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# ENTREPRENEURIAL NETWORK TOWARDS SMALL FIRM PERFORMANCE THROUGH DYNAMIC CAPABILITIES: THE CONCEPTUAL PERSPECTIVE

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## ABSTRACT

*This conceptual paper reveals the hypothesized link between entrepreneurial network and small firm performance and the mediating effect of dynamic capabilities on the mentioned relationship. The theoretical grounds of the entrepreneurial network, dynamic capabilities and small firm performance established this conceptual framework. This paper adopts the Resource Based View (RBV) which claims that firm valuable strategic resources (entrepreneurial network) and capabilities (dynamic capabilities) both are important to make firm successful. Similarly, Dynamic Capability View (DCV) support and verify this conceptual framework. It means the stronger entrepreneurial network will lead to develop dynamic capabilities, which will ultimately cause the higher firm performance. Therefore, this paper incorporates two strategically important variables namely, entrepreneurial network and dynamic capabilities to enhance the small firm performance, whereas RBV suggests that firms make progress on the basis of resources and capabilities. Entrepreneurial network and dynamic capabilities both are regarded as the important elements to combat the lower firm performance in current turbulent business environment. By keeping in view, the theoretical foundations of RBV and DCV, this paper proposes a conceptual framework in examining the mediating role of dynamic capabilities on the relationship between entrepreneurial network and small firm performance.*

**Keywords:** Entrepreneurial Network, Dynamic Capabilities, Small Firm Performance.

## INTRODUCTION

Research in management discipline has splendid history, especially in the area of entrepreneurship has become more prevalent in the contemporary era. Entrepreneurship is considered as one sub section of management studies (Minai et al., 2014) and viewed as vital element of business and individual success as it emphasizes to produce opportunity and create wealth (Hyder & Lussier, 2016). That is why the promotion of the entrepreneurship has become a topic of highest priority in public policy (Minai et al., 2018). It is central to mention here that entrepreneurship is a process that leads to the establishing and creating the SMEs or business ventures through innovative and creative practices (Mishra et al., 2018). It is argued that the economic development of any state depend on the performance of small and medium enterprises (Jevwegaga et al., 2018).

With regard to this study, small firm performance is the core concern that refers to the firm's success and the achievement of its objectives. Small firm's performance remains the ultimate indicator for business success and it is quite evident from empirical and theoretical models (Roxas et al., 2017). Firm performance is the major outcome of any enterprise that is why academicians and the practitioners both have concerned with firm performance (Hashim et al., 2018).

In today management research resources and capabilities together are considered as contributing elements towards firm performance (Lu et al., 2010). In many studies, intangible firm resources have used as influencing factor on firm performance (Radulovich et al., 2018). Some researchers tried to investigate the ways of improving the firm performance and some studied the predictors of firm performance (Mahmood & Hanafi, 2013).

This study highlights the predictors of small firm performance such as entrepreneurial network and dynamic capabilities both are viewed as supporting factors to firm performance. It is stated that entrepreneurial network is one strategically important tool that can be utilized by small firms to enhance their performance. Entrepreneurial networks are contacts of small firm owners with other individuals or firms in order to obtain and share information and resources (Machirori & Fatoki, 2013). Entrepreneurial networks are regarded as important resource of the firm that increases enterprise efficiency (Jiang et al., 2018; Kregar & Antoncic, 2014). Likewise, it is believed that entrepreneurial networks are helpful to the entrepreneurs and potential benefits get from networking include exchange relationship, better information and added credibility (Minai et al., 2012).

