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# **Influence of Strategic Networking on Business Performance; Evidence from Manufacturing SMEs Operating in a Predominantly Service Based Economy**

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# Literature review

- Strategic network can be defined as the composite of firm's relationships with market players, including the long-term perspective in regards to the relationships between business owner and external players (individuals and firms) whereby the owner acquires information and resources while at the same time receives requisite support from his partners (Birley, 1985; Street and Cameron, 2007).
- The notion of networks and networking is still ambiguous and contradictory when applied to the analysis of small business networks.

# Literature review (2)

- When looking at SN as a multidimensional construct various authors have further refined this concept through its antecedents. Most common antecedents stated in the literature are: (a) trust, (b) commitment, (c) reputation, (d) communication and (e) cooperation (Chang and Harwood, 2001; Lau et al., 2005).
- This research contributes to the existing body of literature with the outcomes of the multidimensional analysis of the relationship between strategic networking (SN) and small business performance within manufacturing sector, specifically by taking into an account the moderating effect of the external environment (EE).

# Literature review (3)

- Literature states some contrary findings, where SN has been identified as the cause for firm's underperformance (Aldrich and Reese, 1993; Cooper et al., 1994), mainly as cooperation in strategic networks creates omnipresent possibility that partners could start utilizing opportunistic and self-interest behavior (Chi, 1994; Miles, Preece and Baetz, 1999).
- It is henceforth paramount to further test the relationship between SN and business performance via multidimensional approach where financial and non-financial performance implications would be further investigated.
- We thus propose to test the following hypotheses and their corollaries:

# Hypotheses

- H1: Strategic networking has a positive effect on business performance.
  - H1a: Commitment has a positive effect on business performance.
  - H1b: Trust has a positive effect on business performance.
  - H1c: Reputation has a positive effect on business performance.
  - H1d: Communication has a positive effect on business performance.
  - H1e: Cooperation has a positive effect on business performance.

# Hypotheses (2)

- H1.1: Strategic networking has a positive effect on business financial performance.
  - H1.1a: Commitment has a positive effect on business financial performance.
  - H1.1b: Trust has a positive effect on business financial performance.
  - H1.1c: Reputation has a positive effect on business financial performance.
  - H1.1d: Communication has a positive effect on business financial performance.
  - H1.1e: Cooperation has a positive effect on business financial performance.

# Hypotheses (3)

- H1.2: Strategic networking has a positive effect on business non-financial performance.
  - H1.2a: Commitment has a positive effect on business non-financial performance.
  - H1.2b: Trust has a positive effect on business non-financial performance.
  - H1.2c: Reputation has a positive effect on business non-financial performance.
  - H1.2d: Communication has a positive effect on business non-financial performance.
  - H1.2e: Cooperation has a positive effect on business non-financial performance.

# Hypotheses (4)

- H2: External environment has a positive effect on strategic networking.
  - H2a: Turbulence has a positive effect on strategic networking.
  - H2b: Rivalry has a positive effect on strategic networking.
  - H2c: Dynamism has a positive effect on strategic networking.
- H3: External environment has a moderating effect on the relationship between strategic networking and business performance.



# Methodology

- Random sample of 1,000 independent firms from the manufacturing sector was taken from the database of Croatian Chamber of Economy and contacted in June and July of 2011 of which 500 represented firms with 1 to 49 employees (small firms) and the other 500 firms with 50 to 249 employees (medium-sized firms).
- 105 business owners/managers responded to the mail questionnaire resulting in a response rate of 10.5%.
- 70% were small firms, while 30% (n=32) were medium-sized firms.

# Methodology (2)

- Strategic networking was conceptualized by five variables:
  - Commitment (Allen and Meyer (1990) scale)
  - Trust (Garbarino and Johnson (1999) scale)
  - Reputation (Hansen et al. (2008) scale)
  - Communication (Sivadas and Dwyer (2000) scale)
  - Cooperation (Eriksson and Pesamaa (2007) scale)
- External environment by three variables: Turbulence, Hostility, Dynamism (Naman and Slevin (1993) scale)
- Business performance was conceptualized by two variables: Financial and non-Financial performance (Gupta and Govindarajan (1984) scale)

# Methodology (3)

- Multiple linear regression analysis was used to test the relationships between strategic networking, external environment and business performance.
- Hierarchical linear regression analysis was used to test whether there exists an interaction effect of the external environment on the relationship between strategic networking and business performance.

