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SOCIAL CAPITAL AND STRATEGY EFFECTIVENESS: AN EMPIRICAL STUDY OF ENTREPRENEURIAL VENTURES IN A TRANSITION ECONOMY¹

Although new ventures' competitive positioning and their founders' social networks are both recognized as important in the context of transition economies, not much is known about their multiplicative effect on performance. We build on the strategic management literature and social network theory to develop theoretical predictions about the role of competitive strategies and social capital for entrepreneurial performance. These are tested with survey data from Bulgaria. We find that both the venture's competitive strategic positioning and the founder's networking positively influence performance. The hypothesized moderating effect of networking for the relationship between differentiation strategy and performance received only tentative support. Contrary to expectations, we find a negative moderating effect of networking for the relationship of cost leadership with performance. These results suggest that the entrepreneur's network plays a role in shaping how strategies influence performance by possibly upholding differentiation and de-emphasizing cost leadership strategy. Implications for managerial practice and public policy are discussed.

Key words: entrepreneurial strategy, social capital, transition economies.

Introduction

Entrepreneurial new ventures are key contributors to the continued growth of the transition economies in Central and Eastern Europe. Countries in transition are these countries that, after the collapse of their communist regimes in the late 1980's, committed to political democratization, market liberalization, stabilization, and the encouragement of private

enterprise (Hoskisson, Eden, Lau, & Wright, 2000). According to the 2011 Global Entrepreneurship Monitor report (Kelley, Singer, & Herrington, 2011), between 3.7% (in Slovenia) and 14.2% (in Slovakia) of the population aged 18–64 in these countries is currently involved in early or later-stage entrepreneurial activity. The contribution of the private sector to GDP (Gross domestic product) skyrocketed from as low as 5–10% in 1990 to over 60% (over 80% in most countries) in 2005 (Svejnar, 2006).

Entrepreneurs add value to the economic growth and market transformation of transition economies by countervailing the loss of jobs

¹ Submitted to the Second International Conference on Entrepreneurship in Transitional Times: Issues and Challenges. Moscow, 14–16 of November, 2012.

in the state-owned sector, turning technological and market innovations into economic output, providing a constant source of organizational change and renewal, and continuously enhancing the role of market-based economic exchange. As Peng (2001:95) noted, «Entrepreneurs and the start-ups they found create wealth and push these economies to a higher level of competitiveness through their sheer energy, relentless strategies, and sometimes controversial practices.» That these new ventures reach their full performance potential is, therefore, a matter of great managerial and public policy concern.

But what are the individual and firm-level factors that determine the successful performance of entrepreneurial ventures in transition economies? A sizeable body of literature, steeped in the institutional perspective (Peng & Heath, 1996; Puffer & McCarthy, 2001; Smallbone & Welter, 2001; Batjargal, 2003), has identified the social capital of the entrepreneur and, by extension, the networking strategies of the new venture, as a major contributor to entrepreneurial success. In an environment characterized by scarce material and financial resources, inadequate contract law and property rights, and an unstable and often openly hostile institutional establishment, the argument goes, entrepreneurs in transition economies counter-veil resource paucity and environmental adversity through creating networks of personal connections, which seek to bridge and substitute «institutional voids» (Khanna & Palepu, 1997). Thus, Peng (2001) argued that a prospector or guerrilla strategy, focused on flexibility, innovation, and change, implemented through intense networking and blurring of the public-private and/or legal-illegal boundaries is a viable entrepreneurial strategy in the early stages of market liberalization and institutional reforms. As reforms progress, however, entrepreneurial ventures in transition economies may be forced to shift from network-based to market-based sources of competitive advantage (Peng, 2003; Lyles et al., 2004; Danis, Chiaburu, & Lyles, 2010). As markets strengthen and competition

intensifies, network-derived competitive advantages may turn out to be a necessary, but not sufficient condition for a sustainable superior performance (Peng & Luo, 2000). Ultimately, for a firm in competition to justify its existence, it must deliver something of value to its customers. In addition, the development of a credible, property-rights-based legal framework, the stabilization of political structures, and the emergence of strategic factor markets facilitate market exchange, and generally create a more predictable institutional environment, providing the opportunity for firms to engage in longer-term planning and strategizing. In this process, competitive strategies and network embeddedness need to be carefully aligned in order to deliver superior new venture performance.