Extensive review of McDonald, Gan et al. (2014) in entrepreneurship research approaches described that at small-level there is little research design. In this regard, it is acknowledged that future research work should focus on the "*social dimensions of entrepreneurship*" and, in specific, highlighted that entrepreneurial activities are outcome of "*social interactions and mechanisms*" (Ferguson et al., 2016). While the existing research on the link between entrepreneurial network and small firm performance is surprisingly limited. (Tendai, 2013)

The next focal point of this study relates to dynamic capabilities, these are high order capabilities which integrate, reconfigure and coordinate the existing available intangible resources in order to achieve superior firm performance (Makkonen et al., 2014). Consistent with the arguments, hardly one can find a study that mainly examines the relationship among entrepreneurial network and small firm performance with the mediating effect of the dynamic capabilities in this relationship and this study also fills the possible knowledge gap. From theoretical perspective, Resource Based View (RBV) and Dynamic Capabilities View (DCV) both provide theoretical foundations for conceptual model of current study. Thus, this study provides practical implications to the owners/managers of small firms and entrepreneurs to improve firm performance.

## LITERATURE REVIEW

The theoretical foundation of this study is based on the extensive literature review. Literature covers unique characteristics of small firm and its performance measurements as well as causal linkages have been identified between entrepreneurial networks and small firm performance and the mediating potential of the dynamic capabilities. Moreover, keeping in view the characteristics of small firm the conceptual framework is proposed.

## Unique Characteristics of Small Firm and its Performance Measurement

The appropriate definition of the small and medium enterprises has been the focus point of the considerable discussion. Obviously, it is different from one country to another country, and depends upon the purpose for which the definition is applied, and a different criterion is used like number of employees or invested capital (Hussain et al., 2012). The term “SMEs” was coined by the European Commission for those firm firms which have less than 250 employees (Hafeez et al., 2012).

Most importantly, the small firms have uniqueness in their characteristics that make them different from others. Different scholars have emphasized on the need for considering these different features while investigating the small firms (Minai et al., 2014). The general features of small firms are considered as “*low number of hierarchical levels*”, “*strong personalization*”, “*strong interconnection of the formal as well as informal elements*”, “small quantity of resources” and “*low degree of formalization*” (Nicolescu, 2009). It has well-known that the small enterprises are generally “*informal and flexible*” and much relies on the entrepreneur’s personal characteristics (Minai et al., 2014).

Focusing mainly on the entrepreneurship and small business research has attained substantial attention in academic research work in this era (De Mello et al., 2018). It is strongly argued by (Minai et al., 2014) that small firms having unique features and different individuals also have unique attributes who are operating the ventures. Therefore, they emphasized on the unique business research method while doing research on small firms and propose a change in the current business research techniques regarding small firms. Moreover, they pointed out that the typical formal method of research has not covered all the aspects of small firms. Further, they mentioned that a number of factors to be considered while conducting research on the small firms.

Small firm performance is the dependent variable of the study. Basically, in the literature of performance measurement system, there are two major indicators of performance and these are financial and non-financial performance (Cardinaels & Van Veen-Dirks, 2010). In addition, Performance Measurement Systems (PMSs) means to grow and attain competitive advantages and rapidly respond to external changes and adapt them. A performance measurement system is the metrics set which is used to quantify the effectiveness and efficiency of the past actions of the firms (Cocca & Alberti, 2010). In order to continue in such a dynamic environment, it is essential for small firms to gratify all their stakeholders and be excellent at the same time along with all dimensions of performance.

## Linkage between Entrepreneurial Network and Small Firm Performance

In entrepreneurship area, Chell (2013) narrated a “*process-relational*” style which comprises the combined elements of the structural engagement with others and the acknowledgement of the “*socially embedded nature of entrepreneurial activity*”. In addition, interpersonal and inter-firm relationships in entrepreneurial networks offer a platform through which players exchange a gigantic variety of information and resources carried by other players and this exchange relationship move towards superior performance. Such networks provide platform for small firms to boost innovation by using interactions among firms. Such networks have great importance during the formation, expansion and growth of the businesses (Ferguson et al., 2016).

In the same manner, entrepreneurial networks are an indispensable component in the social process of entrepreneurship (Anderson et al., 2010). These networks function as linking tool to the others; they offer an embedding mechanism and they constructed the social platform for entrepreneurship. Similarly, networks are supposed to be strategic alliances which are socially created for running the operations of the business but also most significantly for establishing change, initiating advancement and making the successful firm future. In continuation, networking enables the entrepreneurs to take resources that are held by others and to enhance firm performance (Huang et al., 2012; Slotte-Kock & Coviello, 2010).

