

Predicting the Role of Strategic Orientation, Social Capital, and Strategic Flexibility for
Strategic Renewal of SMEs

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Abstract

This study was carried out to evaluate the manners by which strategic orientation (SO), social capital (SC) along with strategic flexibility (SF) might craft the prospects for initiation of strategic renewal (SR) in SMEs. The direct effects of SO, SC on SR were tested. Furthermore, the mediating effects of SF in the relation between SO-SR and SC-SO were also evaluated. To accomplish the purpose of this cross-sectional study, data was gathered from the 539 managerial level employees of the ICT sector SMEs through survey technique. To examine the association between variables, this study utilized descriptive, correlation, regression, Baron and Kenney and Sobel tests. Results discovered that SO and SC positively affect SF and SR in SMEs. Moreover, the mediating roles of SF between the associations of SO, SC and SR were also established. This research entails novel insights for strategic change management literature through emphasizing the SO, SC, and SF along with their various dimensions. Thus, it provides new principles that might be helpful for initiating SR in SMEs. Study entails imperative insight to theory through contribution of novel knowledge relating the positive relationships of SO, SC and SR contextualizing SMEs. Additionally, analyzing the mediating effects of SF in these associations, the study significantly contributes to the prevailing knowledge bank on change management.

Keywords: Strategic orientation; social capital; strategic flexibility; strategic renewal, SMEs

1. Introduction

Strategic management literature emphasizes that firms must execute the strategic alteration essential for finding ways to resolve the issues they face due to unpredictable, turbulent and unstable business environment (Brinckmann, Villanueva, Grichnik, & Singh, 2019; Khan, Yasir, Shah, & Majid, 2021). Rapidly developing of information and technologies has further contributed to these problems through enhancing the intensity of competition, introduction of new business models and changes in the demand of customer and stakeholders (Bai, Liu, & Zhou, 2020). So, it is essential for firms to have the ability of developing new strategies, products, and services for delivering the required products as well as services to their customers and stakeholders in a more appropriate way (Freeman, Wicks, & Parmar, 2004; Schmitt, Raisch, & Volberda, 2018). Hoque (2018) argued that all of these abilities are the facets of the strategic renewal (SR) of the firms.

Agarwal and Helfat (2009) described SR as the continuous procedure of transformation as of one shape to other shape. According to Khan, Majid, Yasir, and Javed, (2020) SR is the process of alignment of organizational level components with the changes taking place in the external environment. Literature suggests two significant facets for SR process: incremental strategic renewal as well as discontinuous transformation (AlHumaidan & Sabatier, 2017). In existing literature, a huge debate is available on the determinants and antecedents of SR; however, this study uses a dynamic capability theory to explain this phenomenon. In line to the perspective of Dynamic capability theory the renewal of firms is impelled through latent abilities of firms of renewing, augmenting, and adapting its fundamental competency along with resources over time (Teece, 2012). This argument focuses on the fact that transformation, competitiveness, and survival of the firm is linked to the acquisition, development and employment of idiosyncratic capabilities along with

resources that augment the organizational capabilities of reducing the environmental uncertainties and to take advantage of emerging opportunities (Volberda, Baden-Fuller, & Van Den Bosch, 2001). To address this purpose, the prevailing theory offers the concepts of Strategic Orientation (SO) and Social Capital (SC).

SO is the firms' strategic propensity that portrays its actions designed to facilitate the accomplishment of competitive advantage in the long run (Hakala, 2011). SO provide greater emphasis in creating fit between the dimensions of the external environment and internal resources of firms (Acquaah, 2007; Mandal, 2018). Abebe and Cha (2018) suggested that, SO provides guidelines and offer a basis by which the understanding regarding the environment of business is enhanced and in response to demands of several stakeholders further appropriate decisions are taken by firms. In current times, the call for addressing the conflicting interests of stakeholders has prompted numerous studies on the outcomes of SO like philanthropic engagement (e.g., Hoque, 2018, 2018), market diversity (e.g., Dev *et al.*, 2009), knowledge management (Shah, Yasir, Majid, & Javed, 2019) and innovation (Mandal, 2018). Despite of these studied, a systematic study explaining the fundamental context for the association between SO and SR of firms is still lacking. Hakala, (2011) advocates that, SO not only provides guidelines to cope with environmental changes but also provide a fit among distinct resources as well as dimensions of the exterior environment for the survival as well as competitive advantage in the long run. The association of SO with different aspect of SMEs' life is properly documented in the available knowledge bank, however, the role of SO in bringing SR in SMEs is rarely discussed. Therefore, this study attempts to explore this relationship that how SO affect the SR process.