Surprisingly, with the notable exception of Peng & Luo's (2000) and Davies & Walter's (2004) studies, which looked at the interplay between competitive strategies and networking in the Chinese private sector, there is a dearth of research that examines the multiplicative effect of competitive positioning and social capital on new venture performance in the context of a transition economy. This is the knowledge gap on which our paper focuses. We suggest that both a well-developed competitive strategy and the entrepreneur's personal network positively affect new venture performance; and that the positive association between competitive strategy and performance will be enhanced by the entrepreneur's social capital accumulated in the personal network. Our study seeks to make three contributions: (1) examine the effects of competitive strategies and the entrepreneur's networking on new venture performance in the context of a transition economy; (2) elucidate the interaction effects between different generic competitive strategies and networking on new venture performance; and (3) offer insights to practicing entrepreneurs on effective strategic choices and the efficient use of personal networks.

Our paper proceeds as follows. After a brief review of the theoretical perspectives that guide our study, we formulate and test three hypoth-

eses related to the direct and joint effects of competitive strategies and personal networks on new venture performance. We next present our methodology and results from statistical testing. The paper concludes with a discussion of our findings and their theoretical and practitioner implications.

Theoretical development and hypotheses

Competitive strategies and new venture performance

Competitive strategy is a «broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals» (Porter, 1980: xxiv). The goals for a firm in competition involve objectives for profitability, growth, or market share.

How the business is going to compete concerns the choice of a generic competitive strategy, based on low cost or differentiation (Porter, 1980; Chandler & Hanks, 1994). The cost leadership strategy involves the construction of efficient-scale operations, the aggressive pursuit of cost reduction in all functions of an organization, and offering products to price-sensitive customers (Porter, 1980). Differentiation strategies are designed to create and market innovative, high-quality products and/or services (Porter, 1980). Approaches to differentiation can take many forms: design or brand image, technology, features, customer service, or dealer network (Porter, 1980:37), which can be aggregated into two broad approaches: differentiation through innovation or differentiation through superior quality and customer service (Chandler & Hanks, 1994).

According to Porter (1980), no strategic approach is inherently superior or inferior, and either one (low cost or differentiation) can lead to superior performance, as long as it is consistently implemented. Indeed, Chandler & Hanks (1994), in their study of 155 manufacturing new ventures, found that all competitive strategies

(low cost, differentiation through innovation, and differentiation through superior quality) were significantly and positively associated with performance. Similarly, Ebben & Johnson (2005), in their study of 344 U. S.-based small manufacturing firms, found that small firms that pursue either efficiency or flexibility as a strategy outperform those that attempt to pursue both.

There is some, albeit sparse, empirical evidence linking competitive strategies to performance in the context of transition economies. For example, Luo (1999), in his study of 63 town and village enterprises in Southern China found that innovativeness and proactiveness were positively associated with profitability and market position, while Peng & Luo (2000), in their study of 56 non-state-owned Chinese enterprises, found that quality was positively associated with market share and return on assets. Spanos, Zaralis, & Lioukas (2004: 145), in their study of Greek firms, established that distinctive strategies were associated with superior performance in comparison to «stuck in the middle» strategies and firms with no strategy. Similarly, Acquah and Yasai-Ardekani (2008) found performance differences in Ghanaian firms where in an intense focus on low cost, differentiation, or hybrid strategies outperformed strategies pursued less intensely. Thus, following Chandler & Hanks (1994) and Baum, Locke, & Smith (2001), we argue that developing a competitive strategy leads to enhanced new venture performance.

Formally:

Hypothesis 1: In a transition economy, competitive strategy is positively related to new venture performance.

Hypothesis 1a: A competitive strategy of differentiation through superior quality/service is positively related to new venture performance.

