

# The role of social capital in augmenting strategic renewal of SMEs: does entrepreneurial orientation and organizational flexibility really matter?

Social capital  
and strategic  
renewal

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## Abstract

**Purpose** – The objective of this study is to evaluate the key issues that how social capital augments the initiation of strategic renewal through the mediating role of entrepreneurial orientation and the moderating role of organizational flexibility. In the context of Small and Medium Enterprises (SMEs) of developing economies, the study developed and tested the theoretical model of strategic renewal for analyzing its major outputs.

**Design/methodology/approach** – This study utilized cross-sectional design and employ quantitative approach. The data were collected from the owner, managers and executive directors of pharmaceutical SMEs of Pakistan. The study used statistical analysis of correlation and regression for the analysis of data.

**Findings** – The study discovered that entrepreneurial orientation mediates the positive relationship of social capital and strategic renewal. Moreover, high organizational flexibility strengthens the association between social capital and strategic renewal of SMEs.

**Originality/value** – This research contributes to the body of knowledge by providing empirical evidence that how to thrive the mechanism of strategic renewal. The study further provides understanding of the effects of organizational social capital, entrepreneurial orientation and organizational flexibility on strategic renewal.

**Keywords** SMEs, Entrepreneurial orientation, Organizational flexibility, Social capital, Strategic renewal

**Paper type** Research paper

## 1. Introduction

In rapidly changing business environments, organizations require continuous transformation and renewal with the long-term perspective in order to remain competitive regardless of their age and size (Cortimiglia *et al.*, 2016). Although strategic renewal is a vital facet for the sustainability and success of organizations (Amankwah-Amoah *et al.*, 2017), it is an emerging area in the literature. Strategic renewal is considered vital for an organization in order to remain competitive in a volatile business environment, yet little attention has paid to its antecedents and outcomes (Schmitt *et al.*, 2018).

Strategic renewal is defined as the continuous process of organizational transformation from one state to another state instead of a discrete shift (Volberda and Baden-Fuller, 2017).



The strategic renewal process demands the interactions both at organizational level as well as external components for effecting the strategic direction of organizations (Schmitt *et al.*, 2018). In this perspective, strategic renewal implies two vital components: incremental renewal and discontinuous strategic transformation (Helfat and Agarwal, 2009). Strategic renewal is a vital facet for an organization to achieve competitive advantage in current dynamic and volatile business economies, and still little is understood regarding its antecedents and outcomes in developing economies as compared to the developed one (Cortimiglia *et al.*, 2016; Volberda *et al.*, 2018).

The resource-based view (RBV) of business longevity suggests that the continuation and business longevity is dependent on the accumulation, development and utilization of distinctive resources, which strengthen the organizational abilities of survival and profitability (Barney, 1991). This argument strongly emphasizes the significance of investing in these intangible and intricate to emulate assets, like social capital. Social capital is a knowledge resource that is utilized by the organization to achieve the competitive advantage and success (Khan *et al.*, 2014; Yasir and Majid, 2019). Social capital is the outcome of the interactions and collaborations between the people or groups who share their ideas; in this context, social capital can be defined as assets generated by interpersonal networks which are, therefore, embedded and available within them (Subramaniam and Youndt, 2005). Ramadan *et al.* (2017) suggested the three dimensions of social capital that are structural, relational and cognitive dimension. In the current knowledge intensive business environment, organizations need to pull focus on the relationships both upstream and downstream in order to augment their social capital, which can effectively promote the innovation, enhance the performance and enable an organization to cope with the market demands.

In modern era, the growing significance of social capital has prompted a large number of studies related to its antecedents and outputs like innovativeness (Subramaniam and Youndt, 2005), competitive advantage (Nahapiet and Ghoshal, 1998) and value creation (Khan *et al.*, 2014). Still there is lack of empirical examinations that how social capital augments the strategic renewal of organizations in developing economies. For that reason, there is a need to explore how organizations in developing economies specifically transform themselves in a strategic perspective. This gap will be filled by this study. In addition, this study also explored the mediating effects of entrepreneurial orientation between the relationship of social capital and strategic renewal of organizations in developing economies. Entrepreneurial orientation represents the attentiveness regarding the arising opportunities for the organizations; consequently, utilization strengthens the competitive distinctiveness of organizations (Wales, 2016). It is evident from the prevailing research that the direct impacts and antecedent and outcomes of the entrepreneurial orientation have been discussed in various studies (Shan *et al.*, 2016). However, the indirect effects of entrepreneurial orientation in relation to intangible assets are little explored. Since the need has been aroused to confer the mediating effects of entrepreneurial orientation between the relationship of social capital and strategic renewal, specifically in the context of developing business economies, the long-term survival of organizations is far less as compared to developed economies.

