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ENTREPRENEURIAL ORIENTATION, NETWORKING AND FIRM GROWTH: EVIDENCE FROM A TRANSITION ECONOMY

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Abstract

Entrepreneurial Orientation (EO) has become an important research domain in the entrepreneurship literature to analyze the ability of firms to maximize the opportunities in

the market. Similarly, considering the distinct context of firms in transition economies, networks have become an integrated part of analyzing firms in these contexts. Therefore, the purpose of this study is to examine the impact of EO dimensions (innovativeness, proactiveness, and risk-taking) and networks on micro-, small-, and medium enterprises' growth. This study employs a cross-sectional study on 438 firm owners/managers in four sectors in the case of Kosovo. Findings show highly statistically significant and positive results for all three dimensions: proactiveness, risk-taking, and innovativeness, and a positive and statistically significant relationship between networking and firm growth. All control variables remain consistent regarding statistical significance after introducing EO dimensions. Only when introducing the networking variable does the variable denoting university-level education become negative and statistically significant compared to the non-university education of managers.

Keywords: Entrepreneurial Orientation, networking, firm growth, MSME's

1. INTRODUCTION

Entrepreneurial orientation (EO) has emerged as a concept to analyze firms' mindsets to pursue entrepreneurial opportunities and provides an important framework to examine entrepreneurial activities (Lumpkin & Dess, 2015). EO has emerged as a concept over the last 30 years based on two leading schools: Miller (1983) and Covin and Slevin (1989), as well as Lumpkin and Dess (1996) (Wales *et al*., 2020; Wales *et al*., 2019). EO attempts to capture the characteristics of entrepreneurs such as innovativeness, risk-taking, and proactivity (Soininen *et al*., 2012), as well as driving force firms to pursue entrepreneurial activities (Covin & Wales, 2012). The academic studies on the EO have increased over the years, which has become an important topic in entrepreneurship literature (Covin & Wales, 2012; Covin & Wales, 2018). Furthermore, since firm growth, in particular, SMEs, is considered the main engine for economic performance and employment, it is of crucial importance to analyze SME growth (Wolff *et al*., 2015), and examining the impact of EO on growth provides valuable evidence for policymakers, managers, and researchers.

Scholarly attention on EO has been mainly focused on the impact on firm performance (e.g., Putniņš and Sauka, 2020; Galbreath et al., 2020; Donbesuur et al., 2020; Basco *et al*., 2020), which shows a positive impact of EO dimensions on firm performance. Although previous studies focused on the impact of EO on firm performance, sometimes growth and profitability may not correlate positively (Moreno & Casillas, 2008), performance is a multidimensional construct (Casillas and Moreno, 2010), the relationship between EO and firm performance is not well understood (Putniņš & Sauka, 2020), and growth has been evaluated as one of the major challenges of entrepreneurship scholars (Stenholm *et al*., 2016). This study focuses on the impact of EO on firm growth, as firm growth is an outcome of EO, including firms' capability to adopt, which is an important mechanism that leads to firm growth in the future (Eshima & Anderson, 2017). Studies show that EO has a positive impact on firm growth (e.g., Casillas et al., 2010; Casillas & Moreno, 2010; Moreno & Casillas, 2008; Wolff *et al*., 2015; Eshima & Anderson, 2017);

however, despite the growing body of literature on the impact of EO on performance and growth, there is a limited understanding in contexts characterized by weak institutional settings (Anwar *et al*., 2022; Luu and Ngo, 2019; Basco *et al.,* 2020). The reason is that entrepreneurial activities and the quality of entrepreneurship vary across countries, and it does not depend only on entrepreneurs' characteristics but also on varying across the countries (Chowdhury and Audretsch, 2021).

Entrepreneurial activities and quality in transition economies are also determined by formal institutions, including future market demands due to the instability of the business environment (Krasnniqi *et al.,* 2023; Kryeziu & Coşkun, 2018; Krasniqi & Desai, 2016; Hashi & Krasniqi, 2010). Thereby, the context in which entrepreneurs operate determines the impact of EO dimensions (e.g., innovativeness, proactiveness, and risk-taking) (Kreiser. & Davis, 2010; Kohtamäki *et al*., 2019). In addition, the integration of the impact of networking on firm growth is important as transition economies are characterized by institutional voids, where firms use networking to fill the voids, securing survival and growth (Peng, 2003; Peng & Zhou, 2005). Hence, firms use networking for experience, knowledge, and information to become more proactive and innovative, and when these firms make risky decisions, they rely on networking resources and information regarding the market in which they operate (Lechner & Dowling, 2003; Williams *et al*., 2023). Based on the discussion above, the purpose of this study is to examine the impact of EO dimensions and networking on firm growth. This study relies on a sample of 438 micro, small, and medium enterprises in four sectors: manufacturing, service, real estate, and construction. This study contributes to entrepreneurship literature by offering new insights on understanding entrepreneurial orientation in different contexts (Basco et al., 2020), in this case Kosovo. Furthermore, considering the differences between developed and developing countries in terms of institutions, resources, and sectoral policies in EO dimensions (Chowdhury & Audretsch, 2021), providing empirical findings from a transition economy would contribute to academic and policy discussions on the differences of EO across contexts.

The structure of this paper is as follows: the first section reviews the literature on EO and networking and builds hypotheses. The second section provides a detailed explanation of the method, sample, and data analysis process. The third section provides the findings from this study. The last section is a discussion of the managerial implications of the study and limitations and future suggestions.