Resource based theory suggests that firm can survive and have a competitive edge by continuously renewing as well as transforming through expedition of opportunities arose within its environment and obsolescing threats through utilization of resources that are unique, distinct, inimitable as well as non-substitutable (Klammer, Gueldenberg, Kraus, & O'Dwyer, 2017). The argument advocates the significance of investment in distinct resources like SC. SC is acknowledged as the output of relationships and coordination among the actors of a firm network and is the most important sources of new knowledge formation and ideas creation (Subramanian & Youndt, 2005). Ramdan *et al.*, (2017) conceptualizes SC with three dimensions that are structural dimension, relational dimension, and cognitive dimension. In recent time, firms need to focus on their associations with stakeholders, industry, and value chains. It is obvious that the rising importance of SC provoked larger set of investigations linked to its consequence like competitive advantage (Naphiat & Goshal, 1998) and innovativeness (Engelman, *et al*, 2017). Still, there is scarcity of empirical evidence that how multi-dimensional SC initiate SR renewal within SMEs in the context of developing economies. Therefore, this lack of focus creates an area that demands an in-depth investigation, and one of the objectives of this study is to address this research gap.

SO and SC are significant facets, but directly and without any helping hand, they are not sufficient to achieve the targets of SR of firms. There is dire call for considering the interior context that may be implicated in this association. To enlighten this gap, this study included strategic flexibility (SF) as a mediator for this association. SF is defined as the capability of firms to recognize key alteration in its exterior environment and to deploy resources quickly to novel activities in reaction to environmental changes (Brinckmann, *et al*, 2019; Shalender, & Yadav, 2019).SO and SC are the vital contributors for the development of a flexible system, processes and operations

(Acquaah, 2007; Hakala, 2011), thus, augments and enhances SF. Based on this context, it is obvious that SO and SC are the key perspective for the enhancement of flexible procedures, system and operation and this craft prominent progress towards initiation of SR of firms. Therefore, the last objective of the study is to investigate that how SF can affect and mediate between SO-SR and SC-SR links.

Majority of SMEs become obsolete and cannot survive in the long-run due to unsuitable rejoinder to environmental alterations and operational problems. Along with various operational problems, inappropriate management of the emerging environmental contingencies is the key coercion to the SMEs' survival in developing economies like Pakistan (Majid, Yasir & Yasir, 2017). So, this research tries to address this issue through emphasizing the role of SO and SC for enhancing SF and SR. This research adds to the literature of strategic management through assessing the internal mechanism that how organizational capabilities and resources can initiate the strategic transformation process in the existence of strategically flexible mechanism. In order to accomplish study objectives, this study has been divided in various sections. The coming part discusses the relevant literature to develop hypotheses. Third section of the study is composed of detailed methodology. The fourth section provides results of statistical analysis. Last section discusses findings, theoretical and practical contribution, and limitation.

2. Literature review

SO is the firms' strategic tendency which summarizes firms' behavior and actions and intended to help the firm in accomplishment of better performance and competitive advantage in a long-run (Hakala, 2011; Ladeira, *et al*, 2018). Founding upon the stakeholder theory, the conflicting interests of the stakeholders should be taken into account in an effective and efficient manner (Freeman *et*

al, 2004). Hassan *et al* (2019) focus on the appliance of multi-faceted SO to accomplish the strategic performance, product innovations and enhanced satisfaction of stakeholders. In literature, several dimensions of SO has been identified, however, Ho *et al*, (2016) used four dimensions comprehensively explained SO; relationship orientation, market orientation, entrepreneurial orientation as well as technology orientation. The relationship orientations enclose the propensity of firm to augment and conserve its associations with supply chain components, which consequently fallout in accomplishment of collective benefits (Shah, *et al.*, 2019; Hoque, 2018). Zhou and Li (2007) advocated market orientation as the extent to which a firm is involved in satisfying the needs of customers and making efforts to offer a higher value to them. Wales (2016) described entrepreneurial orientation as firm intentions to identify and take advantage of novel business openings and intriguing risks through continuous scanning of the environment. Lastly, technology orientations focus upon acquiring and applying new robust technologies in production units and operations of business (Mandal, 2018). The consequences related to SO are discussed broadly in the literature of strategic management; but the missing element in the literature is its association with the firm's strategic renewal and transformation.

SR is considered as a procedure of continuous journey of change from one state to other state despite of distinct alteration (Khan, *et al.*, 2021; Schmitt, *et al.*, 2018). SR implies two significant processes/facets that are: incremental SR and discontinuous strategic transformation (Agarwal & Helfat, 2009). Incremental SR is the combination of minute step-by-step procedures that are initiated by firms to implement ideas and actions over the time (Mäkimattila, *et al.* 2016). On the other hand, Agarwal and Helfat (2009) described discontinuous transformation as major initiatives of the firms to replace and renew some specific components of the firm's strategy for the purpose of achieving

long-term success. SR helps firms in replacing business models to maintain fit with environmental changes to accomplish advantage of market openings for long-term accomplishment. In comparison to larger organizations, the SMEs have smaller amount of unique resources in addition to strategic directions because of the shorter business life. Accordingly, Leiponen, and Helfat, (2010) recommended that, for strategic transformation of organizations, it is important to acquire strategic knowledge and orientation of its environment and stakeholders' demand. Thus, SO is the vital and defining facet for SR. SO is a context which elaborates that how firms have to interact with external environmental forces like competitors, customers, and technologies to run their operations (Ladeira, *et al*, 2018), which in response, facilitate firms by providing the strategic direction to shape the appropriate behavior. SO also provides business with directions and targets that top management wants to accomplish (Yasir & Majid 2017).