In view of significance of entrepreneurial networks, it is believed that enterprise networks are essential for the firm performance (Jiang et al., 2018). Network practices are involved in growing small firm on specific patterns of activity (Hughes et al., 2017). It is considered that the prospective benefits resulting from entrepreneurial networks include well information, exchange relationship and extra credibility. Similarly, entrepreneurial networks also permit entrepreneurs to exchange several resources and access to the opportunities that boost the firm performance (Minai et al., 2012). After vast discussion of networking, it has recommended that entrepreneurs not only line up the internal as well as the external environment, but also that networks take the environment into being (Anderson et al., 2010).

Furthermore, reviews of literatures demonstrated that various studies confirmed significant positive statistical relationship among networks and small firm performance (Huang et al., 2012; Greve & Salaff, 2003; Wilson & Appiah-Kubi, 2002; Jenssen, 2001; Chell & Baines, 2000; Bryson, 1997; Ostgaard & Birley, 1996; Brown & Buttler, 1995; Aldrich et al., 1987; Johannisson, 1986). Some other studies show a positive relation among networks and firm performance (Antonicic et al., 2007; Hansen, 1995). Further et al. (2012) also highlighted that there is a positive impact of networks on firm performance. It is quite evident from the study of Minai et al. (2012) that entrepreneurial networks are deemed important for making progress in dynamic business environment. Theoretically, resource-based view explains the relationship among entrepreneurial network and small firm performance. Intangible resources such as entrepreneurial networks that increase firm performance. It is absolutely obvious from the different researcher's arguments that this may provide positive and meaningful relationship.

### **The Mediating Potential of Dynamic Capabilities**

Capabilities are considered as a collection of learned, patterned, high level, repeated behaviors that a firm can perform well than its competitors (Winter, 2003; Nelson & Winter, 1982). With respect to dynamic capabilities, it is well known that dynamic capabilities are recognized as high order capabilities which deal with turbulent business environment (Laaksonen & Peltoniemi, 2018; Raza et al., 2018). Dynamic capabilities concern to purposefully change the product, the scale, the production process or the markets where a firm performed (Winter, 2003). According to Jantunen et al. (2018) dynamic capabilities are imperative for making firms progressive in fierce competitive market place.

A firm systematically creates and changes its operational process through dynamic capabilities, which are learned and stable patterns of behavior as a result firm can perform effectively (Macher & Mowery, 2009). According to Teece (2007), the firm existing tangible as well as an intangible assets foundation are determined by firm previous paths and history, which lead towards firm processes. For finding the opportunities the firm uses its sensing capabilities. When opportunities are known, the firm enhances its existing organizational capabilities by

investing in these available opportunities. Consequently, new capabilities are formed by the firm reconfigures or recombine its existing firm capabilities which counter the turbulence in the economic environment. A firm can make new positions, new paths and asset bases through the new capabilities (dynamic capabilities) which can lead to performance and gained a sustainable competitive advantage for the firm (Pavlou & El Sawy, 2011).

The early conceptual discussion explained a direct relationship among dynamic capabilities and firm performance. According to this point of view, various empirical studies verify a direct relationship of dynamic capabilities with firm performance (Hong et al., 2018; Garcı a-Morales et al., 2007; Garcı a-Morales et al., 2007; Zhang, 2007; Kor & Mahoney, 2005).

For the purpose of mediating potential of dynamic capabilities, the external antecedents of Dynamic Capabilities (DCs) related to inter-firm relationships. Inter-firm relations and business networks also feature as powerful antecedents of dynamic capabilities (Eriksson, 2014). Accordingly, emphasized on the importance of capabilities that is determined by networks (Eriksson, 2014; Liao et al., 2009). Further, dynamic capabilities move forward to raise firm performance level (Raza et al., 2017). It is described that dynamic capabilities are considered as strong mediator. For this reason, dynamic capabilities are valued as tool which employed for converting resources into improved performance. In the same way, dynamic capabilities can perform as a mediating variable among firm intangible resources and performance (Najmi et al., 2018).