2. ENTREPRENEURIAL ORIENTATION AND FIRM GROWTH

Entrepreneurial orientation (EO) is defined as “the processes, practices, and decision-making activities that lead to new entry” (Lumpkin & Dess, 1996, p. 136), and pursuing entrepreneurial orientation leads to actual growth (Soininen *et*

al., 2012). EO is composed of three main components: proactiveness, innovativeness, and risk-taking. Proactiveness refers to a firm's approach in relation to the opportunities in the market and their initiative to seize these opportunities (Lumpkin & Dess, 2001). This component also includes the process of a new entity seizing it, and a firm act opportunistically, attempting to include trends and, in any case, creating new demand. In this vein, proactiveness is related to innovativeness as the firm takes initiative when the firm introduces a new product (Lumpkin & Dess, 1996). The innovativeness component focuses on the firm tendency by focusing on new ideas, experimentation, becoming more creative in terms of new products or services, and technological processes (Lumpkin & Dess, 1996). The entrepreneurial orientation, by its nature, is risk-taking, taking actions with the aim of seizing opportunities in the market and maximizing them for the benefit of the business (Lumpkin & Dess, 1996). There is debate among scholars on whether EO constructs can be unidimensional, aiming to reflect firm strategic reflections in relation to entrepreneurship, or multidimensional constructs (Putniņš & Sauka, 2020). Our study employs EO as a multidimensional construct, as each component may have a distinct impact on firm growth (Putniņš & Sauka, 2020).

We examine the impact of these components on achieving growth. Firms that operate in industries that are more mature by nature are forced to become more proactive and innovative, aiming to seek opportunities to achieve higher levels of entrepreneurial orientation. In this vein, because EO is more costly and risky, firms achieving growth need to commit their resources and become more dedicated (Kohtamäki *et al*., 2019). In terms of ownership type, the uncertainty of the environment, and competitive pressure, non-family firms are less risk-averse compared to family firms; hence, they are more risk-taking, while family firms are oriented towards innovation and renewing in more efficient form, aiming to adopt and exploit opportunities in the external environment to achieve growth (Stenholm *et al*., 2016). Firms combining EO and internal capabilities may lead to higher levels of growth, leading to competitive advantage, depending on intense and less intense markets, which distinguish them in terms of the relationship between performance, capability, and EO (Chaston & Sadler-Smith, 2012). Furthermore, firms that are entrepreneurially oriented can lead to growth (Soininen *et al*., 2012), and being able to fully utilize an EO, weak resources, knowledge endowments, and the extent to which resources are intensive (Hughes & Morgan, 2007) are important.

2.1. Proactiveness

The ability of firms to respond to the opportunities in the sector is of crucial importance. Hence, the extent to which firms have built a strong proactive ability is critical in relation to change and maximizing opportunities (Lumpkin & Dess, 2001). Proactiveness is also related to firms' ability to seize market opportunities to provide new demand in the market while initiating new activities (Lumpkin and Dess, 1996). In our study, we suggest that proactiveness influences firm growth as it contributes to firm performance positively when firms initiate a

higher level of risk-taking (Putniņš & Sauka, 2020). Firms that have the ability to become proactive, anticipate, and act in advance of changes in the sector have an advantage in managing their market shares more effectively, as well as influencing the competition over time (Hughes & Morgan, 2007). Some scholars argue that proactive is an important and significant component of family firms (Mostafiz *et al*., 2022). In this study, we suggest that in terms of ownership, there is no difference. This is due to the nature of the institutional environment where the firms operate as well as the level of competition where the firms operate. For example, family and non-family firms in the case of Kosovo face uncertainty due to unfair competition due to high informality (Mustafa *et al*., 2023; Krasniqi and Williams, 2020) and weak institutional settings (Kryeziu *et al*., 2023; Kryeziu *et al*., 2018; Coşkun *et al*., 2022), thereby, despite the ownership of these firms, in order to survive and grow, they need to build their abilities to become proactive and maximize the opportunities in the market.

Several studies have examined the impact of proactiveness on firm performance and growth. Stenholm *et al*. (2016) study shows that firms with more proactiveness and a positive relationship had higher firm growth. This study also suggests that there is no difference between ownership types in terms of proactiveness. However, another study in the context of transition economies shows that firms that focus on proactiveness may have back-fired on their performance. This is due to the limited resources as well as resource-consuming market strategies' (Luu & Ngo, 2019). Proactiveness is also related to the country's institutional settings, in particular cultural settings. Basco et al.'s (2020) cross-country study maintains that the proactiveness in the case of China was sustained by a low-level avoidance of uncertainty, whereas a high level of power and uncertainty may influence the behavior of entrepreneurs' self-determination. Lumpkin and Dess (2001) argue that firms at the early stage of sectoral development are more proactive and strategy-oriented, and the differences are related to the external environment. In sectors where the dynamism is high, the opportunities may arrive quicker, and thereby, firms may be more proactive in engaging in exploiting the opportunities in the market. However, sectors characterized by hostility and maturity and intense competition for both customers and resources respond to these threats through competitive aggressiveness. Furthermore, Lumpkin and Dess (2001) conclude that proactiveness has a positive relationship with firm performance. Studies suggest that proactive firms tend to develop aggressive attitudes aiming to search for and capture new business opportunities, leading to higher firm growth (Casillas & Moreno, 2010). Another study finds that proactiveness is important at certain stages of firm development, which leads to higher performance (Hughes & Morgan, 2007).

