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How Business Networking, and Dynamic Capabilities effect on Financial Performance of Social Enterprises: The Mediating Role of Innovation and Moderating Effect of Access to Finance

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Abstract

The goal of present research is to investigate the relationships between innovation, access to finance, business networking, dynamic capabilities, and financial performance in social enterprises. This study employs resource-based view theory, social network theory and pecking order theory. We conducted a cross-sectional survey involving a standardised questionnaire to gather primary data from 384 owners and managers of social enterprises. A simple random sampling technique was used. Partial least squares structural equation modelling was utilised to analyse the data. The results show that business networking has a significant positive relationship with innovation and financial performance. Moreover, there is also a positive and statistically significant correlation with innovation and financial performance. Innovation has a direct and significant positive relationship with financial performance. Access to finance contains a significant moderating role in the link between dynamic capabilities and innovation, but not moderating effect between business networking and innovation. Moreover, innovation has a positive mediating impact on the link between dynamic capabilities and financial performance, and also positive as well as significant effect on the link between business networking and financial performance. Therefore, this study suggests that social enterprises in Pakistan should prioritise business networking and dynamic capabilities in implementing innovative financial solutions to address financial challenges. These contributions are crucial for the overall welfare of the various stakeholders involved in social enterprises. This study is expected to assist regulators and policymakers in comprehending the challenges faced by SEs while establishing successful initiatives and interventions.

Jel Code: D25, L14, L25, P33, O36, L31

1. Introduction

In the last couple of decades, there has been a great emphasis on the global imperative of social enterprises (SEs) in focussing social and financial problems (Hendar et al., 2020; Sulphey & Salim, 2021). SEs may link personal profit and social benefit, and more often, it is a mixture of both personal benefit as well as social benefit (Yunus, 2020). SEs have vital role in the world's economic growth. According to World Bank study, some SEs may have an important impact in boosting poor households' income to grow faster than the income of average household (World Bank, 2015). Global economies face a multitude of challenges, including financial instability, health issues, food scarcity, elevated unemployment rates, poverty, child exploitation, human trafficking, and social disparities within societies. In this regard, SEs have a notable role in promoting financial growth and its development by creating the employment opportunities and offering solutions to complex social as well as environmental issues (Smith & Darko, 2014).

SEs are becoming increasingly popular worldwide among researchers, practitioners, and policymakers. Various sectors of the economy, including trade, cooperative associations, welfare states, and financing for farmers, are establishing SEs (Andrew et al., 2010; Dawson & Daniel, 2010). Chell et al. (2010) highlighted, SEs aim to address social issues by employing commercial strategies. SEs must prioritise

innovation growth. Academics and political discussions at both national and global levels widely acknowledge the importance of innovation and networking (Oduro, 2023).

An organisation forms business networks to establish connections with its business partners. These connections help the organisation gain access to various opportunities, such as information, resources, marketplaces, and innovations. These relationships have an influence on the financial performance of the organisation (Falcone, Kent, & Fugate, 2020).

The significance of dynamic capabilities has consistently grown over the past 20 years (Bitencourt et al., 2020). Dynamic capabilities encompass a company's capability to efficiently incorporate, cultivate, and regulate its internal as well as external skills, and resources, in order to address the challenges presented by a constantly changing business environment (Wu et al., 2016).

Entrepreneurs in developing countries, including Pakistan, face great challenges in obtaining convenient access to financial resources for their business ventures (Wombo, Ogaga, & Tsetim, 2020). Inadequate financial resources is a significant barrier to business expansion, and research has shown that small organisations face more challenges in securing funding compared to larger ones (Fowowe, 2017). Financing is critical for enterprises because it facilitates operations expansion, fosters innovation, and enables investment in production facilities (Fowowe, 2017). Furthermore, Naala et al. (2017) have linked innovation to organisational performance, growth, profitability, competitiveness, and long-term survival.

SEs in Pakistan suffer numerous challenges, including inadequate business networking, financial constraints, poor dynamic capabilities, deficiencies in innovation, and dependence on the outdated technologies. These factors confine the growth of small organisations and result in deprived performance of these enterprises (Sherazi et al., 2013). In the developing country like Pakistan, it is highly advisable for the SEs to foster knowledge that would significantly impact on their performance and growth (Ahmed et al., 2019). Various factors i.e., innovation, dynamic capabilities, accessibility of finance, and networking of business influence the SEs performance and growth (Bhattaraia et al., 2019; Caseiro & Coelho, 2019). However, there is no concrete evidence within this framework on evaluating the influence of business innovation, dynamic capabilities, business networking and access to financing on financial performance of social enterprises in Pakistan.

