

# Moderating Role of Strategic Flexibility Between Entrepreneurial Networks and New Venture Development

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**Abstract:** The purpose of this study is to examine the role of entrepreneurial networks in the development of new venture. The current study proposed that entrepreneurial networks mediate the association between entrepreneurial climate and new venture development. Furthermore, this study also made an attempt to analyze the moderating role of strategic flexibility on entrepreneurial networks and new venture. The study was conducted through self-administered survey of employees of SMEs in Pakistan. Correlation, Baron and Kenny approach (Causal steps approach) and PROCESS Macro (Normal Test Theory) developed by Hayes were used for the analysis of data. The findings suggested that entrepreneurial networks play the mediating role between entrepreneurial climate and new venture development. The findings also established the positive moderating role of strategic flexibility on the entrepreneurial networks and new venture development link.

**Keyword:** Entrepreneurial Climate, Entrepreneurial Networks, Strategic Flexibility, New Venture Development

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## 1. Introduction

The outcomes of entrepreneurship activities are considered as active force for organizational emergence [28, 41]. Prevalent literature on entrepreneurship scholars focused on the point that organizational emergence is connected with the development of multiple new ventures [34, 36]. Given priority to the entrepreneurial activities, researchers have argued and documented that new ventures development occurs in response of entrepreneurial climate and conditions of uncertain environment [29, 38]. Entrepreneurial climate create opportunities which shape the development of new businesses ideas [31]. Entrepreneurial related activities are becoming initiative force for new venture development, also present opportunities and challenges for the owners of new ventures, under these circumstances potential firm resources based on firms strategic flexibility are consider critical for the development of new venture [6].

Based on the strategic flexibility view and firm resource-based view (RBV), Sanchez [40] proposed that available

resources as well as the ways a firm utilize these resources play an important role to attain flexibility. He argued that organizations attained flexibility through access to flexible resources as well as coordinating these resources for different uses to gain strategic options. In this sense, strategic flexibility provides opportunity through which organization fully utilized the available resources [56]. Furthermore, strategic flexibility is concerned with the use of flexible resources as well as reconfiguration of business processes, which enables the firms to achieve innovation and development of new venture [11, 46].

According to Zahra and Covin [54] internal organizational factors play an important role to flourish entrepreneurial behavior. Internal organizational factors such as organizational structure, reward system and manager support are proposed as critical factors for encouraging entrepreneurial behavior. The findings of the previous studies suggested that organizational factors such as financial factors, entry approaches, incentive and control systems are possible fundamental factors in the development of

entrepreneurial action [23]. Internal organizational factors that shape entrepreneurial climate consist of organizational structure, reward system, management support, resource availability and risk taking [39]. Climate that perceived by employees is more influencing than all other dimensions of entrepreneurial behavior which are crucial for the development of entrepreneurship [23].

As suggested by Li and DaCosta [33] internal and external factors are the two major elements which may influence the entrepreneurial behavior as well as the development of new venture in a country. Internal factors such as personal characteristics of entrepreneur [9], and motivation as well as perception of socio-economic environment [33], influence the entrepreneurial development. On the other hand, external factors such as institutional conditions (government policy and law enforcement) and changing economic conditions [35] also largely up lift or low down the entrepreneurial development.

The objectives of this research are to explain: How do entrepreneurial climate shape new venture development? To what extent entrepreneurial networks mediate between entrepreneurial climate and new venture development relationship? To what extent strategic flexibility moderated the connection between entrepreneurial networks and new venture development. In order to achieve these purposes, the study has been divided into different sections. Section two discusses the literature of entrepreneurial climate, entrepreneurial networks, strategic flexibility and new venture development. Section three provides the proposed model based on our discussion. Methodology, results and findings are presented in the section four respectively.

## 2. Method

Entrepreneurial climate is comprises of a set of environmental factors that is tangible and intangible in nature and responsible for shaping the performance of SMEs on the basis of politically and geographically defined area [47, 14]. Roxas, Lindsay, Ashill and Victorio [39] proposed that the environment for entrepreneurship denoted as entrepreneurial climate, is comprise on three sets of forces i.e. socio-culture, economic, and political. Socio-cultural environment consist of beliefs, social, and cultural norms. Economic environment consist of capital availability, general wealth of the society as well as economic stability. Hodgson [22] categories social support system, structural support system, policies, incentives and bureaucratic processes as formal institutional factors, while informal network, risk propensity, family support and social acceptance as informal institutional factors that shape the entrepreneurial climate.