The dimensions of SO are considered significant for initiation of effective SR. Market orientation identifies the need of the markets by providing knowledge about the required transformation (Udriyah, *et al.*, 2019). Entrepreneurial orientation facilitates firms in initiating proactive decisions and supports firms in crafting necessary alterations in response of unexpected environmental changes (Yousaf & Majid, 2018). Technological orientation constructs a platform for the adaptation of novel sophisticated technologies that will ultimately initiate strategic change process within firm (Mondal, 2018). Moreover, the relationship orientation opens opportunities for developing further strengthen links and networks with other actors of markets to adopt essential alterations accordingly (Ho *et al*, 2016). Consequently, all these antecedents guarantee the initiation of SR and firms' survival in long-run. Based on above arguments subsequent hypothesis has been anticipated.

SC can be defined as firms' intangible assets that are the antecedent of individual networks or set of associations that are significant for the achievement of strategic goals and sustainable performance (Bai, *et al*, 2020). Existing body of knowledge advocates various conceptualizations of SC. Napehiat and Ghoshal (1998) conceptualized SC through three basic dimensions that are structural dimension, cognitive dimension as well as relational dimension. The structural dimension is described as associations among members; that how frequently they share information and with whom (Lefebvre, *et al*. 2014). The SC relational dimension depicts the kind of personal association that individual, or members of networks have developed with each other through history of interactions (Asiaei & Jusoh, 2017). The SC cognitive dimension is the resources combinations that entail sharing codes or pattern to support common view of shared goals/vision and advocate an efficient mode of doing things within social system (Bai, *et al*, 2020).

Resource based theory suggests that firm can initiate the transformation process for the achievement of competitive advantage considering the environmental situations through appropriate management as well as use of its distinct resource such as social capital (Barney, 1991; Volberada *et al*, 2001). Empirical studies also provide support to the conception that different dimensions of SC augment SR (Bai, *et al*, 2020; Naphiat & Ghoshal, 1998; Vandaie, 2017). The structural dimension is contextualizing as the mean of transmission of novel information and new knowledge on which the firm's renewal is based (Bai, *et al*, 2020). The significance of relational dimension for the firm's renewal has also been acknowledged in terms of the development that resulted through exchanges of resources because of the existence of relationships of trust (Subramanian & Youndt, 2005). The availability of a combination of values like trust, commitment

and reciprocity is required to initiate the SR strategy (Vandaie, 2017). Lastly, cognitive dimensions involving agents shared beliefs are significant resources in identifying common requirements to ensure efficient and successful renewal processes and consequences (Naphiat & Ghoshal, 1998; Zahra, 1996). Based on the above discussion subsequent hypothesis is proposed.

H2. SC of firms is positively related to SR of firms.

The term SF is described as the firms' capability of reacting to environmental uncertainties through adjustment of its objectives with the help of higher capabilities and knowledge (Shimizu & Hitt, 2004). Shalender & Yadav, (2019) stated that, SF facilitates firms in formulation of future oriented strategies and support them in reacting swiftly to environmental dynamics. Gutierrez and Perez (2010) advocated that SF is composed of various actions like; formulation of strategies, development of product/services, alignment of organizational strategies with competitors and market, influential promotional campaign, and effective strategic actions to deal with environmental alterations.

SO components help in creation, maintenance and utilization of a diversity of orientation which encourages SF through eliminating the strict policies and processes. Market orientation facilitates firms in establishing flexible procedures, systems and operations for addressing efficiently customers' demands by entailing the needed information relating to changing market dynamics (Udriyahet *al.*, 2019). Entrepreneurial orientation supports firms in making required changes in firms' strategies, operations and systems that make the firm more flexible and agile (Yousaf & Majid, 2018). The relationship orientation through its strong relationships and network provides tacit knowledge required in the accomplishment of flexibility in technological, physical and human

resources of firms (Ho *et al*, 2016; Shue, *et al*, 2019). Technological orientation enhances firm's portfolio of strategic options and choices for the adaptation of sophisticated technologies that enhance firm's flexibility to manage the environment contingencies in a more appropriate manner (Mondal, 2018). Founding upo above arguments subsequent hypothesis was anticipated.

H3: SO of firms are positively related with SF of firms.

Facets of SC help firms to establish, maintain and use diverse relationship created through firms' networks, which support SF by removing of strict procedures and policies (Fandiño, *et al*. 2014). SC not only improves the cooperation and communication within the firm, but also augments the flexibility of firm in a long-run (Chen, Wang, & Wang, 2018).The structural dimension encourages transition of novel knowledge and information for augmenting the firm's flexibility for adaptation of streaming business situations (Bamel & Bamel, 2018). Relational dimension motivates and encourages the culture of trust to collaborate/share tacit knowledge within the firm for exploration and experimentation, which resultantly promote SF of firms (Subramanian & Youndt, 2005). Whereas cognitive dimension that relates to the shared beliefs of agents supports firms in identification of common need for formulating and implementing strategically flexible procedures, systems and operations (Naphiat & Ghoshal, 1998). Based on the above discussions, the subsequent hypothesis is anticipated;

H4: SC of firms is positively associated with SF of firms.