Hypothesis 1b: A competitive strategy of differentiation through innovation is positively related to new venture performance.

Hypothesis 1c: A competitive strategy of cost leadership is positively related to new venture performance.

Personal networks and new venture performance

The social network perspective in entrepreneurship focuses on social capital, or «the sum of resources that accrue to an individual or group by virtue of possessing relationships of mutual acquaintance and recognition» (Bourdieu and Wacquant, 1992: 119), resources that compensate for the lack of legitimacy and social acceptance (Aldrich & Zimmer, 1986; Ostgaard & Birley, 1996). An entrepreneur's egocentric network consists of a set of direct, dyadic ties, with the entrepreneur at the center as the focal actor (Hite & Hesterly, 2001), which are a reflection of his or her social skills and are important to recognize opportunities and mobilize resources (Baron, 2007). The social network contributes to the success of the entrepreneurial venture in two important ways. On the one hand, the network garners resources immediately available from family, kin, and close friends. Entrepreneurs rely strongly on close-knit teams which usually form on the basis of two principles: homophily (i. e., a tendency to associate with people with similar characteristics) and familiarity, or having well established relationships with alters (Ruef, Aldrich, & Carter, 2003; Aldrich & Kim, 2007). Such teams represent closely connected strong tie clusters that provide immediate social and emotional support to entrepreneurs.

On the other hand, the founder's position in a broader network creates opportunities to link actors and whole clusters that are not otherwise connected and extract value from providing this linkage (Burt, 1992). Personal networks are important intelligence webs (Gulati & Garguilo, 1999), which grant access to information and advice, facilitate information acquisition, and provide access to resources available in the broader social network (Hoang & Antoncic, 2003).

Network position often determines the effectiveness of the entrepreneur's search behavior, requiring them to break out of the constraints of their densely connected clusters (Aldrich & Kim, 2007). Network relationships present opportunities, which may be transformed into prof-

it (Burt, 1997; Batjargal, 2003). Embeddedness in the broader network improves the entrepreneurs' ability to access scarce resources needed to operate and find opportunity niches (Aldrich & Carter, 2004; Stuart & Sorenson, 2007). Through advice networks (Krackhardt, 1990), in particular, entrepreneurs access valuable information, important in the uncertain environment that typically characterizes their firms. The collection of formal and informal advice contacts that entrepreneurs establish outside of their organization provides information, knowledge, and inspiration that may be drawn upon to advance the technical, innovative, and business performance of their ventures.

Overall, social networks are a critical source of resources and support, which alleviate the liabilities of newness and smallness (Stinchcombe, 1965), allow entrepreneurs to engage in the pursuit of growth opportunities, and thus advance the technical, innovative, and business performance of their ventures. Even controlling for other factors, social networks are likely to influence the growth and profitability of entrepreneurial ventures positively and durably (Florin, Lubatkin, & Schulze, 2003). Advice networks are particularly important in ventures which compete in a very uncertain, rapidly changing competitive environment (McGrath, Vance, & Gray, 2003), such as the transitional economies environment. Empirical evidence from Bulgaria, in particular, reveals that the social capital created in these networks is positively associated with entrepreneurial orientation, proactive financing strategies, and the growth of new and small business ventures (Manev, Gyoshev, & Manolova, 2005).

Formally:

Hypothesis 2: In a transition economy, entrepreneurs' networking is positively related to new venture performance.

Competitive strategies, personal networking, and new venture performance

Our last set of hypotheses concerns the combined effect of competitive strategies and personal networking on new venture performance

in the context of a transition economy. The strategies of entrepreneurial firms do not appear in isolation, in fact, they are embedded (Granovetter, 1985) in the networks of their founders (Jack & Anderson, 2002; Kalantaridis & Bika, 2006). Social networks and strategies are intertwined: as actors strategically search for optimal ties in a network, they depend on the choices of others doing the same (Stuart & Sorenson, 2007). The strategic choices that entrepreneurs make are influenced by opinions that are widely held in the network. Through mimetic isomorphism (DiMaggio & Powell, 1983), entrepreneurs are likely to repeat strategic behaviors that are common and accepted as a norm in their network. When institutional norms are not clearly spelled out, as is often the case for new ventures, networks become particularly important for shaping strategies (Galaskiewicz & Zaheer, 1999).