Entrepreneurial climate refers to a mixture of factors which are necessary for the development of entrepreneurship [12]. Entrepreneurial climate refers to an entrepreneurial environment consist of factors which are tangible as well as intangible in nature [50]. Factors like resources availability such as venture finance which is critical for the success of new venture [23]. Social ties and entrepreneurial personal

relations overcome the problem of venture finance [48]. Westhead, Wright and Ucbasaran [51] argued that personal network ties enable the entrepreneur's access to a large variety of resources such as know-how reputation, financial means and physical assets.

Entrepreneurial network is defined as the relationships of employees, customers, suppliers, friend, family, and social media [27]. Network is established primarily for the exchange of useful information [24]. Networks establish connection among the various characters like family members, businesses partners, customers and suppliers [25]. The member of the network has greater opportunities to acquire knowledge from the other members as well as entrance to external legitimacy [30]. Stephens [45] argued that business network creates opportunities for the entrepreneurs to acquire required information for better decision making regarding business matter.

The past studies documented the changes occurred in the entrepreneurs' networks needs over time due to venture lifecycles [44], new firms resource requirements [19], industry and region [26] networks initiative and venture performance [4], Innovation and development [10]. Dynamics of network depends on the individual choices and needs because members choose to establish or cancel relationships as well as depends on player's rational behavior which structures the networks to enhance power in the network [52, 55].

According to Witt, Schroeter and Merz [53] the term entrepreneurial network denotes to the personal network, which are based on information contacts and exchange relationships among entrepreneurs for the purpose of developing their venture. The findings of the past studies shown that networking activities of entrepreneurs has positive influence on their new venture achievement [5, 21]. The personal network allows entrepreneurs to secure resources which are not available in markets as well as get resources at cheaper rate as compared to markets [53]. Personal information networks of entrepreneurs for resource acquisition purposes receive major importance in new venture [8]. In line with these findings we believe that entrepreneurial network can play an important role for the development of new venture through the access of valuable resources.

New venture is a result of an opportunity, innovation, and new product development [6]. Shane and Venkataraman [42] suggested that the new venture process initiated with the development of an opportunity. To develop a new venture there is a need to recognize and access various resources during different phases of development of such nascent firm [7]. Such resources consist of human, social, technological, financial, and physical [18]. Network has become more beneficial and essential for entrepreneurial process, especially in early stages of new venture, because entrepreneurs use network to identify opportunities and get access to the resources [37].

Strategic flexibility is concerned with availability of resources as well as mechanism for the proper utilization of

these resources [40]. How these resources are utilized will depend on the development stage of new venture, the growth and survival of the new venture during the early stages of development mainly based on the identification and access of resources [7]. Among the large numbers of definitions in the literature, strategic flexibility is defined by Shimizu and Hitt [43] as an organization's capability to take appropriate and timely actions for the best utilization of resources under the changing conditions exerted by the external environment. Hamel and Valikangas [17] argued that strategic flexibility is concerned with the ability to dynamically discover the business strategies and processes according to the environmental changes. Gutierrez and Fernandes Perez [16] defined strategic flexibility is the ability of the firm to respond the changes occurred due to external environment.

Strategic flexibility assures enterprises the ability to become increasingly competitive, improves working conditions, and offers more variation in resource utilization [40]. Strategically flexible enterprises are in a position to build strong networks which assure to cope with upcoming contingencies [2]. An entrepreneurial network has positive influence on the new venture achievement [21], and acquisition of valuable resources [8]. Entrepreneurial personal network contribute positively towards the acquisition of new firm resource requirement [19]. Entrepreneurs involved in networking activities to create possibilities for the success of new venture [32], and secure valuable resources necessary for the development of new venture [53].

Volberda [49] acknowledged the role of strategic flexibility in the development of organization. Strategic flexibility

provides strength which assures enterprises to become increasingly competitive and improves working conditions for the betterment of enterprises (Dyer, 1998). According to Sanchez [40] the term strategic flexibility is related with the reconfiguration and reallocation of organizational resources, strategies, model, and processes in order to cope with the changes imposed by external environment.