SF is a significant facet of the firm to provide consistent expedition for augmented products and procedures along with flexible technological and human resources (Bamel, & Bamel, 2018). SR

is highly dependent on the capabilities of firms to develop flexible strategies, systems, structure and operations that support in selection, development and exploitation of different mechanisms for transformations (Vandie, 2017). Existing literature accredited that SF supports firms in identification, creation and maintenance of alternatives for formulating and implementing the best combination of strategies and provide a basis for continuous transformation and sustainable performance (Guo & Cao 2014). Moreover, firms with flexible system are in a better position to develop a mechanism for initiating and managing the SR process by effectively managing the environmental contingencies (Chen, *et al*, 2018). Therefore, this study proposes that firms with greater SF are more efficient in initiation of SR.

H5: SF of firms is positively associated with SR of firms.

This study evaluated the mediating role of SF in the relationships of SO, SC and firms' SR. Prior sections elaborated that SO and SC are vital factors for the initiation of firms' SR (Hakala, 2011; Vandaie, 2017), still, this does not represent that only SO and SC are sufficient for the initiation of SR. This encourages comprehending the internal mechanism that may be required in these associations. Therefore, this study argued that SF is essential in the formulation of strategies to initiate SR, as flexible strategies facilitate in identification of direction to manage SR (Schmitet *al*, 2017).

SF works as a bridge between SC and SR. SO could stipulate the mechanism to acquire new information as well as knowledge from their distinctive resources to transform it in flexible activities (Gelderman, *et al*, 2016). Empirical evidence support that SO normally focuses on flexible activities as strategic responses to environmental changes (Bamel, & Bamel, 2018). Multi-faceted SO results

in developing flexible systems, operation and procedures which enable firms to respond rapidly to the required changes and opportunities of markets, or even adopt them, in comparison to other competitive firms (Yousaf & Majid, 2018). As a result it is rational to suggest that SO mediates the relationship of SO with SF.

H6: SF of firms mediates the association among SO and SR of firms.

Empirical evidences support this argument that firms utilize SC for the acquisition of tacit knowledge to develop a flexible structure and mechanism to adopt continuous environmental changes (Hassan *et al.*, 2019; Shue, *et al.*, 2019). Fandiño *et al.*, (2014) advocates that, in comparison to conservative firms, flexible firms are more efficient in accelerating the process of applying flexible strategies and integrating strategic resources for the initiation of effective renewal processes in firms. SC enhances the development of relationships and internal coordination for acquiring the requisite knowledge that enhances the flexibility of firms and authorizes adaptation of timely changes to ensure initiation of firms' SR (Shue, *et al.*, 2019). Mutual benefits, trust and reciprocity as antecedents of SC augments coherent and continuous learning paths (Naphiate & Ghoshal, 1998), which boost flexibility of firm through extending firm's capability of adapting the requisite changes for initiation of effective SR (Shue, *et al.*, 2019) founding on these arguments, this study hypothesized that:

H7: SF of firm mediates the relationship between firm's SC and SR.

Figure 1 represents the association among the study variables. The current study utilized SO and SC as independent variables. SF is taken as intervening variable between SO, SC and SR. Figure

1 demonstrates the direct and indirect relationships among study independent, mediating, and dependent variables.