2.2. Innovativeness

In uncertain and turbulent institutional and business environments, the ability of firms to provide new products and services, improve them, or become

more creative (Lumpkin & Dess, 1996) is critical for their survival and growth. Firms that are innovative by nature tend to implement commitment learning, have an open mind, and share the vision within the organization (Wang, 2008), which influences positive differentiation (Lechner & Gudmundsson, 2014), and are also characterized by a culture based on long-term orientation, which supports the innovativeness of the firm (Basco *et al*., 2020). Furthermore, innovativeness orients firms towards creating distinct competitive abilities in the market, thanks to their ability to be proactive (Hughes and Morgan, 2007). Although scholars suggest that innovativeness is an important component for family firms (Mostafiz *et al*., 2022), in our study, we suggest that innovativeness is of crucial importance for both family and non-family firms's growth. In our study, we argue that innovativeness positively influences firm growth as it helps the firm achieve greater performance and respond to the uncertainty in the institutional and business environment and the high dynamism of competition.

Studies maintain that innovativeness has a positive impact on firm growth (Okangi, 2019; Casillas and Moreno, 2010), which depends on the risk-taking type that firm takes, leading to higher firm performance (Putniņš & Sauka, 2020). The ability of firms to increase their level of innovativeness leads to higher performance. However, this is related to the ability of a firm to perceive innovation as important for the firm, leading to its innovativeness, but concentrating too much on innovation may hinder firm performance (Luu & Ngo, 2019). Likewise, besides the impact on firm performance, it also has several positive impacts, such as retaining or attracting a skilled workforce, building stable customer loyalty, creating a brand, and maintaining stable networking with business partners (Bodlaj & Čater, 2019). Moreno and Casillas (2008) study finds that innovativeness and firm growth are complex, which is related to the type of strategy that the firm follows and the extent to which it is encouraged to build new products and technologies, which are important factors for firm growth. Therefore, the ability of the firm to develop its strategic behavior is a critical factor that leads to firm growth. In addition, other factors that lead to innovativeness, such as the extent to which the external environment is uncertain and the availability of resources, are important ingredients of firm growth. Other studies focused on the ownership type, namely family firms, suggesting that innovativeness positively influences firm growth (Reçica *et al.,* 2019; Stenholm et al., 2016; Casillas & Moreno, 2010). Casillas and Moreno (2010) show that family involvement leads to a higher level of intensity that influences the level of innovativeness, suggesting that during the initiation and implementation of innovations, the involvement of members of the family firm in the management team is important to increase innovativeness and, as a result, higher growth rates for the firm.

2.3. Risk-taking

Risk-taking is a defining characteristic of entrepreneurs (Hughes & Morgan, 2007). Becoming proactive and innovative requires bold decision-making

from the management; hence, it needs the firm to take risks to pursue new entrepreneurial opportunities. Risk-taking is an important factor, in particular risk tolerance, and firms, before taking risky decisions, need to focus on studying risks in detail and mitigating these risks, which presents an important learning process (Wang, 2008). The risk-taking may be less relevant to other dimensions of EO, namely proactiveness and innovativeness, in countries where the determining factor is the configuration of EO, and this dimension may be related to the owner's economic and emotional connection (Basco *et al*., 2020). In the context where this study is carried out, risk-taking has several dimensions. The first dimension is related to weak institutional settings where entrepreneurs make decisions in an uncertain institutional setting. The second dimension is related to the unfair competition caused by the first dimension, where these two combined make entrepreneurs's decisions riskier. The third dimension is related to the decision of businesses to develop new products and services, which requires a higher propensity of proactiveness in firms with an external environment to seize opportunities and create new products, namely, become more innovative.

Studies show that taking risks positively influences firm growth (Okangi, 2019; Casillas & Moreno, 2010). In terms of ownership type, there is inconsistency in the findings from previous studies. Mostafiz *et al*. (2022) argue that risk-taking is an important outlining factor for family firms. Casillas and Moreno (2010) study shows that there is a positive relationship between risk-taking and firm growth; however, family firms show that they are risk-averse, related to factors such as its positive negative impact on reputation and the fear of losing wealth. Stenholm et al. (2016) study maintains that risk-taking is not related to firm growth among family firms, while in non-family firms it has a positive impact on firm growth. Furthermore, other studies show that taking risks has a positive impact on firm performance (Putniņš and Sauka, 2020; Soininen et al., 2012). For example, the Soininen *et al*. (2012) study shows that there is a positive relationship between risk-taking and variability in firm profits, and firms that take more risk lead to higher levels of profitability. While other studies show that profitability has a negative and significant impact on competitive strategy (Lechner & Gudmundsson, 2014) and negatively influences product performance (Hughes & Morgan, 2007), Luu and Ngo (2019) examine the impact of risk-taking in transition economies. This study shows that taking risks has less impact on firm performance at certain points, which leads to an increasing' returns-to-scale trajectory. This study also shows that firms characterized by being risk-averse do not take action in terms of seizing customers and market opportunities, learning to lower performance.

Based on the literature review discussed above, we propose the following hypotheses:

Hypothesis 1: Proactiveness has a positive impact on firm growth.

Hypothesis 2: Innovativeness has a positive impact on firm growth.

Hypothesis 3: Risk-taking has a positive impact on firm growth.