We contend that the personal network of the entrepreneur will enhance the positive effect of competitive positioning on new venture performance. For entrepreneurs pursuing a low-cost competitive strategy, personal networks facilitate information exchange and generate trust that substitutes for formal contracts and monitoring, thus reducing the costs of doing business and increasing economic efficiency (Uzzi, 1996; Stuart & Sorenson, 2007). Efficient operations are a key source of competitive advantage for market players competing on cost (Porter, 1980). For entrepreneurs pursuing a differentiation strategy through innovation or superior quality, networking provides a mechanism for early recognition of superior market opportunities and mobilization of higher quality resources (Stuart & Sorenson, 2007). Early detection of market trends, preferential access to resources, and speed in resource mobilization are key sources of competitive advantage for market players competing on differentiation (Porter, 1980). As Shipilov & Danis (2006) argue, social capital is a vital operative mechanism through which links between executive characteristics, strategic choice, and performance occur. We expect the multiplicative effect of competitive strategies and networking to be even more pro-

nounced in the context of a transition economy, where the dominant logic of competition has traditionally relied on personalized exchanges and networks (Peng & Heath, 1996). In a study of Chinese managers, Peng & Luo (2000) demonstrated that interpersonal ties enhanced the effect of a strategy of differentiation through superior quality on firm-level performance. In the broader context of emerging markets, Lee, Lee, & Pennings (2001) and Lin, Li, & Chen (2006) found external linkages had a multiplicative effect with technological capabilities and entrepreneurial strategies on Korean and Taiwanese technology-based ventures' performance, respectively; while Acquah (2007, 2012), using data from Ghana, found the impact of social capital on organizational performance differed between firms that pursue competitive strategies and those who do not pursue those strategies, as well as between family-owned firms and non-family-owned firms.

Formally:

Hypothesis 3: In a transition economy, entrepreneurs' networking will positively moderate the effect of competitive strategy on new venture performance:

Hypothesis 3a: The association between a strategy of differentiation through superior quality/service and new venture performance will increase with the size of the entrepreneur's personal network.

Hypothesis 3b: The association between a strategy of differentiation through innovation and new venture performance will increase with the size of the entrepreneur's personal network.

Hypothesis 3c: The association between a strategy of low cost and new venture performance will increase with the size of the entrepreneur's personal network.

Methods

Research context

We tested the theoretical model with data from a broad study of entrepreneurship in Bul-

garia, a lower-middle income country in Eastern Europe. Socialist central planning virtually eliminated the private sector of the economy for more than 40 years (from the late 1940's to 1989). Large-scale institutional and economic reforms started after the fall of the Berlin Wall (1989), and the country set on a road of democratization and market liberalization.

The number of private businesses in Bulgaria has grown rapidly since they became legal in 1989 and today accounts for around 99% of all enterprises in the country. In 2007, SMEs contributed 37.8% of the total gross value added and 38% of the total employment in the economy (Ministry of Economy, Energy, and Tourism, 2008). The overwhelming majority of small businesses in Bulgaria, however, are very small in size. Micro-enterprises that employ between one and nine employees represent 88.5% of the total number of private enterprises (Ministry of Economy, Energy, and Tourism, 2008). Though still lagging behind the transition economies in Central Europe (the Czech Republic, Hungary, Poland, Slovakia, and Slovenia), by 2007 Bulgaria successfully fulfilled the market-liberalization and institutional-reform criteria for joining the European Union. The country occupies somewhat of a «mid-point» on the scale of market and institutional development. As such, it offers the opportunity for broader generalizations of the study's findings.

Data collection

The survey instrument was based on published research and included sections on the enterprise, owner's background, firm strategy and resources, networking, the venture's performance, and the entrepreneurial environment. The final instrument was forward and backward translated to ensure semantic consistency.