This research also explores the moderating role of the organizational flexibility on the relationship of social capital and strategic renewal of firms. Organizational flexibility is supposed to encourage development and performance of firms (Nadkarni and Narayanan, 2007) and has a significant role in the explanation of strategic renewal (Rasmussen *et al.*, 2015). Organizational flexibility is augmented through social capital (Alimadadi and Aghaziarati, 2014). It is evident from the literature that flexible organizations are more capable of to implement the transformation of organizations in most effective manner (Verdu and Gómez-Gras, 2009). Social capital makes firms more dynamic, agile and flexible in their

processes, systems and resources, and organization transformational capability augments through these as well (Mitchell *et al.*, 2016). Organizational flexibility allows the organization to reconfigure their resources time to time in order to achieve the successful organizational transformation, which leads to strategic renewal of firms (Gutierrez Gutierrez and Fernandez Perez, 2010; Yousaf and Majid, 2016). The purpose of this study is to evaluate; how do social capital affect entrepreneurial orientation, which in turn augment the strategic renewal of SMEs? To what extent social capital and strategic renewal of SMEs is to be moderated by the organizational flexibility? In line to the above objectives, the study adds to the theory in various ways. First, this research develops strategic renewal model for the SMEs in the context of developing economies. Second, this study expands the scope of social capital by entailing its association with entrepreneurial orientation to ensure strategic renewal of SMEs. Third, this research opens the more brighten dimensions of organizational flexibility by examining its contingent effects. Fourth, in the context of SMEs this research contributes to the strategic management literature by empirically evaluating the complex model.

To achieve these objectives, the study has been divided into different sections. The following section discusses the relevant literature on different constructs. Section three discusses the research methodology. The subsequent sections discuss results, theoretical contributions, practical implications and limitations of research.

## 2. Literature review

### 2.1 Social capital and strategic renewal

Social capital is perceived as the organization's intangible resources that are derivative of individual network or a combination of ties, which are vital to achieve definite goals (Sanchez-Famoso *et al.*, 2014; Vosta and Jalilvand, 2014). Social capital is precisely defined as the relationships among the groups or individuals working within organization (interior social capital) as well as the associations among the external stakeholders and organization (exterior social capital); and these relationships result in valuable resources of learning and are helpful in the development of distinct knowledge base, which might be crucial for the generation of innovation and creation of value for organizations (Harjanti and Noerchoidah, 2017). According to Carrillo Álvarez and Riera Romaní (2017), social capital is a valuable organizational resource, which is based on culture of interaction and has positive economic outcomes. Social capital is also defined as the resource accessed via network, based on principal of resources sharing and creates value for the organization (Korkeila and Hamari, 2020). According to the Akhavan and Hosseini (2015), social capital consists of three dimensions that are structural dimensions, cognitive dimensions and relational dimensions. The structural dimensions relate to the relationships between members; that is, with what frequency and with whom they share information. So, the structural dimensions of social capital consisted of social interaction ties (Lefebvre *et al.*, 2016). The relational dimension of social capital represents the type of personal relationship individuals or member of networks have created with one and other by history of interactions. Identification, trust and reciprocity are the main attributes of relational dimension (Martínez-Pérez *et al.*, 2016). Whereas the third dimension of social capital is the cognitive dimension, which is the combination of resources that provides shared code or paradigm that facilitates a general perspective of shared vision/goals and suggests appropriate way of doing things in a social system (Harjanti and Noerchoidah, 2017), and it is evident from the literature that shared group's goals, shared vision and purpose are considered major constructs of cognitive capital.

The term strategic renewal is defined as the managerial processes that are used to modify and replace the current business model of an organization in order to cope with the emerging environmental risks and to take advantage of rising opportunities for the success and survival of organization in long run (Avgeropoulos *et al.*, 2014; Shah *et al.*, 2019a).

Strategic renewal relates to the actions and activities that organizations undertake to modify their path dependence (Volberda *et al.*, 2018). In other words, strategic renewal encompasses all the decisions and actions taken by the organizations to accomplish the business longer continuation (Warner and Wäger, 2019). Strategic renewal is taken as a process with constant expeditions in spite of a discrete shift from one state to another state (Schmitt *et al.*, 2018). Strategic renewal entails two vital components/processes, which are discontinuous strategic transformation and incremental strategic renewal (Klammer *et al.*, 2017). The discontinuous transformations are the major initiatives taken by the organizations to discard and replace the vital components of organizational strategy in order to augment the long-term prospects (Alimadadi and Aghaziarati, 2014). The facet of discontinuous strategic transformation approach is that it helps the organizations to overcome the declining returns or to gain maturity in its business sector and to take advantage of emerging market opportunities. On the other side, incremental renewal is the set of small step-by-step approaches that an organization initiates to implement actions and ideas over the time in line with the risks and opportunities arise in the markets (Klammer *et al.*, 2017). The incremental strategic renewal frequently takes place in an appropriate manner, which mitigates the need to engage in more complex and larger change consequently (Agarwal and Helfat, 2009).

When organizations renovate and grow, they demonstrate elements of both kind of strategic renewal. The strategic renewal is an evolutionary procedure that is linked with the promotion, accommodation and utilization of new knowledge that is acquired through a relationship that an organization has with stakeholders in order to initiate changes in organizational core competencies or in organizational products/market domain (Riviere and Suder, 2016). The new organizational knowledge is acquired from the formal as well as informal relationships of organizational stakeholders, which are resulted of mutual trust, values and social networks; these formal and informal social networks of mutual trust, norms and value are taken under the umbrella of social capital (Agarwal and Helfat, 2009).