Hence, the aim of present paper is to fill this gap by investigating the influence of innovation, access to finance, dynamic capabilities, as well as BN on FP of Pakistani SEs. According to scholars' best knowledge, present study is the first academic endeavour to accomplish a complete assessment of innovation, dynamic capabilities, AF, BN on FP of SEs in Pakistan. Additionally, innovation as a mediator and access to finance as a moderator on the financial performance of SEs in Pakistan have not been explored by previous research. Thus, the current study uses access to finance as a moderator and innovation as a mediator to cover this gap between dynamic capabilities, business networking, and financial performance among Pakistani SEs.

This research holds theoretical significance as it integrates three prominent theories, namely, resource-based view theory (RBV), pecking order theory (POT), as well as social networking theory (SNT). Each theory has individually been thoroughly examined and analysed in literature.

This study is organised as follows. The first part is introduction section, followed by the review of the literature in the second section. Then, the third and the fourth parts cover the methodology, results, and discussions. Lastly, the conclusion is discussed.

2.0 LITERATURE REVIEW

2.1 Business Networking, Innovation, and Performance

An entrepreneurial network refers to an organised and structured group of entrepreneurs, either formal or informal, that aims to assist its members in increasing the efficiency of their commercial endeavours (Stone 2018). Entrepreneurs gradually form business networks by collaborating and working together, combining their resources and efforts (Abbas et al., 2019). RBV supports the case for establishing competitive advantage through business networks. RBV plays an important role in harnessing the potential that SEs can access through networks (Abbas et al., 2019). Business networks offer access to specialised knowledge that is otherwise not easily accessible. As a result, the availability of up-to-date and novel information enhances SEs' ability to recognise relevant issues in the business environment and adjust their adaptability accordingly (Wu et al., 2020).

Business networking refers to significant intangible resources that small enterprises utilise to improve their performance in an extremely competitive environment (Machirori & Fatoki, 2013; Trang, 2024). Business networks are critical for facilitating the exchange of buyer and supplier suggestions and recommendations. In competitive business environments, establishing connections with clients and customers is crucial for securing additional business opportunities (Sallah & Caesar, 2022). Business networking can have a great effect on an organisation's performance. Business networking involves in the establishing and maintenance of relationships between different enterprises. Interorganisational networks have the capacity to offer resources that can lead to a range of advantages, including better supply chains, innovations, and improved performance (Wichmann & Kaufmann, 2016). Business network relationships encompass various networking activities involving diverse actors, including other stakeholders in business associations or individuals. By enhancing these connections with other associations, individuals can enhance the performance of SEs (Kurt et al., 2020).

Experts have extensively evaluated the impact of various levels of innovation on SEs (Tladi, 2023). Innovation has the capacity to shape and influence the market, as well as change consumer behaviour. However, it is crucial to acknowledge that current features and information form the foundation of innovation (Arshi et al., 2021). Innovation necessitates engaging in initiatives that involve risk, and establishing connections with various stakeholders frequently aids in the introduction of novel products,

processes, or technology, as well as in overcoming the issue of limited resources (Gunawan, Jacob, & Duysters, 2016).

Bucktowar, Kocak, and Padachi (2015) find that SEs establish connections with clients, suppliers, competitors, research institutions, universities, and other organisations. This collaboration is essential for the innovation process. High-innovation organisations often engage in networking activities (Arshi et al., 2021) to address resource limitations, accelerate innovation processes, obtain access to complementary assets and resources, and share costs. However, risk sharing is not typically a primary motivation for such networking. Ferreira, Fernandes, and Ferreira (2019) discover that engaging in research and development networking fosters creativity and enhances the performance of organisations. Hence, networking provides companies with a distinct edge over their competitors and enhances their profitability (Liu, 2021).

Palacios-Marques, Merigo, and Soto-Acosta (2015) conducted a comprehensive evaluation of the impact of online business networking on innovation. Their study was done in Spain and used 197 hospitals. They collected data via a survey questionnaire and estimated a structural model for analysis the data. The findings and results show that a strong positive association between online business networks, innovation, and performance. Incorporating the recommendation of earlier scholars to reassess network resources as well as innovative activities, investigates their relations with the performance (Jiang et al., 2018; Mikalef et al., 2019).

According to the preceding argument, present article formulates the following hypotheses:

H1: Business networking has a positive and significant effect on innovation.