3. NETWORKING

Transition economies, characterized by institutional voids, have witnessed an increased reliance on networks to achieve survival and growth (Puffer *et al*., 2010). Firms operating in these transitional contexts employ network-based strategies to foster growth, emphasizing the establishment of personal trust among managers for information exchange (Peng & Heath, 1996). Moreover, connections with government officials hold greater significance compared to managerial relationships, providing firms with enhanced access to crucial resources (Peng & Luo, 2000). The ability of firms to glean insights from networks serves to mitigate the negative impact of the external environment (Abu-Rumman *et al*., 2021). However, the adoption of network-based strategies is contingent upon the level of a country's institutional development (Peng, 2003; Peng and Zhou, 2005). The influence of social networks on firm performance is intricately tied to a country's political circumstances, where political ties may hold varying degrees of importance across different nations (Luu & Ngo, 2019). This study contends that networks exert a positive impact on firm growth, serving as fountains of information, knowledge, and experience. Consequently, they emerge as pivotal sources of entrepreneurial orientation. Firms skilled at leveraging networks demonstrate reduced susceptibility to market risks, showcasing enhanced proactivity and innovation. Furthermore, the extent to which firms exhibit high levels of entrepreneurial orientation hinges on their interaction with the external environment, enabling them to develop the capability for knowledge acquisition based on resources and fostering a heightened propensity for acquisitive learning (Kreiser, 2011).

The nature of networks significantly influences and determines firm growth, with distinct roles played by different types of ties. For instance, the creation of knowledge is closely associated with strong ties, while weak ties play a pivotal role in influencing knowledge acquisition (Lechner & Dowling, 2003). The impact of networks on firm growth becomes apparent when organizations rely on networks characterized by resource intensity (Bratkovic *et al*., 2009). In underdeveloped financial markets, social networks contribute to firms by enhancing their capabilities to access finances (Boohene, 2018). Numerous studies affirm the positive impact of networks on firm growth, particularly when they are characterized by resource intensity (Bratkovic *et al*., 2009). The relationship between entrepreneurial orientation and firm performance is emphasized in several studies (Donbesuur *et al*., 2020; Ribeiro *et al*., 2021; Martins, 2016), which highlight the crucial role played by external networks with government officials, government agencies, firms, and suppliers in accessing essential resources (Ribeiro *et al*., 2021). Moreover, the positive correlation between market and entrepreneurial orientation and new product development is contingent on firms possessing sufficient capabilities to effectively manage networks. This involves managers' ability to cultivate networks with the aim of garnering support and advocacy from various stakeholders within the firm (Mu *et al*., 2017). In addition, firms that have the ability to build and manage relationships with diverse business partners demonstrate higher performance in international markets (Acosta *et al*.,

2018). This, in turn, enables these firms to acquire valuable knowledge and experience, ultimately facilitating the development of more competitive products in the international arena (Kryeziu *et al*., 2022).

Hypothesis 4: Networking has a positive impact on firm growth.

4. METHOD

This study employed a cross-sectional study to examine the impact of entrepreneurial orientation and networks on firm growth in the case of Kosovo. Despite recent improvements in Kosovo's institutional environment, it continues to generate uncertainty and negatively influence the private sector. The root of this uncertainty lies in the slow and ambiguous institutional reforms (Kryeziu and Coşkun, 2018; Krasniqi & Mustafa, 2016). Businesses in Kosovo encounter numerous challenges and barriers, including skill mismatches, labor force migration (Riinvest Institute, 2023), high levels of informality, inefficient institutions, corruption, and a weak rule of law (OECD, 2022). Consequently, these issues adversely affect entrepreneurial behavior and orientation. According to Kryeziu et al. (2023), institutional factors significantly influence entrepreneurial behavior compared to firm-level factors. As a result, firms often rely on networking to internationalize and leverage their networks to introduce new products or enhance product quality. Another study focusing on Kosovo revealed that businesses respond to weak property rights protection, poor contractual enforcement, unfair competition, and an unpredictable business environment by improving product quality, diversifying or differentiating products, and lowering prices (Coşkun et al., 2022).

The sample of this study consists of micro, small, and medium enterprises (MSME's) operating in four sectors: manufacturing, service, construction, and real estate. The Kosovo economy mainly consists of MSME's; thereby, analyzing the growth of these enterprises through the lenses of entrepreneurial orientation and networks is suitable. These sectors comprise the most important ones in the case of Kosovo. The data collection was carried out in the following way: First, the questionnaire was translated into Albanian, and then we shared the questionnaire with the experts in the field regarding the understandability of the questions and whether there was any bias in the questionnaire. Secondly, we determined the pool of firms to which the questionnaire would be sent, relying on the database of the Business Support Centre Kosovo (BSCK). Thirdly, based on the initial pool of MSME's, which consisted of 1450 businesses, the questionnaire was sent, and only 494 firms responded to the questionnaire. After gathering the data, we analyzed the responses from firms, and at the end, 56 questionnaires were eliminated due to partial responses received, and as a result, the final sample was 438 MSME's (Table 1). We analyzed the data using SPSS 26 and STATA software. To analyze the impact of EO and networks on firm growth, we first employed descriptive statistics, reliability and validity of the questionnaire, factor analysis, and regression analyses.