Data were collected using a quota sampling approach (Neuman, 2003) with two requirements: the businesses had to be started in the past seven years and they had to have not more than 250 employees, the cutoff for small businesses in the European Union. Each re-

spondent was asked to describe a single business. We obtained a usable sample of 334 surveys, for which we report descriptive statistics and the results from hypothesis testing. About 20.4% of firms were in manufacturing, 27% in retail, 12.6% in wholesale, 8% in construction, 5.5% in transportation, communications, and utilities, 7.5% in financial services, insurance, and real estate, and the remainder in other industries. This is broadly consistent with the sector distribution of small and medium-sized businesses in Bulgaria. These were predominantly small businesses (mean 19.8), with about half having 7 or fewer employees. One third of the entrepreneurs in the sample had college degrees.

Measures

Following Baum et al., (2001), we measured performance, the dependent variable, by self-reported evaluations of firm cash flow, market share, and sales growth. These three items loaded on a single factor whose scores we used for the analysis (Cronbach alpha=.82). To measure competitive strategy, we used Chandler & Hanks' (1994) instrument. Eight of their original eleven Likert-scale items loaded on three strategy factors. The first factor measured the strategy of competing through high *quality products/customer service* through four items:

- 1) emphasizing quality control,
- 2) meeting customers' requirements and tastes,
- 3) emphasizing superior service,
- 4) emphasizing that customer needs come first (Cronbach alpha=.80).

The second factor measured innovation strategy through two items: new product development and novel marketing techniques (Cronbach alpha=.71). The last factor measured cost leadership strategy through two items: improvement in productivity and efficiency, and lower costs via process innovation (Cronbach alpha=.73). Networking was measured by the size of the entrepreneur's ad-

vice network. Following a position generator approach (Lin & Dumin, 1986; Greve & Salaff, 2003), we gave the respondent a list of eight occupations (accountant, banker, friend, another entrepreneur, professional or trade association, consultant, relative, or other) and asked whom he/she approached on a regular basis for advice. For example, a respondent who contacts people in six of these occupations would have a larger network than somebody who only contacts his/her accountant. That is why we computed this measure as the sum of all reported ties.

We controlled for the effect of the entrepreneur's personal background, characteristics of the firm, and industry. At the level of the individual entrepreneur, we used age (in years), gender (0 male, 1 female), and education (in years). At the firm level, we controlled for firm size (natural logarithm of the number of employees) and firm age (in years). At the industry level, we included dummies for six of the seven industries mentioned previously, with retail, the largest group, as reference point.

We performed Harman's (1967) single-factor test to check whether common method variance was biasing results (Harman, 1967; Podsakoff & Organ 1986). All self-reported measures were entered into a principal components factor analysis with varimax rotation, which showed that there was no single or general factor that would account for most of the covariance in the variables. Thus common method variance was not present.

Results

Descriptive statistics and correlations are presented in Table 1. Notably, the correlation analysis shows that the three competitive strategies (cost leadership, differentiation through innovation, and differentiation through superior quality and service) we explore in this paper were significantly and positively correlated, i. e., entrepreneurs appear to employ a mixture of strategies rather than focus on one or another of them.

We tested the hypotheses through OLS regressions (Table 2). In the base Model 1 with the control variables only, we found that younger entrepreneurs, and younger firms, reported higher performance. Size was positively related to performance. There were fairly consistent industry effects: firms in wholesale, construction, and finance and related industries performed at a higher level. Next, we added the variables for the three competitive strategies and networking in Models 2, 4, and 6, respectively. This analysis presents clear support for Hypotheses 1a, 1b, and 1c: competitive positioning through any of the three strategies, differentiation through quality and service (beta. 23, $p < .001$), differentiation through innovation (beta. 23, $p < .001$), and cost leadership (beta. 19, $p < .001$), is positively and significantly associated with performance.