H3: Business networking has a positive and significant effect on financial performance.

H6: Business innovation mediates the relation between business networking and financial performance.

2.2 Dynamic Capabilities, Business Innovation, and Performance

Dynamic capability relates to the business's ability to efficiently adapt, enhance, and rearrange its internal as well as external capabilities in order to respond swiftly changing business environment. It refers to the ways in which companies utilise networks to acquire and enhance their competencies (Priyono et al., 2024). The study supports a positive association between dynamic capabilities and networks. By engaging in networking activities, organisations can enhance their abilities to anticipate and address environmental vulnerabilities, a key characteristic of dynamic capabilities (Abu-Rumman et al., 2021). The RBT theory argues that institutions must be able to actively and flexibly identify and respond to the opportunities and pressures in a constantly changing atmosphere. They should also be able to adapt their strategies and methods to create value in order to get a competitive advantage. Thus, the dynamic capabilities align with RBT (Banerjee, Farooq, & Upadhyaya, 2018; Mikalef et al., 2020).

These networks primarily facilitate the potential acquisition of tacit knowledge. Moreover, the proactive nature and willingness to take risks shown by SE contributes to growth of the dynamic capabilities, ultimately ensuing in enhanced performance. The study thus included dynamic capabilities as a unidimensional variable (Baía & Ferreira, 2024).

Prior research suggests that the presence of well-established capabilities determines strategic orientation. However, current studies also argue that dynamic capabilities establish a connection between the company and its environment, facilitating the emergence of socially created capabilities. Hence, dynamic capabilities has a crucial part in the acquisition of external awareness and converting this knowledge and awareness into internal abilities, which are vital for the innovation in new goods and services (al-Abbadi et al., 2019). This argues that dynamic capabilities can be advantageous in generating substantial profits, provided they facilitate the advancement of innovation.

The literature review suggests that dynamic capabilities have a crucial role in the performance of SEs. Companies that are able to build dynamic capabilities improve their performance by leveraging their entrepreneurial character and innovation. The goal of the present paper is to explore the idea that SEs that establish robust dynamic capabilities through their innovative activities increase a competitive advantage and attain better performance. The connection between performance and dynamic capabilities, however, is less evident. While various studies attain a positive correlation (Mousavi et al., 2018), while others specify a negative or an uncertain relationship (Protogerou et al., 2011; Akhtar et al., 2020).

Using RBV theory, which highlights the worth of valuable, the rare, the inimitable, as well as non-substitutable (VRIN) resources to attain the competitive advantage (Peteraf & Barney, 2003). The current study proposes that the dynamic capabilities, as a particular class of ability, which can improve organisational performance. From the prior discussion, this paper formulates the following hypotheses:

H2: Dynamic capabilities have a positive and significant effect on innovation

H4: Dynamic capabilities have a positive and significant effect on financial performance.

H7: There is a mediation relationship of innovation between dynamic capabilities and financial performance.

2.3 Innovation and Performance

Innovativeness refers to an organisation’s ability to creatively produce new products. Proactiveness, on the other hand, involves planning and preparing to handle expectations in advance (Luu & Ngo, 2019). Performance measurement for SEs has become a subject of extensive research, but there is no agreement on the appropriate method due to the inherent informality of SEs (Shah & Ahmad, 2019). Owners typically evaluate performance based on their perceptions of improvements in sales, profitability, asset growth, and client base expansion. The researchers commonly employ questionnaires to gauge the perception of the performance of SEs. SEs’ performance in influenced by various factors, such as

financial accessibility, dynamic capabilities, business networking, and product innovation (Helfat & Martin, 2015; Almomani et al., 2019). Most research affirms that innovativeness has an important role in improving performance (Jiang et al., 2018). Nevertheless, research on innovativeness has revealed inconsistent findings.

Lee, Dedahanov, and Rhee (2015) organised a study to observe the outcome of innovation on the financial performance. The data were gathered from South Korea from 352 companies, and the hierarchical regression model was utilised for the data analysis. The findings demonstrate a positive relation between innovation and financial performance.

Several studies have confirmed that innovation has positively and significantly effect on the performance of businesses. Roberts (1999) discovers that over time, participating in innovation activities has a positive effect on businesses performance. Similarly, Cho and Pucik (2005) find a positive correlation between enterprise innovation and financial performance. Moreover, another study by Hua and Wemmerlöv (2006) finds a positive correlation between business innovation and performance. The study suggests that enterprises can achieve high profits by consistently developing a series of new products. Additionally, research has confirmed that organisations with greater levels of innovation have better potential to attain superior business performance (Price, 2005).