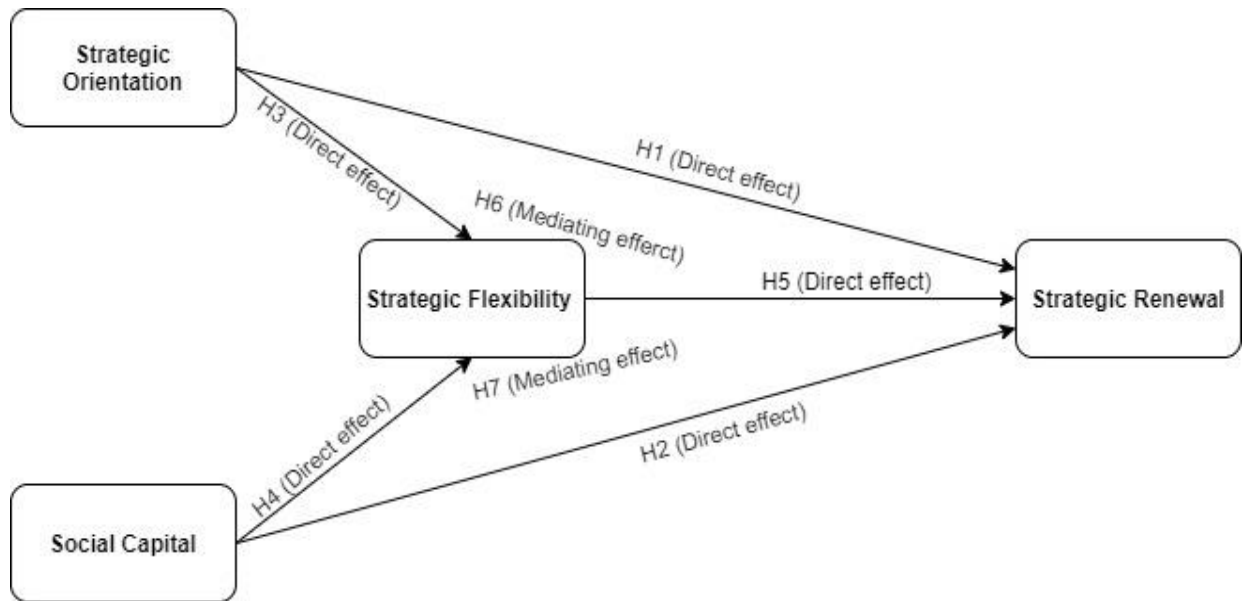


Figure 1 Theoretical Framework

3. Methods

3.1 Population and Sample Size

For accomplishment of the study objectives, data was gathered from the managerial level employees of the SMEs dealing in ICT related components. Initial information relating to ICT based SMEs was gathered from SMEDA (Small & medium size enterprise development authority, Pakistan). These SMEs were selected because of the reason that these business units are taken as procedure oriented, as well as are further inclined towards new products and services development as per environmental demands (Mathews *et al.*, 2019). Moreover, these SMEs are facing strict competition and are functioning in a more dynamic as well as continuously altering environment. Therefore,

these SMEs are continuously transforming their operational systems, structures and processes to remain competitive in the market.

For collection of data, sample of 992 respondents was drawn from 233 business units of ICT related SMEs. Survey technique was considered, and data was gathered through structured questionnaire employing key informant technique. Respondents were much aware to their enterprise strategic practices and had control upon the actions associated to change management and transformation.

Data collection comprises of three stages. In first stage, sealed questionnaires accompanied with covering letters and return envelope were mailed to respondents' through postal services. After a period of four months, in second stage those respondents were again contacted by surface mail those did not respond in the first stage. In last stage, researcher in person visited the respondents to record the valuable responses. After all of these efforts, 539 useable questionnaires were returned by respondents, thus the response rate for the study was 54 percent, which is considered a suitable rate of response in the research environment of the developing economies such as Pakistan.

3.2 Measurement

Structured questionnaire was used as a survey instrument for the data collection. Survey instrument was designed on a 5-point Likert scale and comprising of two parts. The first part was designed to collect the necessary information regarding ICT sector like firm size, firm age, educational and experience level of the respondents. The second section of survey instrument was consisting upon the items measuring the study variables SO, SC, SF and SR.

Four-dimensional construct of SO (technology, market, entrepreneurial and relationship orientation) was measured through 30-item scale adopted from the work of Ho *et al.* (2016). This

30-items scale generated Cronbach's α coefficient of 0.841. 16-items scale was utilized to measure the construct of SC. The scale was adapted from Khan. Et al. (2021) and also used by Fandiño, *et al.*, (2015). 16 -items scale generated the value of Cronbach's α 0.839. For measuring SF 8-item scale was adapted from the study of Gutierrez Gutierrez and Fernandez Perez (2010). This 8-items scale generated Cronbach's α coefficient of 0.853. 4-items scale was utilized to measure the two-dimensional SR construct adapted from Shah, *et al.*, (2019) originally developed by Zahra (1996), that generated a Cronbach's α coefficient of 0.860.

4. Results and Analysis

The construct measurement and CFA (confirmatory factor analysis) results are presented in table 1. Table 1 confirms the internal reliability of the constructs. For all the constructs the Cronbach's α value is higher than 0.70. Factor loading of entire items utilized for construct measurement are higher than acceptable values. Additionally, CR and AVE were also computed for each construct and results predicts that the relevant factor loading also accomplished the acceptable level.

Table 1

Construct measurement and confirmatory factor analysis

Constructs	Factor loading	AVE	CR	Cronbach's α
<u>Strategic Orientation</u>				
SO1	0.882			
SO2	0.857			
SO3	0.813			
SO4	0.824			
SO5	0.798			
SO6	0.897			
SO7	0.838			
SO8	0.857			
SO9	0.848			
SO10	0.828			
SO11	0.898			
SO12	0.856			