Social capital is increasingly considered a valuable intangible asset for the organization that helps the organizations in transforming organizational existing knowledge and enhances the value of organizational relationship through networks, provides access to other valuable resources and brings a unique and idiosyncratic network of relationships (De Clercq *et al.*, 2013). It is evident from the literature that relationships with stakeholders are facilitating the strategic renewal by producing useful knowledge for organizations; these relationships are based on trust, norms and social networks, and these are both in formal as well as informal (Mäkimattila *et al.*, 2016). Social capital is not only based on trust and norms but also encompasses the formal and informal social networks (Naphiate and Ghoshal, 1998). On the basis of this argument, it can be argued that social capital facilitates the organizations in facilitating the processes related to the strategic renewal, and it is accomplished that there is a significant relationship between social capital and strategic renewal. Appropriate management and utilization of intangible assets like social capital in combination with the entrepreneurial attitude toward new opportunities like entrepreneurial orientation are considered driving forces of organizational transformation (Subramaniam and Youndt, 2005).

## *2.2 Mediating role of entrepreneurial orientation*

Entrepreneurial orientation has emerged as an important construct in the management and organizational literature, attracting significant attention of the researchers and academia (Martin and Javalgi, 2016). Various definitions of entrepreneurial orientation are available in the literature. Entrepreneurial orientation is consisting of the corporate policies and procedures that make an organization capable to implement an entrepreneurial attitude toward emerging new business openings (Ngoma *et al.*, 2017; Wales *et al.*, 2013). Entrepreneurial orientation is generally defined as the instantaneous presentation of risk-taking, innovativeness and

proactiveness, aggressive competitiveness and organizational autonomy, and it further expedites the organizational abilities to identify new business openings that might results in larger returns, to get first-mover advantage and to attract premium customers (Javed *et al.*, 2018; Yousaf and Majid, 2016). “It is found in companies where the strategic leaders and the culture together generate a strong impetus to innovate, take risks and aggressively pursue new venture opportunities, and these ideas are captured by the concept known as entrepreneurial orientation” (Dess and Lumpkin, 2005, p. 147).

The entrepreneurial orientation summarizes the organizational level procedures, decision-making style and practices as well as strategic orientation of entrepreneurially-oriented organization (Kantur, 2016), and these abilities are significantly vital for organizations in emerging business environments while they are transforming their business models. Entrepreneurial orientation is a multi-dimensional construct consist of vital dimension of risk-taking, organizational autonomy, aggressive competitiveness, innovativeness and proactiveness (Gao *et al.*, 2018). Entrepreneurial orientation is related to the strategic organizational aspects that encompass the specified procedures, activities and practices that help the organizations in creation of value through their engagement in implementation of change initiatives by utilizing the distinctive assets (Monteiro *et al.*, 2017).

Han *et al.* (2014) suggested that the creation and accumulation of new knowledge, creativity and internal coordination are the antecedents of social capital. The organization with higher social capital has higher organizational autonomy, innovativeness, proactiveness to emerging opportunities, higher capabilities to risk-taking and potential of transformation (Van Doorn *et al.*, 2017). Social capital can be utilized to explore that how the members of a network can work jointly for the creation of innovations for the development of skills and to enhance the ability to take risks. As affirmed by the Gao *et al.* (2018) that establishing the partnership with other stakeholders is the kind of capability that might help an organization in acquiring innovation that helps in improving the entrepreneurial attributes within the organization. It is evident from the literature that the entrepreneurial orientation entails innovation, proactiveness as well as the capability to take risks, which are essential facets for the organizational transformation and renewal in long run perspective (Fairoz *et al.*, 2010). They further suggested entrepreneurial orientation as the innovative behavior of the organizations in order to survive in long term through adopting the changes occurring in the business environment. Furthermore, Casillas *et al.* (2010) argued entrepreneurial orientation is the logical outcome of proactiveness; innovativeness and risk-taking behavior are significant for the organizational survival in a long-term perspective. This argument strengthens the logic that business entities with higher orientation to entrepreneurial activities are more willing to be innovative, proactive, to take risk, to aggressively compete and independent to adopt changes regularly. Various studies highlight that organizational transformation is enhanced when entrepreneurial orientation commensurate with the environmental requirements, and it is significant that more entrepreneurially oriented organizations perform better in implementing changes as compared to other organizations in the dynamic environment (Majid *et al.*, 2019b; Wales *et al.*, 2013). Regardless of the significance of entrepreneurial orientation for organizational transformation, organizations are often unsuccessful in transforming entrepreneurial orientation into better performance due to lack of strategic assets like as social capital (Covin and Wales, 2012). As social capital relates the capability to access and mobilize resources through social relationships, therefore, strong as well as weak network ties are important in this regard.

### 2.3 Moderating role of organizational flexibility

Organizational flexibility is the ability of an organization to utilize and reutilize the organizational capabilities and resources or the ability to alter and manage the organizational