Volberda [49] suggested firms that have the capability to manage the pressure of emergent competitive patterns forced by external environment can help them to easily utilize critical resources for the purpose of continuous development. Core capabilities and key organizational resources are fully utilized with the help of flexibility [13]. Sanchez [40] and Hitt, Keats, and DeMarie [20] found that strategic flexibility of the firm brings inimitability of core competences and superior performance. [15] stated that strategic flexibility has a positive effect on performance, because it provide the ability to align the resources to changing needs of external environment as well as emergent competitive conditions.

Therefore, on the basis of literature provided for the relationships between entrepreneurial climate, entrepreneurial networks, strategic flexibility, and new venture development, this study expect that entrepreneurial climate will enhance entrepreneurial network activities, which in turn assist in new venture development. Furthermore, these relationships suggests moderating role of strategic flexibility on the relationship between entrepreneurial climate and new venture development as well as moderating role on the relationship between entrepreneurial networks and new venture development.

## 2.1. Theoretical Framework

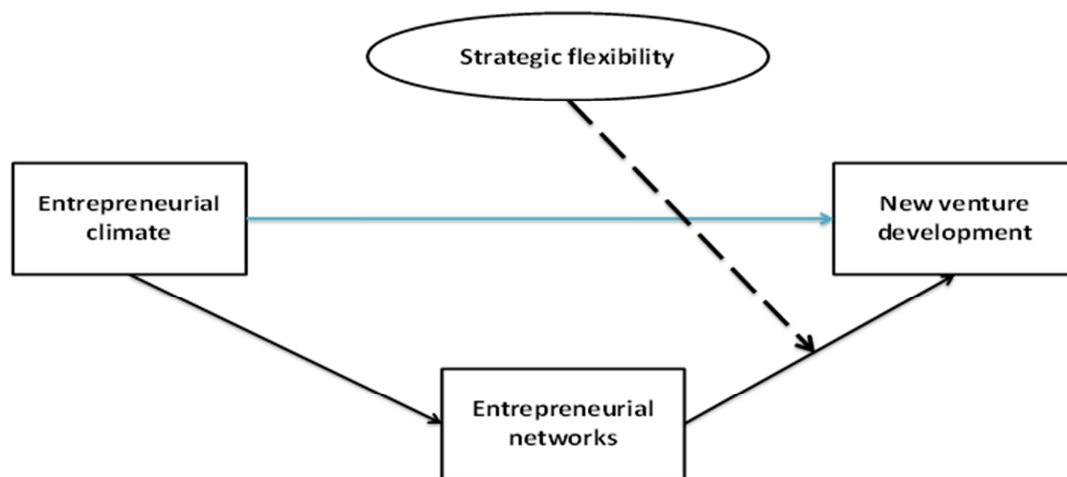


Figure 1. Theoretical framework.

## 2.2. Hypotheses

H1: Entrepreneurial climate has positive relationship with entrepreneurial networks.

H2: Entrepreneurial climate has positive relationship with new venture development.

H3: Entrepreneurial networks have positive relationship

with new venture development.

H4: Entrepreneurial networks mediate the relationship between entrepreneurial climate and new venture development.

H5: The relationship between entrepreneurial network and new venture development will be positively moderated by strategic flexibility.

## 2.3. Population and Sample

SMEs play an important role in the development of economy of developing countries. SMEs of Pakistan also have a major contribution in the economics and social development. Despite many initiatives that have been taken by Small And Medium Enterprise Development Authority (SMEDA) of Pakistan in respect of promoting the SMEs, still there is dire needed to assess the environmental promoted condition such strategic flexibility, entrepreneurial climate, and entrepreneurial networks of the owner/managers of SMEs which can play a vital role in the new venture development.

To achieve the purpose of the study i.e. to assess the mediating role of entrepreneurial network between entrepreneurial climate, and new venture development, as well as moderating effect of strategic flexibility on the relationship between entrepreneurial network and new venture development data was collected through self-administered questionnaire. Data for the current study were collected from owners/managers of the SMEs. In the current study sample selected from the list of SMEs already registered with SMEDA, business dictionary and Pakistan chamber of commerce and Industry (FPCCI). Total 217 useable responses were completed through personal visits and emails. The sample of 217 consists of 5 kinds of enterprises, which includes furniture (19.4%), food sector (9.3%), textile and garments (35.6%), electronic equipment (15.2%), and fiber products (20.5%).