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SO13	0.862			
SO14	0.827			
SO15	0.879			
SO16	0.897	0.718	0.987	0.841
SO17	0.829			
SO18	0.872			
SO19	0.802			
SO20	0.805			
SO21	0.856			
SO22	0.897			
SO23	0.805			
SO24	0.823			
SO25	0.898			
SO26	0.851			
SO27	0.893			
SO28	0.812			
SO29	0.827			
SO30	0.778			
<i>Social Capital</i>				
SC1	0.880			
SC2	0.855			
SC3	0.822			
SC4	0.836			
SC5	0.826			
SC6	0.895			
SC7	0.877	0.726	0.977	0.839
SC8	0.896			
SC9	0.802			
SC10	0.821			
SC11	0.898			
SC12	0.893			
SC13	0.825			
SC14	0.855			
SC15	0.824			
SC16	0.826			
<i>Strategic Flexibility</i>				
SF1	0.815			
SF2	0.876			
SF3	0.891			
SF4	0.911	0.728	0.962	0.853
SF5	0.873			
SF6	0.876			
SF7	0.785			
SF8	0.791			

Strategic Renewal

SR1	0.854			
SR2	0.803			
SR3	0.870	0.7012	0.903	0.860
SR4	0.821			

Note: CR: composite reliability; AVE: Average Variance Extracted

4.1 Confirmatory factor analysis

As discussed above that the Cronbach's alpha values of the study construct were greater than threshold value of .70 which suggests the accepted reliability of the scale. In order to evaluate the discriminant validity of the scales, AMOS 7.0 software was utilized to conduct CFA (confirmatory factor analysis). Four distinct models with different configurations were assorted. The single-factor model merges SO, SC, SF and SR into a single factor ($\chi^2 = 134.24$; $df = 118$ $p < .001$; SRMR = .37, CFI = .56; and GFI = .96). The two-factor model combined SO, SC and SF into a single factor and SR into second factor ($\chi^2 = 134.12$; $df = 110$ $p < .001$; SRMR = .13, CFI = .89; and GFI = .84). The three-factor model combines SO as well as SC in single factor SF into the second factor and SR into third factor ($\chi^2 = 138.20$; $df = 110$ $p < .001$; CFI = .91; GFI = .89 and SRMR = .09). The four-factor model was composed of four factors of SO, SC, SF and SR respectively. The results show that a four-factor model is comparatively in a good fit than other models ($\chi^2 = 141.20$; $df = 116$ $p < .001$; SRMR = .053, CFI = .93 and GFI = .90).

4.2 Descriptive Statistics

Correlation and descriptive statistics results are depicted in table 2. The result depicts that the average respondents recorded greater score upon SR. The respondents sample mean of for SO is

higher also. The average level core for SC and SF were 3.4 and 3.6 correspondingly. The average for SMEs age was 22 years.

Table 2

Descriptive statistics

Variable	Mean	SD	1	2	3	4	5	6	7	8
SMEs age	22.1	.78	1							
SMEs Size	2.4	.80	.08	1						
Managerial education	3.2	.78	.06	.09	1					
Managerial experience	3.3	.82	.08	.04	.11	1				
SO	3.8	.90	.04	.06	.04	.07	1			
SC	3.4	.92	.02	.04	.09	.08	.16**	1		
SF	3.6	.87	.03	.08	.03	.10	.33**	.29**	1	
SR	3.9	.94	.07	.02	.06	.02	.19**	.16**	.40**	1

Note: **p < 0.01; SD (standard deviation) SO(Strategic Orientation), SC (Social Capital), SF (Strategic flexibility), SR (Strategic Renewal)

The analysis confers significant correlations between study constructs. It is evidently predicted from the results that SO is significantly and positively correlated to SF (r= 0.33) as well as SR (r= 0.19). The statistical results as well confers that SC is significantly and positively correlated to SF (r= 0.29), and SR (r= 0.16). SF is positively and significantly associated to SR as value is (r= 0.40). To evaluate the mediating role in support to the constructs' relationship the Baron and Kenney, (1986) norms were considered.

4.3 Hypotheses Testing

In order to confer the study hypotheses, multiple regressions were used. Study utilizes three tests of causal steps approach (Baron & Kenny, 1986), PROCESS Macro (normal test theory) along with Sobel test to test the hypotheses of mediation. In table 3 the value of coefficients of simple regression used to test first three steps suggested by Baron and Kenny for mediation procedure are depicted.

Regression with SF as a mediator and SR as a dependent variable

<i>Independent factors</i>	<i>SF</i>					<i>SR</i>				
	<i>R²</i>	<i>SE</i>	<i>β</i>	<i>t-value</i>	<i>Sig.</i>	<i>R²</i>	<i>SE</i>	<i>β</i>	<i>t-value</i>	<i>Sig.</i>
SO	0.29	0.055	0.33	5.93	0.00	0.25	0.050	0.19	3.68	0.00
SC	0.24	0.048	0.29	5.96	0.00	0.20	0.044	0.16	3.49	0.00
SF (Mediator)						0.27	0.059	0.40	6.73	0.00

SO(Strategic Orientation), SC (Social Capital), SF (Strategic flexibility), SR (Strategic Renewal)