Table 1

Descriptive statistics

Variables	Number	%
Gender		
Male	249	56.8
Female	189	43.2
Position		
Owner	151	34.5
Manager	287	65.5
Level of education		
Bachelor	252	57.5
Master	86	19.6
Other	100	22.8
Firm size/number of employees		
Micro 1 to 9	177	40.4
Small 10 to 49	252	57.5
Medium 50 to 249	9	2.1
Industry		
Services	165	37.7
Real estate	27	6.2
Construction	62	14.2
Manufacturing	184	42
Ownership type		
Family firms	316	72.1
Non-family firms	122	27.9

Source: Authors' own work

The sample for this study consists of a sample group consisting of 438 participants from various industries. The gender distribution reveals that 56.8 percent of the participants are male, while 43.2 percent identify as female. In terms of positions within their respective organizations, 34.5 percent are owners, and 65.5 percent hold managerial roles. Educational backgrounds are diversified, with 57.5 percent holding a bachelor's degree, 19.6 percent possessing a master's degree, and 22.8 percent reporting other levels of education. The distribution based on firm size indicates that 40.4 percent are micro-sized firms (1 to 9 employees), 57.5 percent are small-sized firms (10 to 49 employees), and 2.1 percent are medium-sized firms (50 to 249 employees). The industry breakdown includes 37.7 percent in services, 6.2 percent in real estate, 14.2 percent in construction, and 42 percent in manufacturing. Moreover, the ownership type reveals that 72.1 percent are family-owned firms, while 27.9 percent are non-family firms. This diverse and representative sample provides a comprehensive foundation for the study's subsequent analyses and findings.

5. MEASUREMENT

5.1. Dependent variable

Firm Growth: Some studies used the most reliable measurement of firm growth by measuring employment growth (Krasniqi and Branch, 2020; Lajqi and Krasniqi, 2017; Buli, 2017; Krasniqi, 2012), while others used subjective measurements focusing on performance using scales (Mostafiz *et al*., 2021; Kryeziu *et al*., 2024; Galbreath *et al*., 2020). Taking into consideration that firms in transition economies, including Kosovo, while reporting to the public authorities often do not meet the sales threshold while self-reporting and underreporting their business activities to these authorities (Krasniqi & Branch, 2020), this also includes the high-level of informality evident in these countries, which makes it challenging to measure firm growth in these countries (Mustafa et al., 2023). We asked the respondents, "Please specify the percentage of firm growth compared to the last year?. Firm growth was measured similarly by previous studies using more objective measurements (e.g., Okangi, 2019).

5.2. Independent variables

Entrepreneurial Orientation: We employed Covin and Slevin's (1989) nine-item scale, which measures three dimensions: innovativeness, proactiveness, and risk-taking. The EO questionnaire has been adopted in various contexts and has shown high reliability and validity (Ritala *et al*., 2021; Galbreath *et al*., 2020). Responses were given on five-point Likert scales (1 = strongly disagree to 5 = strongly agree).

Networking: To measure networking, we relied on the scale developed by Chen *et al.* (2009), which consists of seven items. The scale measures firm networking capabilities around firms' ability to recognize, communicate, and coordinate and their ability to be proactive, aiming to strengthen their relations with their potential business partners. Responses were given on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree).

Control variables: We included control variables to examine whether the impact of entrepreneurial orientation on firm growth is dependent on control variables such as firm age, education, size, sector, and ownership type.

6. FINDINGS

6.1. Factor Analysis and Reliability

We performed factor analysis using principal components with Varimax rotation for all items of entrepreneurial orientation, networking, and firm growth. Two tests, Bartlett's Test of Sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO-MSA), were performed to conduct factor analysis. When conducting factor analysis, the threshold criteria are that KMO has to be greater than 0.50 and Bartlett's Test of Sphericity is significant. The items that had loadings less than 0.50 were

eliminated, and testing Cronbach's alpha reliability, the values less than the threshold of 0.60 were eliminated. After the analysis, two items from networking were removed, and one item from innovativeness (Table 2) was removed. A similar procedure was carried out in previous studies (Gürbüz & Aykol, 2009; Kryeziu *et al*., 2023).

Table 2

Factor analysis and Reliability

Scale	Factor loadings	Explained Variance	Eigen Value	Cronbach Alpha
Networking				
We appoint coordinators who are responsible for the relationships with our collaborators	0.818			
We can deal flexibly with our collaborators	0.814			
We rely on close individual relationships to secure personnel & financial resources	0.748			0.85
We almost always solve problems constructively with our collaborators.	0.660			
We discuss with collaborators regularly on how to support each other to achieve success	0.651	23.69	5.56	
Proactiveness				
In general, the top managers of my firm have a strong tendency to be ahead of others in introducing novel ideas or product	0.882			
In dealing with competitors, my firm is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc	0.878			0.82
My company is typically the first to initiate actions to competitors, for which the competitors then respond	0.620	20.11	1.64	
Risk-taking				
When confronted with decision-making situations involving uncertainty, my firm typically adopts a cautious, 'wait and see' posture in order to minimize the probability of making costly decisions.	0.846			
I believe that, owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.	0.648			0.74
I have a strong preference for high-risk projects (with chances of very high return).	0.628	16.17	1.11	
Innovativeness				
Changes in product or service lines have usually been quite dramatic	0.824			0.62
My firm has very many new lines of products/services marketed in the past 5 years	0.661	10.72	0.88	
KMO and Bartlett's Test Kaiser-Meyer-Olkin Measure of Sampling Adequacy=0.869				
Approx. Chi-Square=2620.320				
Barlett's test of sphericity =0.000				
Total explained variation= 70.681				

Source: Authors'