## 2.4. Measurements and Scale

The current study used self-administered questionnaires which were developed using 5-point Likert scale. The instruments contained a total of 19 items, 4 items for strategic flexibility, 5 items for entrepreneurial climate, 5 items for entrepreneurial networks, and 5 items for new venture development. The reason behind previously used construct was twofold; generalizability, and, validity and reliability observed by the previous researches.

### 2.4.1. Independent Variables

Entrepreneurial climate was measured with a five item scale also are reliable due to the value of Cronbach's  $\alpha$  coefficient of 0.79 presented in table-1. The study used response categories from strongly disagree = 1 to strongly

agree = 5, in order to measure the characteristic of entrepreneurial climate.

### 2.4.2. Mediator

The current study used entrepreneurial network as a mediator between entrepreneurial climate, and new venture development. Five items scale was used to measure the concept of entrepreneurial network that reported a value of Cronbach's  $\alpha$  coefficient 0.86.

### 2.4.3. Moderator

To find out the moderator effect of strategic flexibility on the relationship between entrepreneurial network and new venture development, four items scale was used that reported a value of Cronbach's  $\alpha$  coefficient 0.83. 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree as a response categories was used to measure the effect of strategic flexibility as a moderator.

### 2.4.4. Dependent Variable

New venture development was used as a dependent variable which was measured with five items scale that reported a value of Cronbach's  $\alpha$  coefficient 0.93. 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree as a response categories was used to measure the concept of new venture development.

## 3. Results

Initially, for the purpose of analysis, current study used descriptive statistics and correlation, causal steps approach were used to prove the mediation process [3]. In order to establishing the role of any variable as a mediator is based on four conditions. First, independent variable used in the study must have significant relationship with mediator. Second, independent variable also significantly related with dependent variable. Third, mediator has significant relationship with dependent variable. Fourth, the strength of the relationship between independent variable and dependent variable is reduced when mediator is added to the regression equation. On the basis of these causal steps approach we can only determine that the mediation has occur if independent variable becomes insignificant after controlling for mediator.

Table 1. Mean and Standard Deviation.

Construct	item	Mean	Std. dev	Loading	$\alpha$
Entrepreneurial climate	EC1	3.37	0.94	0.7279	0.79
	EC2	3.54	0.73	0.8434	
	EC3	3.55	0.76	0.8687	
	EC4	3.54	0.97	0.7570	
	EC5	3.36	0.91	0.6293	
Entrepreneurial networks	EN1	3.79	1.05	0.7501	0.86
	EN2	3.71	0.92	0.6831	
	EN3	3.41	0.99	0.6541	
	EN4	3.41	0.89	0.8237	
	EN5	4.02	0.65	0.8146	
Strategic flexibility	SF1	3.40	0.87	0.8402	0.83
	SF2	3.37	0.85	0.7938	
	SF3	3.41	0.88	0.8605	
	SF4	3.39	0.86	0.8858	

Construct	item	Mean	Std. dev	Loading	$\alpha$
New venture development	NVD1	3.42	0.91	0.8222	0.93
	NVD2	3.44	1.01	0.8100	
	NVD3	3.66	0.97	0.8564	
	NVD4	3.49	0.95	0.8774	
	NVD5	3.54	0.93	0.8864	

#### Basic model for testing mediation

The current study used a model for testing the hypotheses which explain the mediation effect of entrepreneurial climate

Model 1= Entrepreneurial climate

→

Entrepreneurial network

→

New venture development

$EN = \alpha + \beta_0 + \beta_1 EC + e$

$NVD = \alpha + \beta_0 + \beta_1 EN + e$

$NVD = \alpha + \beta_0 + \beta_1 EN + e$

$NVD = \alpha + \beta_0 + \beta_1 EC + \beta_2 EN + e$

Equation 1

Equation 2

Equation 3

Equation 4

Table 2 shows the correlations of the variables used in this study. The coefficients of correlations confirm the positive and significant relationships between independent, mediator, moderator and dependent variables. The results shown in table-2 confirmed the relationship between entrepreneurial climate ( $r = 0.58$ ;  $p < 0.01$ ), and new venture development.

on new venture development. Model 1 used four equations to prove the mediation process as suggested by Borne and Kenny (1986).