The results shows that SO is positively as well as significantly related to SR ($\beta = 0.19^{**}$, $SE=0.050$, $t\text{-value}=3.68$). This result confirms H1 of the study. Also, the second independent variable SC was regressed with dependent variable SR. The outcome depicts that SC is positively as well as significantly related to SR ($\beta = 0.16^{**}$, $SE=0.044$, $t\text{-value} = 3.49$). These results confirm H2 of the study. In order to confer step 2, regressions of the independent variables upon mediating variable i.e. SO and SC upon SF were performed and statistical results confirmed the positive relationship among SO and SF ($\beta = 0.33^{**}$, $SE= 0.055$, $t\text{-value} = 5.93$), and established H3 of study. Additionally, the analysis also established a positive relationship between SC and SF ($\beta= 0.29^{**}$, $SE= 0.048$, $t\text{-value} = 5.96$), and approved H4 of study. Results shown in table 3 also approved the step 3 for testing mediation consequent upon positive as well as significant effects of SF as mediating variable upon dependent variable SR ($\beta = 0.40^{**}$, $SE= 0.059$, $t\text{-value} = 6.73$). These statistical results approve H5 of study.

Figure 2 and table 4 presents results of multiple regression analysis to confirm the indirect effects of SO and SC through SF. When SF was included as mediator in model, the direct effect of SO becomes insignificant and was reduced ($\beta = 0.10$ $SE= 0.066$, $t\text{-value}= 1.39$). These statistical results approved the mediation of SF among the relationships of SO and SR and approves H6 of

study. The statistical results also confirmed that when SF was included in the model as mediator, the direct effects of SC was become insignificant and reduced ($\beta = 0.08$ SE= 0.062, t -value= 1.15). These statistical results also affirmed that SF mediates the association of SC and SR and hence confirm H7 of the study.

Table 4

Multiple regression results for SR

Model	Factors	R ²	F	SE	β	t-value	Sig.
1	SO	0.31	89.29	0.066	0.10	1.39	0.46
	SF			0.056	0.47	8.38	0.00
2	SC	0.26	70.86	0.062	0.08	1.15	0.38
	SF			0.053	0.42	7.89	0.00

SO(Strategic Orientation), SC (Social Capital), SF (Strategic flexibility), SR (Strategic Renewal)

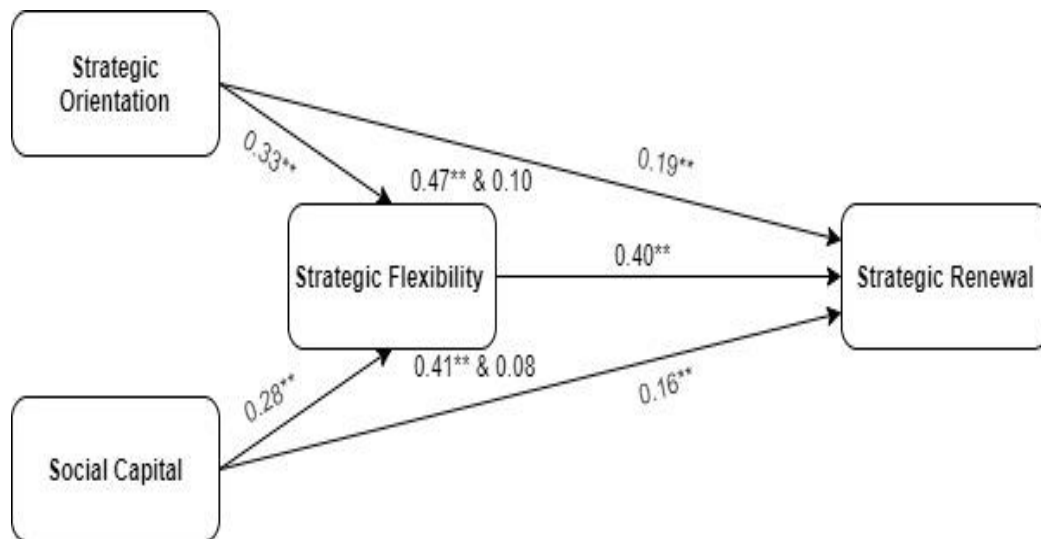


Figure 2, coefficients of simple and multiple regression analysis

The indirect effects of SO and SC also verified through the result produced by PROCESS Macro. The statistical results revealed the total effects ($\beta=0.50^{**}$), direct effects ($\beta=0.19^{**}$) as well as indirect effects ($0.50-0.19= 0.31^{**}$) of SO upon firms' SR by the mediation of SF. Furthermore, Sobel test results i.e. ($Z= 4.88, p<0.00$) as well confirmed as well as established the SF mediation. Results as well explained total effects ($\beta=0.57^{**}$), direct effects ($\beta=0.16^{**}$) as well as indirect effects ($0.57-0.16=0.41^{**}$) of SC upon firms' SR by mediation of SF. Sobel test results i.e. ($Z= 3.28, p<0.00$) too established the mediation of SF. on the whole, these findings demonstrate that SF presented a full mediation among SO-SR and SC-SR links.

