



Entrepreneurial decision-making, external social networks and strategic flexibility: The role of CEOs' cognition



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ABSTRACT

This study presents a theoretical and empirical analysis of how CEOs' external social networks impact on cognitive factors (strategic schemas and self-efficacy in opportunity recognition – SOR) to affect strategic flexibility and organisational performance. The research question was addressed using LISREL analysis, and the model was tested using data obtained from 203 Spanish organisations. We show that large but not strong networks impact positively on strategic flexibility. However, both types of network significantly influence CEO cognition (strategic schemas and SOR), which in turn encourages strategic flexibility. Moreover, the influence of strategic schemas on SOR is quite high. These considerations of how external social networks impact on strategic flexibility through the mediator role of CEO cognition extend previous research in this field. We derive inductively a model of entrepreneurial decision-making, explaining how external social networks may make a positive impact on strategic flexibility and performance, depending on their composition and CEO-specific social and cognitive factors. Our evidence reveals the combined nature of decision-making modes to respond flexibly to their evolving environments.

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1. Introduction

Social networks can be considered “the pattern of ties linking a defined set of persons or social actors” (Seibert, Kraimer, & Liden, 2001, p. 220). Social network ties enable collaborative work and facilitate the sharing of ideas, information, knowledge and other resources (Fliaster & Spiess, 2008; Gulati, Nohria, & Zaheer, 2000; Hoang & Antoncic, 2003). CEOs with a clear view about interdependencies between their firms and other industry agents and environmental factors have a better understanding of the market drivers, and this very probably affects their strategic decisions (Iturrioz, Aragón, & Narvaiza, 2015; Kotabe, Jiang, & Murray, 2011). However, not all social networks are the same, and their diverse forms of structure and composition influence the benefits to be obtained and their impact on firms (Adler & Kwon, 2002). Important structural characteristics of social networks include their size and the strength of their ties (Anderson, 2008; Cross & Cummings, 2004; Gabbay & Leenders, 2001). Larger social networks are efficient for accessing a high quantity of new information and

knowledge (Burt, 1992), while those with strong ties provide quality information and complex knowledge, which is usually difficult to transfer (Hansen, 1999).

CEOs with external social networks usually have a more comprehensive understanding of the fit between different strategic options and the business environment, and tend to achieve higher levels of strategic flexibility in their organisations (Fernández-Pérez, Verdú-Jóver, & Benitez-Amado, 2013). Strategic flexibility reflects the organisation's ability to respond to the changing conditions of the environment and to develop or maintain a competitive advantage (Hitt, Keats, & DeMarie, 1998; Sánchez, 1995). It is a strong indicator of the capacity to adapt (Volberda, 1996) and has significant repercussions on the firm's performance (Abbott & Banerji, 2003; Nadkarni & Narayanan, 2007).

CEOs compile and interpret information, argue strategic choices (Child, 1972) and express upper echelon views (Hambrick & Mason, 1984). Strategic flexibility is rooted in the ability of CEOs to develop and drive strategic options (Combe, Rudd, Leeflang, & Greenley, 2012; Sánchez, 1995). According to Matthysens, Pauwels, and Vandenbempt (2005), a company's lack of options seems to block the development of its absorptive capacity and thus strategic flexibility. Their exploratory study concluded that “the (non)availability of alternatives and the managerial perceptions of options

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might be a key determinant of strategic flexibility” (p. 553). Thus, external social networks provide significant assistance in achieving an understanding of strategic options, competitive reactions and new courses of action, increasing the effective level of strategic flexibility (Liebeskind, Oliver, Zucker, & Brewer, 1996). However, as observed above, this ability is dependent on CEOs' perception, and the cognitive factors required to match the effects of external social networks to strategic flexibility and performance outcomes, which until now had not been taken into account together (e.g. Fernández-Pérez et al., 2013; Liebeskind et al., 1996).

Antecedents to strategic flexibility have been considered in previous research, but these are largely developed from theory rather than from empirical evidence (Combe et al., 2012), and little consensus exists regarding the conceptualisations presented (Nadkarni & Narayanan, 2007). Discussions of these antecedents centre on management cognition, resources and strategic options, but no conceptual model has been developed and tested incorporating all of these components, ranging from the influence of the context in which they are embedded, which conditions CEOs' perception of competition, until they are converted into strategic actions. We cover this gap by examining the mediator effects of cognitive differences on strategic schemas and self-efficacy in opportunity recognition (SOR) (Liñán & Chen, 2009; Nadkarni & Narayanan, 2007; Ozgen & Baron, 2007). Strategic schema refers to the knowledge structures that CEOs use in making strategic decisions (Nadkarni & Narayanan, 2007). SOR reflects the perceived ease or difficulty for CEOs in identifying or creating new opportunities and how confident they feel about exploiting them (Kickul, Gundry, Barbosa, & Whitcanack, 2009). Individuals with high SOR values tend to be confident and self-assured of their ability to exploit the opportunities identified, even when they are aware of their inexperience in that particular area (Fernández-Pérez, Alonso-Galicia, Rodríguez-Ariza, & Fuentes-Fuentes, 2015). As a result, they may be more proactive in searching for or even creating such opportunities. Ultimately, new opportunities that are identified or created constitute new strategic options, which studies of flexibility have shown to be highly important. For this reason, in this paper we focus on the effects of SOR, rather than a more generic self-efficacy concept, in order to better adapt our study to this context.