6.2. Estimation of the Model

In the second step of our empirical approach, we use the OLS regression estimation to evaluate entrepreneurial orientation dimensions (proactiveness, innovativeness, and risk-taking) and networking on firm growth. To test our hypotheses, we estimate the following econometric model, which includes the three EO dimensions and networking generated by PCA, as well as other control variables (gender, education, firm age, firm size, sector, and ownership type), using the following model:

$$Y_i = \beta_0 + \beta_1 X_i + \dots \beta_n n + \varepsilon_i$$

where the dependent variable Y_i, *firm growth*, β_0 is the intercept, X_i represents the vector of independent variables and ε_i is the error term. Explanatory variables are assumed to be independent of disturbances, and observations have been extracted from the same population. Before interpreting the results, we discuss the statistical tests used to test the appropriateness of the chosen model. Diagnostics suggests a good fit of data, with R-Square values ranging from 0.231 (model 1) to 0.274 (model 5). In addition, the study tests for heteroskedasticity, and because of the cross-sectional nature of the data, we have used the "robust standard error" method based on Huber-White sandwich estimates, which does not rely on error terms having the same distribution. In cases of heteroscedasticity or non-normality on large residuals in observation, at the expense of the rest of the sample, the OLS regression tends to fit outliers. Hamilton maintains that when employing the robust standard error option, it offers the benefit of considering heterogeneity and addressing the absence of normality elements, all while yielding identical coefficient estimates as traditional ordinary least squares (OLS) (Hamilton, 2006, p. 239).

To test multicollinearity, we used the Variable Inflated Factor (VIF) command in STATA and the correlational matrix, and the results indicated that this was not a problem with our estimates. However, because the correlation coefficients are high (although not above the threshold of 0.5), we introduced the EO dimensions and networking variables individually in the equation.

Table 3

Entrepreneurial Orientation, Networking and Firm Growth

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5
Gender	1.900* (1.111)	2.660** (1.129)	1.939* (1.027)	1.654 (1.052)	1.793* (1.085)
Education (reference category: non-university)					
Bachelor	-1.762 (1.194)	-1.394 (1.199)	-1.663 (1.138)	-1.816 (1.123)	-1.876* (1.133)
Master	-2.129 (1.616)	-1.223 (1.564)	-1.630 (1.414)	-1.910 (1.524)	-1.318 (1.531)
Firm level variables					
Firm size (reference category: micro)					
Small	-3.411*** (1.057)	-3.423*** (1.043)	-1.785* (0.927)	-3.003*** (0.998)	-3.213*** (1.016)
Medium	3.620 (5.764)	3.675 (5.256)	-1.423 (6.609)	2.489 (6.316)	0.162 (5.226)
Firm age (logarithm of firm age)	2.922*** (1.113)	2.126* (1.082)	2.555** (1.018)	2.417** (1.097)	3.097*** (1.141)
Ownership type (1-non-family, 0-family owned)	1.628 (1.242)	1.795 (1.239)	1.176 (1.098)	1.507 (1.209)	1.740 (1.212)
Sector (reference variable: Manufacturing)					
Service	3.581*** (1.088)	3.843*** (1.095)	3.326*** (1.014)	3.713*** (1.060)	3.436*** (1.068)
Construction	11.70*** (1.754)	11.63*** (1.651)	10.60*** (1.521)	11.52*** (1.651)	10.96*** (1.702)
Real Estate	11.89*** (2.405)	10.88*** (2.493)	11.00*** (2.317)	11.11*** (2.390)	11.26*** (2.390)
Entrepreneurial Orientation dimensions					
Proactiveness		1.200*** (0.324)			
Risk Taking			2.733*** (0.434)		
Innovativeness				2.643*** (0.653)	
Networking					1.003*** (0.266)
Constant	10.50*** (2.683)	0.787 (3.762)	-8.897** (3.943)	-0.402 (3.514)	-3.616 (4.525)
Observations	438	438	438	438	438
R-squared	0.231	0.259	0.346	0.281	0.274

Source: Authors'

In the OLS regression reported in Table 3, we used to test the influence of three EO dimensions (proactiveness, risk-taking, and innovativeness) and networking on firm growth. Model 1 is the base model that includes only entrepreneur and firm-related variables (e.g., gender, education, firm age, firm size, sector, and ownership type). Models 2-4 introduce EO dimensions produced by PCA factors, while Model 5 introduces variable networking. Table 3 reports the findings from the five estimations consistent across the equations.

Findings from Model 1 report the relationship between entrepreneur and firm-level variables and firm growth. On average, businesses owned or males-owned businesses report higher growth compared to their women counterparts (1.9, $p<0.10$). Small firms compared to microfirms as reference variables experience less growth (-3.411., $p<0.01$). Older firms experience higher growth rates (2.922, $p<0.01$). Variables representing sectors such as services (3.581, $p<0.01$), construction (11.70, $p<0.01$), and real estate (11.89, $p<0.01$), on average, show higher growth rates compared to manufacturing as the reference category. Other control variables, such as education, firm size, and ownership type, are not statistically significant.

Concerning the impact of EO dimensions on firm growth, findings show highly statistically significant and positive results for all three dimensions: proactiveness (1.2, $p<0.01$), risk-taking (2.7, $p<0.01$), and innovativeness (2.6, $p<0.01$) (Models 2-4). In addition, findings suggest a positive and statistically significant relationship between networking and firm growth (1.0, $p<0.01$). All control variables remain consistent in terms of statistical significance after introducing EO dimensions. Only in Model 5, when introducing the networking variable, the variable denoting university-level education becomes negative and statistically significant compared to the non-university education of managers. This may suggest that the level of education of owners and managers is not important, even to the detriment of growth when controlled for networking. This is in line with other studies in similar institutional contexts suggesting that networking is very critical to overcome institutional failings (Peng, 2003).

7. DISCUSSION

The purpose of this study was to examine the impact of entrepreneurial orientation (innovativeness, risk-taking, and proactiveness), and networks on firm growth in the case of Kosovo. To test our hypothesis, this study employed a sample of 438 firms from four sectors (e.g., manufacturing, service, real estate, and construction).