attributes (Volberda, 1996). It is the framework of experiencing, receiving, containing or crafting adaptability capacity, alter and react besides suffering time, efforts, cost and actions (Mitchell *et al.*, 2016). Strategic flexibility is also defined as a capability to initiate actions to cope with the external environment changes (Gutierrez Gutierrez and Fernandez Perez, 2010). According to Barış (2017), organizational flexibility is the capacity of the organization to respond to changing environmental demands. Social capital establishes a mechanism of association and coordination between the components of organizations in order to recompose and implement general strategies to cope with the environmental changes, thus it augments the adaptability and agility of the firms (Lans *et al.*, 2015; Yousaf *et al.*, 2018). Moreover, this agility and capability of the organization only be strengthening when an organization is characterized with flexible structure, system and operations. The flexible organizations experience lesser restraints in the means to get support for sustainable procedures from the actors of social networks and augment these associated relationships (Mitchell *et al.*, 2016). Social capital favors the transformation of organizations through enabling them to become more flexible by reducing the cost, updating the knowledge and sharing the resources (Walter *et al.*, 2006). Social capital acts as a catalyst for organizations that embedded it for the maintenance and development of continual transformation (Rasmussen *et al.*, 2015). Such transformation allows organizations to move forward in more organized manner (Majid *et al.*, 2019a; Wu and Zhou, 2010). It is evident from the literature that the studies focus on the association among strategic flexibility, and organizational transformation is still limited. A recent research conducted by Yousaf and Majid (2016) advocates that strategic flexibility has no direct association with the organizational transformation but in spite augment the positive effect of social capital on the organizational transformation. The analysis of literature reveals that the association of organizational social capital is on strategic renewal is contingent on strategic flexibility. On the basis of these arguments, it is concluded that strategic flexibility either strengthens or weakens the association between social capital and strategic renewal of SMEs.

### 3. Theoretical model

Based on the literature review, a theoretical model for the current study is as under (see Figure 1):

Based on the above model, the hypotheses to be tested in current study are as follows:

H1. Social capital has positive and significant effects on strategic renewal.

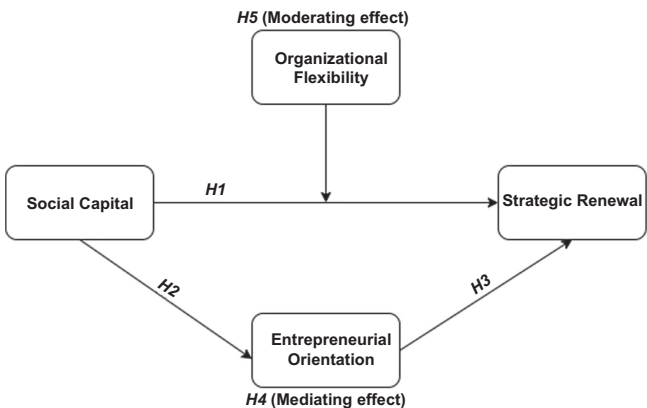


Figure 1.  
Theoretical model



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- H2. Social capital has positive and significant effects on entrepreneurial orientation.
- H3. Entrepreneurial orientation has positive and significant effects on strategic renewal.
- H4. Entrepreneurial orientation has a mediating effect on the relationship of social capital and strategic renewal.
- H5. Organizational flexibility has a moderating effect on the relationship of social capital and strategic renewal.

## 4. Methodology

### 4.1 Design and industry selection

In order to achieve the objective of this research, data were collected from the owners, managers and senior executives of SMEs dealing in the pharmaceutical equipment. The reasons for the selection of these were that SMEs are comparatively more innovative, dynamic, owing strict competition and continuously growing (Mutula and van Brakel, 2006; Shah *et al.*, 2019b). In order to remain competitive, survive for long term and to achieve high profitability, these SMEs are continuously transforming their structures, system and way of doing business. The initial information regarding these SMEs was obtained from the Small and Medium Enterprises Development Authority (SMEDA).

### 4.2 Sampling

For data collection, a sample of 933 respondents was selected from the pharmaceutical sector of SMEs. The sample frame includes the respondents who are owners, manageress, CEOs and policymakers of SMEs. A survey method was utilized, and data were collected through a structured questionnaire.

### 4.3 Data collection

Data collection was a lengthy process and conducted in three phases. In the first phase, a questionnaire accompanied with a covering letter was sent to the respondents. In the second phase after a period of six months, the respondents were contacted through mails who delayed to respond. In the third stage, the researchers personally visited the firms to collect the data. After all these efforts, a total of 521 useable and valid questionnaires were received back. The response rate was 56%, which is taken as a good response rate in the research context of developing countries like Pakistan.

### 4.4 Measures

The questionnaire composed of two sections. In the first section, the information regarding firms' size, age, educational level and experience were asked. The second section composed of the items to measure the study constructs. The five- point Likert's scale ranging from (1) strongly disagree (3) neutral and (5) strongly agree was utilized to measure the constructs used in the study model.

**4.4.1 Social capital.** The measurement of social capital was carried out with three dimensions, i.e. structural dimension, relational dimension and cognitive dimension. The 16 items scale was used to measure the construct of social capital with its three dimensions. The scale was adapted from Fandiño *et al.* (2015). These 16 items generated Cronbach's  $\alpha$  value of 0.837 and average variance extracted (AVE) is 0.723. The items utilized to measure the social capital were reliable.

**4.4.2 Entrepreneurial orientation.** The construct entrepreneurial orientation in this research was measured with its three dimensions of risk-taking, proactiveness and

competitive aggressiveness. To measure entrepreneurial orientation, scale was adapted from the study of [Yousaf and Majid \(2016\)](#), previously utilized by [Le Roux and Bengesi \(2014\)](#). The value of Cronbach's  $\alpha$  coefficient was 0.811, and AVE was 0.740.

**4.4.3 Strategic renewal.** The construct of strategic renewal was measured with two dimension, i.e. discontinuous transformation and incremental strategic renewal ([Klammer et al., 2017](#)). The measures for strategic renewal were based on nine items and were adopted from ([Helfat and Agarwal, 2009](#)). The value of Cronbach's  $\alpha$  coefficient was 0.823, and AVE was 0.729, which entails the reliability of measuring scale.