Hypothesis 2 was also supported: networking is positively and in general statistically significantly related to performance (betas. 12, $p < .05$ in Model 2, .09, $p < .086$ in Model 4, and .11, $p < .05$ in Model 6). However, in the last part of the analysis (Models 3, 5, and 7), only Hypothesis 3a about the moderating effect of the size of the entrepreneur's network on the association of the strategy of differentiation through quality and service with performance was supported marginally (beta. 40, $p < .10$). Hypothesis 3b which stipulated a moderating effect of entrepreneur's network size on the impact of the strategy of differentiation through innovation with performance was not supported (beta $- .19$, n. s.). And finally, contrary to Hypothesis 3c, data show a statistically significant negative moderating effect of entrepreneur's network size on the impact of cost leadership on performance (beta $- .40$, $p < .05$).

Discussion

In this paper, we demonstrate that both selecting a product-market positioning and a well-developed personal network improve new venture performance in a transition economy. All three competitive strategies we studied are robust predictors of firm performance. This is

Table 1

Descriptive Statistic and Correlation

Variables	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1. Firm performance	-0,02	1,00	-2,12	2,63																
2. Owner's gender	0,56	0,50	0,00	1,00	0,02															
3. Owner's age	41,27	8,77	19,00	64,00	-0,21**	0,04														
4. Owner's education	15,58	2,69	12,00	24,00	0,03	0,06	0,05													
5. Firm age	5,04	1,93	1,00	7,00	-0,16**	0,05	0,32**	-0,05												
6. Firm size (ln)	2,07	1,32	0,00	5,52	0,14*	0,22**	0,09	0,19**	0,22**											
7. Manufacturing	0,20	0,40	0,00	1,00	-0,08	0,01	0,11*	0,03	0,08	0,30**										
8. Wholesale	0,13	0,34	0,00	1,00	0,16**	0,04	-0,08	0,08	0,01	0,07	-0,19**									
9. Construction	0,08	0,26	0,00	1,00	0,09	0,04	0,05	0,06	-0,02	0,08	-0,14**	-0,11*								
10. Transport	0,05	0,22	0,00	1,00	-0,03	0,09	-0,03	-0,11*	0,05	0,05	-0,11*	-0,09	-0,07							
11. Finance	0,08	0,27	0,00	1,00	0,10	0,04	-0,08	0,15**	-0,02	0,07	-0,14**	-0,11*	-0,08	-0,07						
12. Other industry	0,14	0,35	0,00	1,00	0,00	-0,13**	-0,02	-0,03	-0,04	-0,12*	-0,20**	-0,16**	-0,12*	-0,10	-0,12*					
13. Quality/service strategy	0,00	1,00	-4,87	0,98	0,13*	-0,15**	0,02	-0,09	-0,08	-0,05	0,09	-0,14*	-0,02	0,03	-0,16**	0,01				
14. Innovation strategy	0,00	1,00	-2,64	1,43	0,24**	-0,02	0,00	-0,02	0,08	0,19**	0,13*	0,08	-0,03	-0,07	-0,08	0,02	0,34**			
15. Cost leadership strategy	0,00	1,00	-2,98	1,35	0,23**	0,03	-0,06	-0,00	-0,02	0,22**	0,24**	-0,08	0,05	0,01	-0,01	-0,01	0,30**	0,62**		
16. Size of network	4,40	1,26	1,00	8,00	0,14*	-0,04	-0,08	-0,12*	-0,00	0,15**	0,10	-0,05	-0,03	0,00	-0,08	0,08	-0,00	0,16**	0,08	

Note: **p < 0.01; *p < 0.05.