Our study makes several contributions to the literature. First contribution is this study contributes to the literature on EO in weak institutional contexts, (Anwar *et al*., 2022; Luu & Ngo, 2019; Basco *et al.,* 2020; Urban, 2019) which contexts remain unexplored in the context of EO and firm growth. Second contribution, our study contributes to the discussion on previous studies on EO and

firm growth (Hughes & Morgan, 2007; Stenholm et al., 2016; Casillas & Moreno, 2010; Stanley et al., 2019) and extents previous studies that mainly focuses on EO and firm performance (Luu & Ngo, 2019; Soininen et al., 2012; Hughes & Morgan, 2007). Third contribution of this study in the literature is our study integrated social networks with EO dimensions to examine their impact on firm growth. Last, our study examined the impact of EO and social networks on ownership type in the context of firm growth and shows that the level of education is not statistically significant.

Our study contributes to the literature on EO and firm growth in the context of transition economies. Mainly EO has been explored in developing institutional contexts, and limited studies have explored in transition economies contexts (Luu & Ngo, 2019; Anwar et al., 2022), where it is argued that the characteristic of context reflects on EO (Basco et al., 2020). Taking into consideration the differences in the level of entrepreneurship across countries and the differences in cultural and institutional settings (Chowdhury & Audretsch, 2021), exploring entrepreneurial orientation in transition economies remains an important topic to be examined empirically.

Findings suggest that innovativeness, risk-taking, and proactiveness were statistically significant in their impact on firm growth. These findings are not in line with (Casillas & Moreno, 2010; Moreno & Casillas, 2008), who found that not all dimensions influence firm growth. Furthermore, taking into consideration the importance of ownership type, we examined whether there is any difference between family and non-family firms in the context of EO dimensions. We contribute to the scholarly discussion regarding the impact of EO dimensions based on ownership type (e.g., family and non-family firms) (Stenholm et al., 2016; Mostafiz et al., 2022; Casillas & Moreno, 2010). Our findings show that there is no difference in terms of ownership type and EO dimensions, which findings are in line with (Jiménez-Jiménez et al., 2020) The possible explanation may be related to the context, where not all dimensions have the same importance across countries; hence, the character of the context may be important when testing the relevance of each dimension (Basco et al., 2020). In this vein, firms operating in uncertain business environments where the markets have growth potential regarding products and services may benefit from entrepreneurial behavior compared to business environments characterized by certainty (Shirokova et al., 2016).

We examined the impact of social networks on firm growth, findings suggest that networking, as expected, had a positive impact on firm growth. These findings are in line with previous studies on the positive impact of networking on firms (Mu et al., 2017; Abu-Rumman et al., 2021; Martins, 2016; Acosta et al., 2018; Vu et al., 2023) and the importance of networking in strengthening the relationship between EO and firm performance (Kreiser, 2011; Donbesuur et al., 2020). These findings are not surprising regarding the nature of the institutional and business environment, in transition economies, are characterized by institutional voids. The ability of firms through social networks to fill institutional voids or substitute formal institutions (Batjargal et al., 2013; Peng & Heath, 1996), explore new opportunities and reduce the risk of uncertainty in the business

environment to become more competitive. Interestingly, when introducing the networking variable with the control variables, only the level of education of owners and managers is statistically significant. Findings show that the higher level of education is not translated into a larger pool of networks, but the contrary. This finding needs to be explored further in other contexts and explain the circumstances in which circumstances and firm characteristics, as well as the level of education of the manager or owner, are important. In addition, regarding other control variables (e.g., gender, education, firm age, firm size, sector, and ownership type), we found that the relationship was not statistically significant.

Our study also used control variables such as gender of owner and manager, firm size, age, and sector, including education and ownership, in relation to firm growth. We found that businesses either managed or owned by male have higher growth compared to women. In terms of firm size, we found small firms have lower growth rates compared to micro and medium firms. Findings also show that the older the firms are, the higher the growth rates they experience. A possible explanation may be that these firms already have built internal capabilities for taking risks and being proactive in the external environment, as well as higher capabilities for innovation. Furthermore, compared to the manufacturing sector, on average, service, construction, and real estate have higher growth. In addition, other control variables such as education, firm size, and ownership type are not statistically significant in relation to firm growth.

8. MANAGERIAL AND POLICY IMPLICATIONS

Based on the findings of this study and the context in which the firms operate, this study provides some managerial implications. Considering the institutional and business environment in which firms operate, proactiveness is of crucial importance for firms to maximize opportunities in the market. Therefore, firm managers need to invest in their ability to be more proactive, carefully aiming to achieve higher growth for the firm. This can be carried out through networking, as firms would easily navigate the changes in the market and act accordingly by exploring new opportunities and achieving competitive advantage (Luu & Ngo, 2019). Likewise, with the coordination of networks, firms need to be cautious when making risk-taking decisions, and expanding networks, getting more information, and leveraging the experience and knowledge of networks are of crucial importance for firm's competitive advantage (Acosta *et al*., 2018). This is also important for micro and small firms, as they face the market liability of newness and smallness, and building proper networks would help these firms exploit new opportunities and become more competitive through developing proactiveness and innovativeness and increasing their ability to take risks (Donbesuur *et al*., 2020). Firms need to develop organizational culture so they can develop their ability to become more innovative and proactive (Khedhaouria *et al*., 2020). This can be carried out by developing an organizational capability to share vision, being open-minded, and learning commitment (Wang, 2008).