**4.4.4 Organizational flexibility.** Organizational flexibility was measured through the eight-item scale adapted from the work [Verdu and Gómez-Gras \(200,9\)](#) and it was further used by [Gutierrez Gutierrez and Fernandez Perez \(2010\)](#). The value of Cronbach's  $\alpha$  coefficient was 0.825, and AVE was 0.712, which entails the reliability of measuring scale.

**4.4.5 Control variables.** It is evident from the existing literature that a firm's size and firm's age can influence firms' innovation and transformation, and they are frequently utilized as control variables ([Galbreath and Galvin, 2008](#)). So, firms' age and firm's size are taken as control variables.

#### *4.5 Issue of validity, reliability and common method bias*

In this study, the reliability and the validity of research instrument were computed. In order to measure the reliability, measures were computed through the Cronbach's alpha coefficients. The prevailing literature reveals that in the area of social sciences research, the value of Cronbach's alpha coefficient greater than 0.7 is considered reliable ([Chen et al., 2006](#)). The analysis results revealed that the Cronbach's alpha coefficient value for social capital is 0.837, strategic renewal is 0.823, entrepreneurial orientation is 0.825 is and organizational flexibility is 0.811, which confer the instrument reliability. The research instrument validation is evaluated through content, convergent and discriminant validity. The items for the measurement of the research constructs were earlier used and implemented by the several researchers of different areas; therefore, the content validity was evaluated through the prevailing literature. As a consequence of detailed literature review, the study advocated the greater degree of construct content validity. In addition, the above content validity of study construct was examined by discussion with academic and professional.

Confirmatory Factor Analysis (CFA) was utilized to evaluate the convergent and discriminant validity, and results shown are acceptable standard loadings and significant consequent values. The loading value for CFA was higher than 0.70; the AVE value ranges from 0.71 to 0.74, and Composite Reliability (CR) values range from 0.91 to 0.97. So, statistically significant indicators were depicted for path coefficients of latent variables to their related apparent indicators. Discriminant validity was evaluated through creating controlled CFA model for every latent pair of core construct, and correlation between the associated construct was set to 1.0. The result was compared to the new uncontrolled model through means of generously estimated correlation among the constructs. The value revealed the scale differences  $\chi^2$  were originated significant with  $p < 0.001$ , which advocate discriminant validity. The AVE square roots of each study construct were larger than all the interrelated correlations, confirming the discriminant validity. Therefore, the results evaluated in the analysis confer the unidimensionality and validity of the constructs used in this research. AVE, Cronbach's alpha coefficient, CR and value of standardized loading are revealed in [Table 1](#). The data for this research were collected from the owner, CEOs and managers of pharmaceutical industry in SMEs; as a result, common method bias might emerge to ascend the estimate between the constructs ([Podsakoff et al., 2003](#)). Harman's one-factor test was used to evaluate the extent of potential bias. Results of Harman's test suggest that the common method bias is not a concern in this study as outcome of the one factor analysis exposed 11 factors with eigen values greater than one, which combined



				Social capital and strategic renewal
Construct	No. of items	Items	Factor loading	
Social capital (AVE = 0.723, CR = 0.976 and Cronbach's $\alpha$ = 0.837)	16	SC1	0.878	<div>235</div>
		SC2	0.853	
		SC3	0.820	
		SC4	0.834	
		SC5	0.824	
		SC6	0.893	
		SC7	0.875	
		SC8	0.894	
		SC9	0.804	
		SC10	0.819	
		SC11	0.896	
		SC12	0.891	
		SC13	0.823	
		SC14	0.853	
		SC15	0.822	
		SC16	0.824	
Entrepreneurial orientation (AVE = 0.712, CR = 0.973 and Cronbach's $\alpha$ = 0.825)	15	EO1	0.822	
		EO 2	0.824	
		EO 3	0.820	
		EO 4	0.848	
Strategic renewal (AVE = 0.723, CR = 0.976 and Cronbach's $\alpha$ = 0.823)	9	SR1	0.841	
		SR2	0.890	
		SR3	0.852	
		SR4	0.894	
		SR5	0.864	
		SR6	0.868	
		SR7	0.819	
		SR 8	0.852	
		SR 9	0.801	
Organizational flexibility (AVE = 0.723, CR = 0.976 and Cronbach's $\alpha$ = 0.811)	9	OF1	0.894	
		OF 2	0.864	
		OF 3	0.868	
		OF4	0.819	
		OF5	0.852	
		OF6	0.801	
		OF7	0.894	
		OF8	0.864	
		OF9	0.868	
<b>Note(s):</b> <i>Model fit index:</i> $\chi^2/\text{df}$ = 4.609, GFI = 0.964, CFI = 0.978, AGFI = 0.910, NFI = 0.980, IFI = 0.976 and RMESA = 0.05. Significance level: * $p$ < 0.05; ** $p$ < 0.01; *** $p$ < 0.001; CR: construct reliability				<b>Table 1.</b> Confirmatory factor analysis and its construct measurement and reliability coefficient

explanation for 61% of total variance. Whereas the first factor explains 22% of the total variance.