Entrepreneurial network is also correlated with new venture development ( $r = 0.20$ ;  $p < 0.01$ ). In support of these results, therefore, according with the norms [3], mediating role of entrepreneurial network in the relationship between entrepreneurial climate, and new venture development can be analyzed.

Table 2. Correlation.

Variables	Mean	SD	1	2	3	4
Entrepreneurial climate	3.47	0.6	1			
Entrepreneurial network	3.67	0.7	0.43**	1		
Strategic flexibility	3.44	0.6	0.34**	0.24**	1	
New venture development	3.51	0.9	0.58**	0.20*	0.55**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

### 3.1. Causal Steps Approach

Causal steps approach known as Baron and Kenny method to test the study hypotheses and confirm the mediation effect of entrepreneurial network between entrepreneurial climate, and new venture development. Table 3 and 4 demonstrate the results of causal steps approach.

The results shown in table-3 for equation-1 of model i.e. entrepreneurial climate and entrepreneurial network was significant (entrepreneurial climate  $\beta = 0.43$ ,  $t = 7.00$ ,  $p < 0.00$ ). Hence, this study accept the study hypothesis 1. Table-3 shows significant results for equation-2 of model i.e. entrepreneurial climate and new venture development (entrepreneurial climate  $\beta = 0.59$ ,  $t = 10.57$ ,  $p < 0.00$ ). Hence,

this study accept the study hypothesis 2. The results of equation-3 of model was also significant which associate entrepreneurial networks with new venture development (entrepreneurial network  $\beta = 0.56$ ,  $t = 9.86$ ,  $p < 0.00$ ). Hence, study accepts the study hypothesis 3.

On the basis of these results of simple regressions confirms three steps of mediation proposed by Baron and Kenny. Furthermore, table-4 shows the results of multiple regressions used to test the mediation effect of entrepreneurial network in the relationship between entrepreneurial climate and new venture development as well as to prove the step four used in the process of mediation.

Table 3. Regression results.

Independent factors	Entrepreneurial network			New venture development		
	B	t-value	Sig.	B	t-value	Sig.
Entrepreneurial climate	0.43	7.00	0.00	0.59	10.57	0.00
Entrepreneurial network (M)	--	--	--	0.56	9.86	0.00

Note: The regressions are performed separately between one independent, mediator and independent variable

Table 4 present the results of multiple regressions, which confirm the step-4 proposed by Baron and Kenny for indirect effect. The results of model presented in table-4 shown significant ( $\beta = 0.02$ ,  $t = 0.32$ ,  $p = 0.75$ ) when entrepreneurial climate is added to equation. The results of model-1

confirmed that entrepreneurial network effect the relationship between entrepreneurial climate and new venture development, because the forth step of mediation process suggested by Baron and Kenny was met. On the basis of these findings study hypothesis 4 was supported.

**Table 4.** Results of indirect effect.

Model	Factor	R <sup>2</sup>	F	S. Error	$\beta$	t-value	Sig.
1	Entrepreneurial climate	0.31	48.52	0.06	0.02	0.32	0.75
	Entrepreneurial network			0.07	0.55	9.16	0.00

To recapitulate the results showed that entrepreneurial climate has an indirect effect on new venture development. Entrepreneurial climate was positively related to entrepreneurial network, which, in turn, was positively and significantly related to new venture development.