An uncertain institutional environment can be challenging for businesses as they may lack the necessary knowledge to make informed decisions (Chowdhury & Audretsch, 2021). Therefore, businesses need to develop their learning capabilities to increase their innovativeness, risk-taking, and proactiveness. This can be achieved through social networks, which also help mitigate the negative impacts of the institutional environment (Abu-Rumman et al., 2021). During a crisis, businesses besides being only reactive and risk-averse but also strive to be innovative and capitalize on opportunities to develop their business models (Puumalainen et al., 2023). They need to leverage their personal and business networks to access knowledge, information, resources, and support. Expanding networks is crucial, as it enables businesses to access new markets, new technologies, and a broader customer base (Vu et al., 2023). In addition, entrepreneurs should position themselves within networking structures that allow them to acquire the information and knowledge necessary to make favorable decisions. This will help them respond to an uncertain institutional environment, become more innovative, and be proactive in the market.

Our study provides several policy implications for firms operating in institutional contexts similar to Kosovo. The first policy implication involves encouraging innovation at the firm level through institutional support. The propensity to innovate and become proactive in response to market dynamism is related to the extent of institutional support for innovation at the national level. Institutions need to encourage firms to innovate through innovation funds, fiscal policies, and the strengthening of intellectual property rights. Government financial support for SMEs should focus on encouraging businesses to enhance their capabilities and change their current business models (Puumalainen et al., 2023). Therefore, governments in transition economies need to strengthen mechanisms to reduce informality and lower uncertainty. Additionally, the government can assist businesses in accessing information and networks by supporting their participation in international fairs and helping them identify and exploit business opportunities.

9. LIMITATIONS AND FUTURE SUGGESTIONS

This study has some limitations and provides some future research suggestions. The first limitation of this study is that it is cross-sectional. We recommend that future research focus on longitudinal and case studies as they may provide a more in-depth perspective on the process of how firms become more proactive, how they take risks, and how these reflect on their innovativeness and, as a result, firm growth. The second limitation is that we did not explore any mediating variables on the impact of EO dimensions and networking on firm growth; therefore, we recommend including variables such as the characteristics of the environment and organizational structure of the firm for future studies (Kreiser & Davis, 2010). Our study found that there was no statistical significance between ownership type, EO, and networking. We recommend that future studies examine aspects of family firms in the context of family firms, such as the nature of the

environment and the involvement of family firms (Casillas *et al*., 2010). In addition, taking into consideration the nature of the institutional environment where firms operate in transition economies, we recommend analyzing EO proactiveness, innovativeness, and risk-taking at the macro level. This is important because institutions in these countries determine the quality of entrepreneurship; hence, it does not depend on individual characteristics and their entrepreneurial orientation but on other institutional factors such as values, attitudes, behaviors, and resources (Chowdhury & Audretsch, 2021). In addition, we recommend more empirical studies in the context of transition economies and similar contexts, as we argue that the generalizability of findings from this study is minimal considering the distinct uniqueness that countries have.

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Appendix A1

Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Firm growth	1.000										
(2) Gender	0.148	1.000									
(3) Level of Education	-0.093	-0.234	1.000								
(4) Firm Size	-0.036	0.179	0.024	1.000							
(5) logfirmage	0.213	0.113	-0.117	0.354	1.000						
(6) Ownership type	0.041	-0.086	0.171	-0.108	-0.241	1.000					
(7) Sector	0.414	0.108	-0.032	-0.049	0.222	0.040	1.000				
(8) Proactiveness	0.212	-0.125	-0.124	0.041	0.234	-0.090	0.106	1.000			
(9) Risk-taking	0.407	0.003	-0.014	-0.087	0.036	0.081	0.098	0.362	1.000		
(10) Innovativeness	0.283	0.058	-0.032	-0.004	0.105	0.012	0.084	0.326	0.475	1.000	
(11) Networking	0.260	0.068	-0.087	0.021	0.014	0.004	0.081	0.384	0.532	0.461	1.000

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PODUZETNIČKA ORIJENTACIJA, UMREŽAVANJE I RAST PODUZEĆA: DOKAZI IZ TRANZICIJSKOG GOSPODARSTVA

Sažetak

Poduzetnička orijentacija (EO) postala je važno istraživačko područje u literaturi o poduzetništvu za analizu sposobnosti poduzeća da do najvišeg stupnja poveća mogućnosti na tržištu. Slično tome, s obzirom na poseban kontekst poduzeća u tranzicijskim gospodarstvima, mreže su postale sastavni dio analize poduzeća u tim kontekstima. Stoga je svrha ove studije ispitati utjecaj dimenzija EO-a (inovativnost, proaktivnost i preuzimanje rizika) i mreža na rast mikro-, malih i

srednjih poduzeća. Ovo istraživanje koristi se studijom presjeka 438 vlasnika/menadžera tvrtki u četirima sektorima u slučaju Kosova. Nalazi pokazuju izrazito statistički značajne i pozitivne rezultate za sve tri dimenzije: proaktivnost, preuzimanje rizika i inovativnost te pozitivan i statistički značajan odnos između umreženosti i rasta poduzeća. Sve kontrolne varijable ostaju konzistentne u pogledu statističke značajnosti nakon uvođenja EO dimenzija. Tek uvođenjem varijable umrežavanja, varijabla koja označava sveučilišnu naobrazbu postaje negativna i statistički značajna u usporedbi s nesveučilišnom naobrazbom menadžera.

Ključne riječi: poduzetnička orijentacija, umrežavanje, rast poduzeća, MMSP.

JEL klasifikacija: L21, L25, L26, M31.