Table 2

Predictors of New Venture Performance

Predictor	1	2	3	4	5	6	7
Owner's gender	-0,02	0,01	0,01	-0,01	-0,01	-0,01	-0,02
Owner's age	-0,17**	-0,17**	-0,17*	-0,16**	-0,15**	-0,14*	-0,13*
Owner's education	-0,01	0,01	0,00	0,01	0,02	0,01	0,02
Firm age	-0,14*	-0,11†	-0,12*	-0,15**	-0,15**	-0,14*	-0,15*
Firm size (ln)	0,23***	0,19**	0,20***	0,16*	0,15*	0,17**	0,17**
Manufacturing	-0,01	-0,03	-0,02	-0,03	-0,04	-0,06	-0,06
Wholesale	0,14*	0,18**	0,18**	0,13*	0,13*	0,16*	0,15*
Construction	0,11†	0,13*	0,14*	0,12*	0,12†	0,10†	0,09
Transport	0,02	0,02	0,02	0,04	0,04	0,02	0,02
Finance	0,11†	0,16**	0,17**	0,13*	0,14*	0,12*	0,11†
Other industry	0,05	0,06	0,06	0,03	0,03	0,03	0,02
Quality/service strategy		0,23***	-0,16				
Innovation strategy				0,23***	0,42*		
Cost leadership strategy						0,19***	0,57***
Size of network		0,12*	0,10†	0,09†	0,10†	0,11*	0,12*
network*quality/service			0,40†				
network*innovation					-0,19		
network*cost leadership							-0,40*
R2	0,13	0,19	0,20	0,20	0,20	0,18	0,19
adj R2	0,10	0,16	0,16	0,16	0,16	0,14	0,15
F	4,07***	5,29***	5,20***	5,36***	5,06***	4,82***	4,86***
F change		10,52***	3,47†	10,89***	1,22	7,89***	4,59*

Note: *** p < 0,001; **p < 0,01; *p < 0,05; †p < 0,1; F change: Models 2, 4, and 6 are compared with Model 1; Models 3, 5, and 7 are compared with Models 2, 4, and 6 respectively.

consistent with Porter's dictum that no single competitive strategy is necessarily superior. In the uncertain, fluid, resource-poor, and often hostile institutional environment of transitional economies, networking is often highlighted as a critical factor for firm performance (Peng & Heath, 1996; Puffer & McCarthy, 2001; Batjargal, 2003). Following Peng (2003), Lyles et al. (2004), and Danis et al. (2010), we suggest that the role of networking may be diminishing, at the expense of competitive positioning. While a definitive comparison of the explanatory power of competitive positioning and networking on performance is beyond the

scope of our paper, we note that in our analyses, competitive strategies were consistently stronger predictors than networking. This will be an intriguing question for follow-up research.

Our finding from the correlations analysis that entrepreneurs employ a mix of cost leadership, differentiation through innovation, and differentiation through superior quality and service supports the long-held view in entrepreneurship research that new and small firms usually follow mixed or multifaceted strategies (Carter, Stearns, Reynolds, & Miller, 1994; McDougall, Robinson, & DeNisi, 1992). Indeed, Chand-

ler & Hanks (1994), whose strategy operationalization approach we follow in the present study, also found some intercorrelation among the three strategy variables. Our finding also provides empirical evidence for the recent emphasis on the notion of the «strategic flexibility» of firms in emerging economies (Wright, Filatotchev, Hoskisson, & Peng, 2005). Strategic flexibility, which depends on the inherent flexibility of resources available to the organization and the managers' flexibility in applying these resources to alternative courses of action is argued to help firms take advantage of existing and new strategic opportunities (Wright et al., 2005: 8; Sanchez, 1995). Whether hybrid strategies are more likely to generate superior performance for new and small ventures generally, and particularly for new and small ventures in transition economies is a fascinating area for future exploration which has much to contribute to the «purist» versus «hybrid» strategy debate (Thornhill & White, 2007).

We began this paper from the premise that social capital accumulated through networking accentuates the effect of clear competitive positioning. However, while we found tentative support for the role of the interaction between the strategy of differentiation through quality/service and networking for business performance, the role of networking for the effect of cost leadership strategy was exactly the opposite. For entrepreneurs with higher social capital, cost leadership was less likely to lead to superior performance than those with lower social capital. This was a surprising finding, given our initial expectation that the powerful effects of personal networks to foment trust and impose informal sanctions on network participants would be instrumental in reducing transaction costs and thus would enhance the effects of a cost leadership positioning on new venture performance. We interpret the negative interaction as a manifestation of the «dark side» of social capital, in which social structures constrain, rather than enable, action (Shipilov & Danis, 2006). Cost leadership is widely believed to be less suited to new and small businesses be-