## 5. Results

Correlation and regression analyses were utilized to examine the relationship between social capital and strategic renewal through the mediating role of entrepreneurial orientation. Table 2 reveals the values of mean, SD (standard deviation) and coefficient of correlation between the study variables. The coefficient of correlation among the dimensions of social capital, entrepreneurial orientation, organizational flexibility and strategic renewal all were correlated significantly. Social capital has positive correlation with strategic renewal as the

results revealed ( $r = 0.189^{**}$ ;  $p < 0.001$ ) as well as with entrepreneurial orientation ( $r = 0.347^{**}$ ;  $p < 0.001$ ). In the same way, the entrepreneurial orientation has positive a correlation with strategic renewal as results predict ( $r = 0.375^{**}$ ;  $p < 0.001$ ). The value of correlation statistics confirms the formulated theory of the study. The values of mean of control variables firms' age and size are 1.21 and 3.04 likewise. Multicollinearity of the data was calculated by using VIFs (variance inflation factors) test. The score for VIFs was constantly below the cut-off score of 10.0 of all models, which is apparent of the fact that there is no problem of multicollinearity in this analysis.

In order to prove the study [H1](#), [H2](#), [H3](#) and [H4](#), the study used the regression analysis, and the results of the analyses are entailed in [Table 3](#). [H1](#) of the research recommended that social capital is positively related to strategic renewal of firms. The result presents that the [H1](#) is supported and as result entails that beta value = 0.301 and  $p < 0.000$ . Firms with larger social capital will initiate the strategic renewal. [H2](#) of the study anticipated that social capital is positively related to entrepreneurial orientation of firms. [H2](#) of the study was approved as results show that beta value = 0.506 and  $p < 0.000$ . [H3](#) of the study theorized that entrepreneurial orientation is positively related to strategic renewal of firms. The result presented that entrepreneurial orientation is related to strategic renewal as beta value = 0.433 and  $p < 0.000$ . The result confirmed that entrepreneurial orientation supplements the strategic renewal of firms. To check the mediating role of entrepreneurial orientation in the relationship of social capital and strategic renewal, the [Baron and Kenny \(1986\)](#) method was used. The [Baron and Kenny \(1986\)](#) approach suggests four steps for examining the mediating effects; *in the first step*, the independent variable should be significantly associated to the dependent variable. *In the second step*, the independent variable should be associated significantly to the mediating variable. *In the third step*, the mediating variable should be related to the dependent variable. *In the fourth step*, there must be nonsignificant, or largely reduced association is essential amid the independent and dependent variable when the mediating variable is supplemented to the model. The results of step 1 to step 4 are shown in [Table 3](#).

**Table 2.**  
Mean, SD and  
correlation statistics

Variables	<i>M</i>	<i>SD</i>	1	2	3	4	5	6
Firms' age	1.21	0.81	1					
Firms' size	3.04	0.82	0.07	1	(0.850)			
SC	3.4	0.88	0.11*	0.07	1	(0.844)		
EO	3.5	0.87	0.05	0.10*	0.347**	1		
OF	3.2	0.91	0.04	0.04	0.266**	0.701**	(0.860)	
SR	3.6	0.88	0.02	0.05	0.189**	0.375**	0.502**	(0.853)

**Note(s):** SC: social capital; EO: entrepreneurial orientation; SR strategic renewal; OF organizational flexibility; SD standard deviation. The diagonal data (in italics) are the square roots of average variance extracted (AVE) of the construct

**Table 3.**  
Regression results for  
testing hypotheses 1, 2,  
3 and 4

Hypothesis	Details	<i>R</i>	<i>F</i>	<i>B</i>	<i>T</i>	Sig	Remarks
1	SC → SR	0.177	24.632	0.301	11.246	0.000	Accepted
2	SC → EO	0.347	100.96	0.506	9.077	0.000	Accepted
3	EO → SR	0.373	121.04	0.433	14.811	0.000	Accepted
4	SC + EO → SR	0.377	61.835	0.055 0.335	1.549 9.788	0.123	Full mediation

The results suggest that when entrepreneurial orientation is added to the model as the mediating variable, the effects of social capital on strategic renewal becomes nonsignificant as values of beta statistics reduced to 0.055 ( $p = 0.123$ ) from 0.301 ( $p = 0.000$ ). As a result, H4 was approved, which entails that the entrepreneurial orientation has the mediating effects on the association of social capital with strategic renewal of firms.

#### 5.1 Moderating role of organizational flexibility

In order to test the H5, that strategic renewal is the antecedent of multiple characteristics and exclusively whether organizational flexibility moderates the relationship of social capital and strategic renewal; the hierarchical multiple regression test was used, and results are presented in Table 4. The results of model-1, model-2 and model-3 are presented in Table 4. In the first model, the control variable is incorporated. In the second model, the variables social capital and strategic renewal were included. The results presented a considerable amount of variance in strategic renewal from organizational flexibility as  $R^2 = 0.257$  and  $p < 0.001$ . In model 3, the interaction term was created for social capital and entrepreneurial orientation. Then the interaction term was added to the regression model, which presented a significant amount of variance in strategic renewal ( $\beta = 0.052$ ;  $p < 0.001$ ). As a consequence of which H5 of the study was approved.

Figure 2 depicts that social capital had a significant and positive association with strategic renewal when organizational flexibility support was higher ( $\beta$ -value = 0.335;  $p$ -value<0.001) to some extent than short ( $\beta$ -value = 0.137;  $p$ -value<0.001) in favor to H5. Accordingly it is confirmed that organizational flexibility strengthens the relationship between social capital and strategic renewal of firms.

