example, Ibarra (1993) demonstrated that innovativeness consists of both administrative and technological innovation.

Since our research concentrates only on firm performance, we suggest that future research could investigate the extent to which relational capital influences the creation of new firms and the internalization and survival of a new venture. In addition future research could test the effect of past entrepreneurial experience on the relationship between relational capital and firm performance. Moreover, census sampling would be desirable in order to increase the database reliability, validity and transferability. Also, future studies could examine more antecedent variables for EO to further test the robustness of the theoretical prediction. Finally, Iran was chosen as the research context because of the central influence of its government and its highly changing environment. However, developing ties with agents in other countries is also important.
REFERENCES


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