cause their small size does not provide economies of scale, while young age deprives them of significant learning curve effects (Lyles et al., 2004; Baum et al., 2001; Carter et al., 1994). If a critical mass of social contacts encourage differentiation at the expense of cost leadership, entrepreneurs may be blinded to the potential benefits of low cost strategy, foregoing strategic opportunities to improve efficiency. If the entrepreneur is embedded in a network that does not value innovation, he/she may be less likely to pursue innovation as a strategy than an outlier in the network. The problem may be particularly exacerbated in a dense network in which information and potential contacts are likely to be widely shared (Glanville, 2004), possibly limiting the entrepreneurs' awareness of the need to search more widely for accurate information (Aldrich & Kim, 2007).

Limitations

Our paper is not without limitations, which need to be considered when interpreting the results from hypothesis testing and their implications. First, we studied new and small ventures in a single transition economy. It is likely that competitive positioning and networking may affect new venture performance differently in a different institutional and cultural setting. Therefore, further research is warranted in the context of other transition economies. Second, the sampling frame is a potential source of survivor and selection bias. As in all cross-sectional research, we could only study those new businesses that survived the perilous years of their initial histories. Survivor bias is particularly problematic for new and small ventures, because of their inherent vulnerability caused by the liabilities of newness and smallness. Thus, Lyles et al. (1994), in their empirical investigation of new venture survival in a transition economy, found that a low-cost strategy threatened survival, whereas a strategy of differentiation was not a significant predictor of new firm survival. Ideally, a research design should be longitudinal (e.g. allowing to track survival), and should em-

ploy multiple measures of performance. Third, while quota sampling rendered a preset number of cases in each of several predetermined categories (new venture size and age, and industry distribution) that reflect the diversity of the population (Neuman, 2003: 211), it can introduce some selection bias (Judd et al., 1991: 135). A future study based on pure random or stratified random sampling would permit robust statistical corroboration and generalization of the study results.

Conclusion

Our study has implications for future research, managerial practice, and public policy. We find strong support for the role of competitive strategies for entrepreneurial performance in the context of transition economies. We also find that the strategies of low-cost and differentiation, at least for our sample, are positively associated with small business performance. These findings both complement and enrich the body of empirical evidence gathered in the context of developed market economies, while, at the same time, raise the question of whether a pure or a more flexible strategic positioning is likely to lead to a sustainable competitive advantage and superior performance in the context of transitional economies. Evidently, more research, likely employing a longitudinal design, is well warranted in order to elucidate this important issue.

We also find that while, in line with predictions from extant research, networking enhances entrepreneurial performance, its combined effect with competitive strategies is much more nuanced and not at all straight-forward. Consistent with the results of Peng & Luo's (2000) study, we find that networking marginally enhances the effect of differentiation strategy on performance. However, networking significantly detracts from the effect of a low-cost strategy on performance. This finding has important implications for entrepreneurs in transition economies. It suggests that advice can reverberate through entrepreneurial networks, and that,

sometimes, over-reliance on the advice network can detract from competitive focus and, hence, hurt firm performance. New and small venture owners, therefore, will be well-advised to resist blind compliance with network norms, especially if they are planning to emphasize a cost-leadership positioning, which may be less well-understood by the alters in their personal networks.

Last, but not least, our study has important public policy implications. Training programs which introduce entrepreneurs to the basics of strategic analysis, formulation, and implementation, coupled with encouragement of networking and collaboration are likely to help entrepreneurial new ventures enhance their performance potential. Critical in this respect is the role of industry and regional trade associations, because they are the natural loci for the dissemination of best practices and industry norms.

We conclude this paper highlighting the complex role of social capital for entrepreneurs in the context of a transition economy. While research has emphasized how it creates value by compensating for the ubiquitously weak institutional framework, our findings direct attention to how it may also constrain managerial agency and undermine competitive outcomes. To entrepreneurs in transition economies, our paper highlights the need for careful calibration and alignment of strategic choices and personal networks in order to generate superior performance.

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