## 6. Discussion

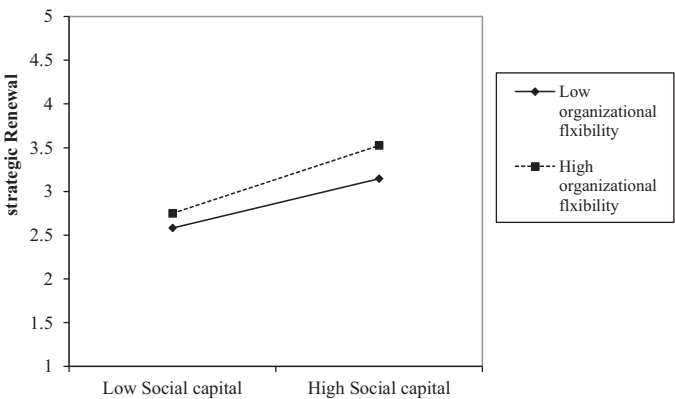
In modern economy, an organization requires a range of stimuli and forces for initiating, executing and implementing strategic renewal. Social capital is the one of important stimuli and forces among these forces. Through the augmentation of various dimensions of social capital (structural dimension, relational and cognitive dimension) an organization can implement the changes efficiently and effectively in strategic way. The dimensions of social capital enhance the entrepreneurial orientation within the organization. As a consequence of which organizations become more proactive, more innovative, more aggressive to adapt changes, increased autonomy and more competitive.

Factors and research resumes	Model 1		Model 2		Model 3	
	<i>B</i>	<i>t</i> -value	<i>B</i>	<i>t</i> -value	<i>B</i>	<i>t</i> -value
Firms' age	-0.028	-0.812	0.004	0.158	0.013	0.445
Firms' size	0.046	1.288	0.116	3.645	0.133	4.080
SC			0.342**	8.229	0.335**	8.11
OF			0.455**	9.056	0.137**	20.413
SC * OF					0.053**	3.102
<i>Model resumes</i>						
<i>R</i>				0.507***		0.513**
$\Delta R^2$				0.257***		0.006**
<i>R</i> <sup>2</sup>		0.003		0.257***		0.263**
<i>F</i> -statistics		0.995		160.94***		111.526**
<b>Note(s):</b> Significance level *** $p < 0.001$ , ** $p < 0.01$ . * $p < 0.05$ and $p < 0.1$						

**Table 4.**  
Moderating role of  
entrepreneurial  
orientation

The findings of the study revealed that these organizational characteristics are vital for the strategic renewal of the organizations. The results depict the stronger support for the [H1](#) that social capital is positively associated to strategic renewal of organization. It is evident from findings that social capital enhances the trust, interactions, relationships, sharing knowledge novel ideas and individual identity and then subsequently results in strategic renewal of organization. These finding are in line with the findings of [Naphiat and Ghosal \(1998\)](#) and [Mäkimattila \*et al.\* \(2016\)](#).

The result provides the stronger support for the [second hypothesis](#) of the study, as proposed the positive effect of social capital with entrepreneurial orientation within the organization. The finding suggests that the solid and sturdy relationship between the organizational members resulted from the management of social capital results in generation of innovative ideas, risk-taking, dynamic competitiveness, organizational autonomy and proactiveness in exploiting new emerging opportunities. These findings are in line with the findings of [Giudici \*et al.\* \(2018\)](#) and [Gao \*et al.\* \(2018\)](#). The [third hypothesis](#) of the research revealed that the entrepreneurial orientation has a positive and significant effect on strategic renewal of organization was significantly supported. The finding revealed that new ideas, risk-taking initiatives, organizational autonomy, proactiveness in exploiting emerging opportunities and competitiveness augment the SMSs' abilities of transformation both in short and long term strategically. These findings provide the support to the findings of [Sakhdari and Burgers \(2018\)](#) and [Covin and Wales \(2012\)](#). One of the purposes of the research was to examine the mediating role of entrepreneurial orientation between the relationship of social capital and strategic renewal. The statistical results of the research confirm the full mediating role of the entrepreneurial orientation in the relationship of social capital and strategic renewal. The contingent effects of organizational flexibility in the relationship of social capital and strategic renewal were also examined in this study. The statistical results confirm the moderating role of organizational flexibility on the relationship of social capital and strategic renewal of SMEs. It is concluded that flexible organization are more capable in the management of strategic resources for the initiation of strategic renewal and has competitive advantage over its competitor and survive in long run. So, on the basis of above discussion, it can be concluded that social capital results in initiation of organizational transformation and renewal in long term strategically. It is significant for policymakers and managers to appropriately manage the social capital of their organizations through the measurement, assessment and improvement of entrepreneurial orientation and organizational flexibility in order to improve or foster transformation of the organization.