These cognitive parameters were chosen because, in conjunction with different kinds of social networks, they are related to the way in which external resources are acquired, interpreted and used to identify opportunities and to develop and analyse strategic options, which comprise the seedbed of strategic flexibility. In short, these cognitive parameters determine the degree of entrepreneurial alertness and readiness to act (Gaglio & Katz, 2001). Each one represents ambidextrous knowledge: strong networks and strategic schemas are close to the logic of prediction and cause-effect reasoning (causation), and therefore view management as a predictable, orderly process; large networks and SOR, on the other hand, are close to creation logic, or action-based reasoning (effectuation), under which management must continually be reviewed (Sarasvathy, 2001; Sarasvathy, Dew, Velamuri, & Venkataraman, 2010). Our approach, thus, connects social networks to opportunities/strategic options and to strategic flexibility, incorporating cognitive factors. These elements jointly and inductively give rise to a combined intuitive model of entrepreneurial decision-making.

To sum up, this paper examines how the characteristics of CEOs' external social networks, such as the size of the network and the strength of its ties, influence strategic flexibility and organisational performance, from a managerial cognitive perspective. Our contribution responds to calls for integrative research to better understand how the characteristics of managerial social networks (a micro-level construct) affect strategic flexibility and performance (a macro-level one) (Fernández-Pérez et al., 2013; Peng &

Lou, 2000), although in this approach we do not provide a multi-level model. Thus, we address an apparent disconnection between social context and cognitive views of strategic flexibility with the mediator role of strategic schemas and SOR, in order to better understand the scope and extent of social influence on strategic flexibility and performance. In this way, we bridge the gap from causation logic (the analytical approach toward achieving goals and outcomes) to effectuation logic (the experimenting process of shaping entrepreneurial opportunities within a context of limited resources). This approach to management and strategic flexibility is new, and constitutes a precursor to the study of the entrepreneurial process.

2. Theoretical background and hypotheses

2.1. The influence of social networks on strategic flexibility from a cognitive perspective

Strategic flexibility is an organisation's capability to identify major changes in its external environment, to commit resources quickly to new courses of action in response to change, and to recognise and act promptly when it is time to halt or reserve the commitment of such resources (Shimizu & Hitt, 2004). Among the various conceptualisations of strategic flexibility, we focus on the managerial perspective proposed by Volberda (1996), in which strategic flexibility results from the combination of a great variety of managerial capabilities and provides the ability to activate them rapidly in the face of environmental change.

CEOs' external social networks, defined as the systems of relationships that CEOs have with other actors outside their organisation, for example top managers of other firms, clients or suppliers (Collins & Clark, 2003), enable CEOs to acquire valuable information and knowledge that they can use to mitigate uncertainties and generate strategic options, thereby enhancing strategic flexibility (Liebeskind et al., 1996). It is explicitly acknowledged that external social networks affect cognition enabling (or not) new opportunities (DeCarolis & Saporito, 2006; Ozgen & Baron, 2007) or strategic flexibility (Fernández-Pérez et al., 2013; Liebeskind et al., 1996), and also that managerial cognition drives strategic action (Eggers & Kaplan, 2009; Nadkarni & Barr, 2008). However, to the best of our knowledge, no previous conceptual model has been developed and tested in which all of these components are incorporated.

While many variables might potentially mediate the impact the relationship between social networks on strategic flexibility, we focus on two that may be especially important: strategic schemas and SOR. Strategic schemas constitute a cognitive filter, interpreting information and translating it into organisational action, while self-efficacy boosts motivation and persistence, thus influencing intentions and performance (Trevelyan, 2011). From this standpoint, SOR represents individuals' beliefs and confidence that they can successfully discover opportunities and perform specific organisational actions to exploit them. Both parameters are important in the relationship between social networks and strategic flexibility, because they influence the CEO's attention and assist the strategic selection and implementation of more or less conservative strategic options presented or created within external social networks (Fernández, Alonso, Fuentes, & Rodríguez, 2014; Nadkarni & Narayanan, 2007; Ozgen & Baron, 2007). Thus, while SOR contributes greater proactivity to decision-making, strong confidence in one's abilities can lead to decision-making shortcuts being taken and less effort required to carry out key tasks (Trevelyan, 2011); strategic schemas provide a more analytic and analogue outlook, based on prior knowledge and beliefs, and can decrease the possibility of over-confidence. From this cognitive perspective, we

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