### 3.2. Moderating Effect

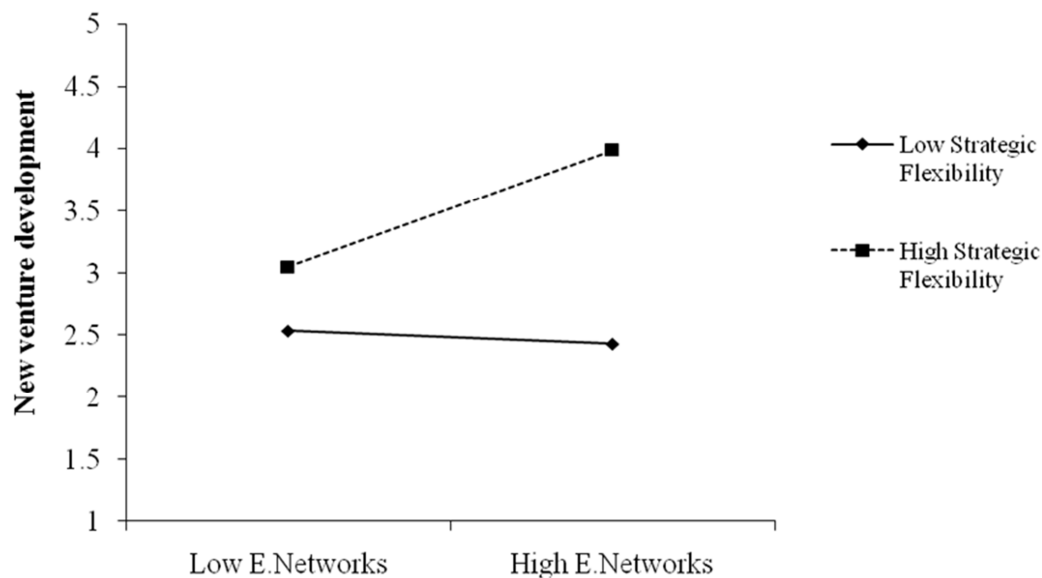
To examine the moderating role of strategic flexibility, the current study used hierarchical regression. The results of regression presented in Table-5. Model 2 in Table-5 shows the coefficient of base model while model 3 captures the moderating effects of strategic flexibility on the relationship between entrepreneurial networks and new venture development. The coefficient of the interaction term EN X SF presented in Table-5 indicate that strategic flexibility positively impact the relationship between entrepreneurial

networks and new venture development ( $\beta = .26, p < .01$ ). As suggested by [1] this study also conducted slope analysis and plotted the interaction at low and high levels of strategic flexibility (see figure 2).

**Table 5.** Results of hierarchical regression.

	Model 1	Model 2	Model 3
<i>New venture development</i>			
Entrepreneurial network	.41**	.15**	.21**
Strategic flexibility		.51**	.52**
EN X SF			.26*
R <sup>2</sup>	.18	.35	.37
Adjusted R <sup>2</sup>	.16	.33	.35
$\Delta R^2$	---	.21	.02
$\Delta F$	.134	.195	18.05*
N	217	217	217

Note: \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

**Figure 2.** Slope analysis for EN X SF on entrepreneurial networks and new venture development.

The results of slope analysis revealed that entrepreneurial networks increases new venture development when strategic flexibility is high. On the basis of these results study hypothesis 5 i.e. the greater the strategic flexibility, the greater the positive relationship between entrepreneurial networks and new venture development was accepted.

## 4. Discussion and Conclusion

On the basis of findings the current research confirms all the research hypotheses. There is a positive relationship between entrepreneurial climate, entrepreneurial networks and new venture development. Where, entrepreneurial networks mediate between entrepreneurial climate and new venture development. This study also confirms that strategic

flexibility also strengthens the relationship between entrepreneurial networks and new venture development. The positive relationship between entrepreneurial climate and new venture development shown that entrepreneurial climate facilitate for the development of entrepreneurship.

The current study significantly contributes to the entrepreneurship and small business literature through incorporating mediating role of entrepreneurial networks on the relationship between entrepreneurial networks and new venture development, as well as the moderating effect of strategic flexibility on the relationship of entrepreneurial networks and new venture development. The most important contribution is that we have developed a model and empirically examined the mediating and moderating role on the new venture development. Previous studies mainly focus

on the direct relationships of entrepreneurial climate and new venture development. This study proposed a model with a primary emphasis to fill the gap between indirect effect of entrepreneurial climate – entrepreneurial networks – and a new context, new venture development.

Finally, the study analysed the moderating roles of strategic flexibility. The results of this research support the argument that the effects of strategic flexibility on entrepreneurial networks on new venture development become stronger provided that organizations have the ability to reconfigure and reallocate the available resources. The greater the availability of resources as well as mechanism for the proper utilization of these resources the greater will be the positive association among entrepreneurial networks and new venture development.

## Conflict of Interest

There is no conflict of interest between authors.

## Ethical Statement

During the conduct of this research, we make it sure to maintain the quality and integrity of research. Confidentiality and anonymity of research respondents have been maintained and all the participants have participated in study on voluntarily basis. Furthermore, we confirm that this research is independent and impartial. Besides, different international standards and policies have also been taken into consideration for writing up process like plagiarism, copy right, etc.

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