Table 5

Direct and Indirect effects of SO and SC on SR using SPSS version of PROCESS

Mediator	Total effect			Direct effect			Indirect effect		
	β	t	P	β	t	p	Normal Test Theory		
	β	t	P	β	t	p	β	Z	p
SO	0.50	5.44	0.00	0.19	3.32	0.00	0.31	4.88	0.00
SC	0.57	6.13	0.00	0.16	2.42	0.00	0.41	3.28	0.00

Note: Level of Confidence for Confidence Intervals: 95, Number of Bootstrap Resamples: 5000
SO(Strategic Orientation), SC (Social Capital)

5. Discussion

This research was carried out in order to evaluate empirically the role of SO and SC in initiating the SR process within SMEs. Additionally, the mediating effects of SF among these associations were also tested. To achieve the objective of the study, seven hypotheses were formulated. Concerning H1, the statistical results approve that SO has a significantly positive association with SR; hence H1 of the study is confirmed. These results are in line with Subramanian and Youndt (2005) and Shah *et al* (2019). Concerning H2, the study finding also approves the positive and significant association between SC and SR. Existing study advocates that SC of firms is a pre-requisite for initiation of

effective transformational activities (Shah *et al*, 2019; Khan *et al*, 2021). Regarding H3, the findings of study approved the direct relationship of SO to SF. The results are consistent to the findings of Udriyah, *et al*, (2019). The study supported the fact that strategically oriented firms are more flexible in their system, operations and procedures. Concerning H4, the positive association of SC and SF was confirmed. The findings of study support the findings of Chen, *et al*, (2018), as SC is vital source that provides novel knowledge and ideas which in turn enhance the capability of firms to make their operational system flexible. Regarding H5, findings of study approve the positive relationship of SF to SR, hence, H5 is approved. The results of the current study supported the findings of Yousaf and Majid (2016); they were also in favor of the argument that flexible firms are having a competitive edge over others in initiating and executing the transformational activities. Regarding H6, this study argued that SO predicts SR through SF. Strategically flexible systems are pre-requisites for the execution of change processes (Guo & Cao 2014). Furthermore, H7 of the research also confirms the mediating role of SF among the association SC and SR.

5.1 Theoretical Contribution

This research made contributions to the literature of strategic change management in many ways. Firstly, the basic addition of this research is to empirically establish an association between firms' capabilities and resources for the initiation of change processes which was generally a omitted linkage in the prevailing literature. Secondly, this research adds to the prevailing body of knowledge through empirically evaluating the complex model instituting the SO, SC SF and SR in the perspective of dynamic capability contextualizing SMEs in developing economies such as Pakistan. Thirdly, one of contribution of this research links to the examination of SO as well as SC for the augmentation of strategically flexible systems, structure and operations. SF is an imperative component of firms for

initiation as well as development of transformational processes (Khan et al., 2021, 2018; Shalender, & Yadav, 2019). The existing body of knowledge is deficient to provide at all strong support upon the association of SF in the perspective of its antecedents as well as determinants. Thus, the existing research filled this gap and focused upon the role of SO and SC as pre-requisites for SF and SR.

5.2 Practical implications

The study recommends several practical implications regarding the appropriate management of firms' distinctive resources and conflict of interest of stakeholders for initiation of SR. From a managerial perspective, for the efficient initiation of firms' SR, it is noticeable that multidimensional and all-inclusive SO is an effective mechanism (Hassan *et al*, 2019). Therefore, it is vital for managers to provide more emphasis on the significant facets of SO by aggressively addressing the environmental demands. Furthermore, manager should concentrate not only to the organizational capabilities but also focus on the appropriate management of resources for the development of a mechanism for continuous transformation in the long run (Naphiat & Ghoshal, 1998). SC is the main source for the development of new ideas, creation of knowledge, and enhancement of culture that is acknowledged as innovative (Khan, *et al.*, 2020); so, it is significant for the management to offer their deliberation on escalation of SC. in addition, this study suggests the owners as well as top management to consider relational skills rooted in social networks of the organization for the development of SF in order to guarantee SR (Bamel & Bamel, 2018). accordingly, it is robustly suggested for the SMEs to improve their flexibility by augmented information obtain as of social actors of the network through its SO for crafting the strengthen relationships in achieving the SR of firms. As SC and SO are not the sole facets for initiation of organizational transformation, the

significant mechanism is the firms' SF. Thus, it is vital for managers to make their firms' system, operation and procedures more flexible that would be helpful in accomplishment of SR process.

5.3 Limitations

Alongside the research implications, fewer limitations have been noticed also which can be considered as guidelines for conducting research in future. This study has considered SF as an intervening variable between the associations of SO, SC and SR of firms, however, in order to make this relationship more conclusive and comprehensive, some other mediators can also be included. Furthermore, this study considered the most cited dimensions of SO, SC and SR. These constructs can be evaluated by adding some other contextual dimensions that will help to develop this model in a more comprehensive manner. In this stream the future investigation can initiated by including some other constructs which can moderate the association among SO, SC and SR. This study was conducted in ICT sector SMEs only. The ICT SMEs in general characterized with more dynamic, complex, and contingent operations. Therefore, the current results cannot be generalized to other sectors or industries.

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