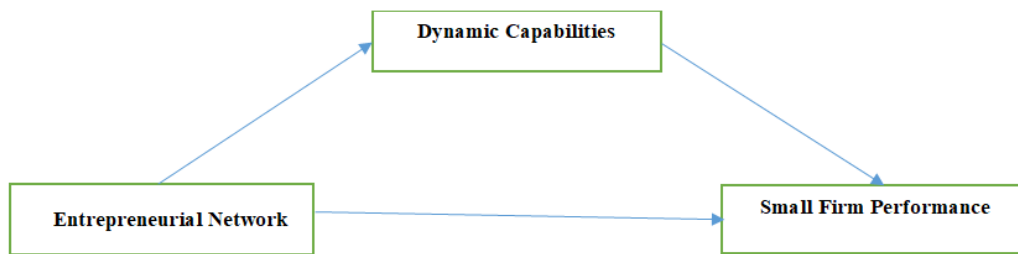
On the basis of above discussion, the current study proposed dynamic capabilities as mediating variable on the relationship among entrepreneurial network and small firm performance. Theoretically, proposed conceptual model is guided by resource based view and dynamic capabilities view. Finally, keeps the process going, as the best firms will need to continuously keep up with the changing demands of their turbulent business environment if they want to succeed.

## **THE PROPOSED CONCEPTUAL FRAMEWORK**

The literature review provided the theoretical foundation of this paper and identified the relation between entrepreneurial network and small firm performance and also the mediating role of dynamic capabilities. This framework can be used to examine a few research propositions as mentioned later.

Literature review provides guideline to propose the following conceptual framework. On the basis of above discussion; this study proposed the following research propositions.

- 1) There is a significant positive relationship between entrepreneurial network and small firm performance.
- 2) There is a significant positive relationship between entrepreneurial network and dynamic capabilities.
- 3) Dynamic capabilities mediate the relationship between entrepreneurial network and small firm performance.



**FIGURE 1**  
**PROPOSED CONCEPTUAL FRAMEWORK, DYNAMIC CAPABILITIES (DCS) AS**  
**MEDIATOR**

### CONCLUSION

The knowledge gap on small firm development is addressed by the current study with offering the conceptual model of linking entrepreneurial network with small firm performance through mediating role of dynamic capabilities (Figure 1). It is the need of the time that the dynamic measures should be taken for enterprise growth. Entrepreneurial network can be one of those dynamic measures that can increase the level of progress and allow firms to break down the stagnant status and jump towards success. As discussed in the introduction of the study, entrepreneurial networks seem to be strategically important. Furthermore, it is well known that efficient, strong and dynamic small firms contribute to sustainable economic development and creating competitive advantage by using entrepreneurial networks. From the review it emerged that, usually the small firms are operated in highly competitive, turbulent and uncertain markets. Generally, small firms do not have any influence or control over the markets and thus there is prerequisite for small firms to adopt a dynamic capabilities approach to counter the economic shocks. Being powerful predictors of firm performance, there is an immense need to study the entrepreneurial network and dynamic capabilities together in order to enhance firm performance. Thus, the main purpose of the current study is to propose a conceptual framework where dynamic capabilities mediate the relationship between entrepreneurial network and small firm performance.

### RECOMMENDATIONS FOR FUTURE RESEARCH

This study suggests a conceptual framework which can be empirically tested in different countries, mainly in the developing economies; and also apply in various industries for the purpose of generalizing the findings. In addition, longitudinal studies in this context can contribute in the academic literature regarding entrepreneurial network and dynamic capabilities in small firms. Future researchers can also employ another variable in proposed model and look forward to study the statistical relationship; hence, the proposed framework in this study attempts to direct the researchers towards a new pathway for detecting this important relationship and probably construct a new view.

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