# Results

Table 1  
Means, S.D.s, and Correlations (n=105)

	Mean	S.D.	1	2	3	4	5	6
<b>1. Performance</b>	24.24	8.12	1.00					
<b>2. Financial performance</b>	24.18	8.40	.909**	1.00				
<b>3. Non-financial performance</b>	24.30	9.29	.926**	.685**	1.00			
<b>4. Strategic networking (SN)</b>	4.97	1.00	.496**	.419**	.489**	1.00		
<b>5. External environment (EE)</b>	4.49	.94	-.094	-.073	-.098	.045	1.00	
<b>6. SNxEE</b>			.124	.082	.143	.256**	-.061	1.00

Note: +. Correlation is significant at the 0.1 level (2-tailed); \*. Correlation is significant at the 0.05 level (2-tailed); \*\*. Correlation is significant at the 0.01 level (2-tailed).

Source: Authors' work

# Results (2)

Table 2  
Means, S.D.s, and Correlations (n=105)

	Mean	S.D.	1	2	3	4	5	6	7	8
<b>1. Performance</b>	24.24	8.12	1.00							
<b>2. Financial perf.</b>	24.18	8.40	.909**	1.00						
<b>3. Non-financial perf.</b>	24.30	9.29	.926**	.685**	1.00					
<b>4. Commitment</b>	4.08	1.63	.378**	.315**	.376**	1.00				
<b>5. Trust</b>	5.84	1.12	.448**	.417**	.407**	.526**	1.00			
<b>6. Reputation</b>	5.79	.92	.427**	.424**	.363**	.406**	.639**	1.00		
<b>7. Communication</b>	5.13	1.25	.378**	.277**	.410**	.546**	.564**	.469**	1.00	
<b>8. Cooperation</b>	4.01	1.43	.358**	.271**	.380**	.578**	.512**	.340**	.648**	1.00
<b>9. Turbulence</b>	4.97	1.24	-.080	-.022	-.119	.088	.019	-.095	.020	-.047
<b>10. Hostility</b>	4.68	1.04	.148	.116	.154	.166+	.081	.150	.141	.088
<b>11. Dynamism</b>	3.83	1.26	-.256**	-.239*	-.231*	.050	-.103	-.086	-.098	-.086

Note: +. Correlation is significant at the 0.1 level (2-tailed); \*. Correlation is significant at the 0.05 level (2-tailed); \*\*. Correlation is significant at the 0.01 level (2-tailed).

Source: Authors' work

# Results (3)

Table 3  
Results of Multiple Linear Regression Analysis (n=105)

	<b>H1</b>		<b>H1.1.</b>		<b>H1.2.</b>		<b>H2</b>		<b>H3</b>	
	Performan ce		Financial performance		Non-financial performance		Strategic networkin g		Performanc e (interaction )	
	$\beta$	S.E.	$\beta$	S.E.	$\beta$	S.E.	$\beta$	S.E.	$\beta$	S.E.
<b>Commitment</b>	.11	.56	.09	.60	.11	.65				
<b>Trust</b>	.17	.91	.19	.97	.12	1.06				
<b>Reputation</b>	.21*	1.00	.26**	1.06	.13	1.16				
<b>Communication</b>	.05	.80	-.04	.85	.14	.93				
<b>Cooperation</b>	.09	.69	.05	.73	.11	.80				
<b>Turbulence</b>							-.04	.09		
<b>Hostility</b>							.26**	.12		
<b>Dynamism</b>							-.17	-.08		
<b>Strategic networking (SN)</b>									.50***	.71
<b>External environment (EE)</b>									-.11	.73
<b>SNxEE</b>									-.01	.70
<b>R square (R<sup>2</sup>)</b>	.26** *		.22***		.24***		.05		.26***	
<b>Adjusted square</b>	R .22** *		.18***		.20***		.02		.23***	

Note: \*P < .10; \*\*P < .05; \*\*\*P < .01.

Source: Authors' work

# Conclusion

- Results of this analysis, which are analogous to the literature, showed that strategic networking, observed as unidimensional construct, enhances both financial and non-financial performance of Croatian manufacturing SMEs.
- When observed as multidimensional construct, among all five antecedents of strategic networking only reputation has a positive influence on business performance.
- Reputation has positive influence only on financial performance, while there is no evidence that any of strategic networking antecedents have positive influence on non-financial performance.

# Conclusion (2)

- External environment does not have positive influence on driving manufacturing SMEs towards extensive formation of strategic networks.
- Only hostility as one of external environmental antecedents has positive influence on strategic networking.
- External environment does not have moderating effect on SN-performance relationship.