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## THE ROLE OF SLACK TO EXPLAIN NETWORK SEARCH STRATEGIES OF RESOURCE CONSTRAINT FIRMS (INTERACTIVE PAPER)

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## INTERACTIVE PAPER

### THE ROLE OF SLACK TO EXPLAIN NETWORK SEARCH STRATEGIES OF RESOURCE CONSTRAINT FIRMS

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#### Principal Topic

It is widely recognized that firms do not operate in isolation but that they are embedded in networks of relationships with other actors (e.g. Granovetter 1985). Although previous research has shown that external search strategies are important for firm performance (e.g. Laursen and Salter, 2003), we know little about the factors that influence the extent to which SMEs draw on external sources for knowledge. Drawing on the literature on firm resources and capabilities, this paper explores the mechanisms that can increase the breadth and depth of network search strategies. First, we investigate the role of resources in shaping the network search strategies of SMEs. Second, we examine the moderating effect between firm networking capabilities and financial slack on network search strategies' breadth and depth.

#### Method

To examine the proposed hypotheses, we used data on 95 SMEs located in Flanders. The dependent variables breadth and depth of network search strategies are based on Laursen and Salter (2006) and is constructed through the combination of 16 external sources of knowledge such as customers, supplier, universities etc. We operationalize financial slack as net working capital (Mishina et al, 2004). Networking capabilities builds on Walter et al (2006) and is measured as a linear sum of the components coordination activities, relational skills, partner knowledge, and internal communication. We include controls for firm age, firm size, group affiliation, external financing, R&D intensity, and a dummy variable to capture whether the company is located on an incubation center or not.

#### Results and Implications

The results of the negative binomial regression analysis show that financial slack is positively associated with the breadth and depth of network search strategies. The interaction effect between networking capabilities and financial slack is positive in both analyses. This indicates that contrary to the hypothesized substitution effect, capabilities and resources amplify each other in the context of network search strategy. This study makes important contributions for management science and practice. Our study sheds new light on how firm capabilities and slack resources influence breadth and depth of external knowledge sources. Our findings contributes to the broader literature on capabilities and slack by extending the set of outcomes that have been studied. For management practice, SMEs should note that drawing on external sources of knowledge requires slack resources. At the same time, the effect of slack resources is intensified when the SMEs also hold strong networking capabilities.

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