**Figure 2.**  
Moderating effect of  
organizational  
flexibility in the  
relationship between  
social capital and  
strategic renewal

### 6.1 Theoretical contribution

This study provides several theoretical contributions. *First*, this study developed and tested empirically the strategic renewal model in order to contribute to the theory by providing the guidelines to initiate strategic renewal by appropriate management of social capital, entrepreneurial orientation and organizational flexibility in the context of SMEs of developing economies like Pakistan, such a model has not been discussed previously. This study made contribution to the theory by focusing on the fact that entrepreneurially oriented firms are in augmented state of position to initiate the process of strategic renewal, whereas information created through social capital augments the entrepreneurial orientations of the firms. *Second*, this study elaborates the scope of social capital by highlighting entrepreneurial orientation as a catalyst to initiate strategic renewal. This study contributes to the strategic change management literature by evaluating the mediating effects of entrepreneurial orientation among the social capital and strategic renewal of firms. Thus, the study adds to investigate the entrepreneurial orientation which is the major consequence of social capital that leads to strategic renewal. *Third*, this study started new streams for strategic management investigators while amplifying the contingent role of organizational flexibility. The amount to which social capital affects strategic renewal could be more easier in relation to flexible organizational culture, system, procedures and operations. The significantly moderating effects of organizational flexibility can initiate effective transformation by providing the operational and resources flexibility. The enterprises have competitive edge that has flexible systems, and in result, this strengthens the association of social capital and strategic renewal of firms. The study adds to the RBV and suggested that social capital, organizational flexibility and entrepreneurial orientation are important organizational resources that result in creating and sustaining competitive advantage for longer period of time. [Campbell and Park \(2017\)](#), [Pee and Kankanhalli \(2016\)](#) and [Alekm et al. \(2018\)](#) also used the RBV lens to study social capital. Similarly, [Bamel and Bamel \(2018\)](#), [Chan et al. \(2017\)](#) and [Kabetu and Iravo \(2018\)](#) used the RBV to study organizational flexibility. [Javed et al. \(2018\)](#), [Jogaratham \(2017\)](#), [Campbell and Park \(2017\)](#) and [Andersén \(2019\)](#) also used the RBV to study entrepreneurial orientation. The study confirms that social capital, organizational flexibility and entrepreneurial orientation are valuable, rare, imperfectly imitable and nonsubstitutable that result in sustainable competitive advantage. On the other hand, strategic renewal represents the readiness of the firm to alter its strategies and decisions to achieve sustainable competitive advantage.

### 6.2 Practical implications

This study entails various result-oriented suggestions for owners, managers and policymakers of SMEs. *First*, the suitable organization of social capital will result in effective transformation of firm as per demand of environmental changes. It is vital for owner and managers of organizations appropriately manage their unique resources for the survival in long run. *Second*, social capital's relational dimension is a vital mean of new knowledge creation and in result enhances new knowledge base for innovation and renewal ([Sanchez-Famoso et al., 2014](#)); thus, it is vital for managers to bestow their attention on this definite dimension of social capital. In addition, this study suggests top management of the organizations to take relational skills into account embedded in organizational social networks in order to augment the entrepreneurial orientation to ensure strategic renewal of an organization ([Cho and Lee, 2018](#)). Hence, it is robustly highlighted for small firms to supplement their strength of entrepreneurial orientation by improved information obtained from the other Allies for crafting the strong bonds in reaching to the strategic renewal of firms. Adding up, the research results propose that social capital as a solitary aspect is not sufficient for firms to boost their strategic renewal; the input catalyst is entrepreneurial

orientation of the firms. Consequently, it is noteworthy for managers to make their firms entrepreneurially oriented that would be supportive to attain the targets of strategic renewal. *Third*, this study also conclude that, management of SMEs should be familiar with diverse social scenarios produced by the association implanted in networks and respond to ample assortment social stimuli and information from indoor and outer surface of an organization for improved alteration of organization (Thrassou *et al.*, 2018). *Fourth*, this study discloses the concentrated foyer of social capital theory and advocates that management of SMEs should not get scared from the menacing sides of firms networks, as projected earlier by Inkpen and Tsang (2005) and Koka and Prescott (2002), and should reproduce the positive possessions of social networks of conversion of firms as advocated by Lanset *et al.* (2015). *Finally*, this study concludes that the measures of interface that how entrepreneurial orientation manipulates the relationship of social capital and strategic renewal probably will be more rapid in the course having flexible system, processes and culture.

### 6.3 Limitation and recommendations for future research

Although the current research advocates the significant findings, some of the modest limitations should to be noted. *First*, the result of this research is based on self-reported data and cross-sectional research, so it enhances the issue of social desirability bias. There are many limitations of collecting data utilizing self-reported research instrument. In order to deal with this problem, a mix methodology could be adopted. Moreover, this study has taken social capital, entrepreneurial orientation, organizational flexibility and strategic renewal into account as the discrete construct, so there is a requirement of auxiliary research in future to evaluate the interrelationship of these constructs with their dimensions as social capital, entrepreneurial orientation, organizational flexibility and strategic renewal are multidimensional constructs. Further future research in this area can be strengthened by including other specific variable that can moderate the relationship between social capital and strategic renewal.

### 6.4 Conclusion

The current study based on the live experience of 521 CEOs/owners/managers of SMEs shows that social capital has the ability to impact strategic renewal. The results of our study proved that entrepreneurial orientation enhances the strength of relationship between social capital and strategic renewal. This study also offers a comprehensive model for enhancing strategic renewal for SMEs by interlinking organizational flexibility to social capital–strategic renewal relationship as a moderating variable. The larger counterparts are not in position to ignore their long-range survival via strategic renewal, but SMEs specially operating in developing nations are not able to maintain consistent performance. Therefore, the results of this study indicated that there is a possibility for SMEs to perform in a strategic manner if they focus on strong patch-ups and improve their social capital, entrepreneurial orientation and their level of flexibility.

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