Drawing from the prior arguments, current paper formulates the following hypothesis:

H5: Innovation has a positive as well as significant effect on the financial performance.

2.4 Access to Finance and Financial Performance

In the immense amount of literature on the connection between access to finance and financial performance, the main idea is that finance stimulates growth by directing credit to the most qualified corporations. There is substantial macroeconomic evidence demonstrating that financial development improves the overall economic growth (Aghion, Howitt, & Levine, 2018). Additionally, a growing body of microeconomic research has established that finance has a beneficial impact on company performance (Popov, 2018).

Aliyu et al. (2019) find that entrepreneurs in poor nations face significant challenges in obtaining convenient financial resources for their entrepreneurial endeavours. The root of this problem lies in the incapacity to save, which stems from the poverty, from low household income, and from unemployment (Nkhumeleni et al., 2022). Lee et al. (2015) published a study on the effect of financial access and financial crises on innovative small and medium enterprises (SMEs) in the United Kingdom. The study utilised a sample of more than 10,000 SME employers, collected data using questionnaires, and performed data analysis utilising regression analysis. It revealed that the limited availability of financial resources has restricted the success of innovative companies. In addition, Aliyu et al. (2019) emphasise the importance of promoting access to finance and enhancing economic diversification and growth.

In Pakistan, Hussain et al. (2024) accomplished a study to investigate the moderating impact of access to finance between financial performance and business networking in the SEs. They conducted a cross sectional survey through a standardised questionnaire from 384 social company owners or directors. A simple random selection approach was used to choose social companies from Pakistan. PLS was applied. The research discovered that having access to finance strengthens and improves SEs' ability to turn dynamic capabilities and network links into innovative activities.

Furthermore, past research has demonstrated that access to financial resources improves business innovation and dynamic capabilities by enabling companies to conduct timely communication of business networking information to connected groups, like bankers and lenders, thus convincing the funders. SEs with strong financial access have a positive influence on developing networking connections and dynamic capabilities (Mashizha & Sibanda, 2017).

According to the prior arguments, this research formulates the following hypotheses:

H8: Access to finance has a positive and significant influence on innovation.

H9: Access to finance has a moderating influence on the link between business networking and innovation.

H10: Access to finance has a moderating influence on the link between dynamic capabilities and innovation.

2.5 Supporting Theories

This study utilises RBT, POT, and SNT to strengthen and validate the framework. These theories encapsulate the study's focus, taking into account the associations among the variables. The current study aims to examine how companies may effectively generate attainable performance. The ultimate goal is to determine how these factors (business networking, dynamic capabilities, access to finance and business innovation) contribute to business performance.

Asymmetrical knowledge about financial markets and the costs associated with external financing transactions led to the establishment of POT (Vasiliou & Daskalakis, 2009). According to the concept, unlike external investors, managers typically have exclusive control over a considerable amount of information about their businesses' circumstances and future prospects. The research focuses primarily on how businesses produce and achieve their performance. POT posits a hierarchical arrangement for selecting the most suitable source of financing. It proposes that entrepreneurs who lack funds will attempt to secure financing by utilising resources such as friends, relatives, retained profits, debt, and agencies in order to enhance their business performance and safeguard their assets.

SNT refers to individuals who have a tendency to think and behave similarly due to their interconnectedness or affiliation within a network. SNT posits that entrepreneurs who lack resources will actively attempt to acquire such resources by leveraging their networks and connections. The contacts

include suppliers, financial institutions, government institutions, competitors, family, and friends (Manolova, Manev, & Gyoshev, 2014; Mzid, Khachlouf, & Soparnot, 2019). The implementation of RBT asserts that businesses can optimise profits by acquiring the capability to innovate with technology and leveraging the strength of their enterprise to effectively implement new ideas and produce new products. This ultimately results in superior performance for the businesses. According to RBT, innovations are valuable resources for businesses. These resources have the potential to contribute to the long-term success and exceptional performance of a business. This is because either experience or technology can yield creative ideas, which, in turn, contribute distinctive and unique features to businesses. Using technology to acquire creative ideas will enable entrepreneurs to surpass their competitors by either inventing new products or innovating existing ones in order to meet customer needs.

3.0 METHODOLOGY

We performed a cross sectional survey to gather the data, ensuring the research successfully accomplished its objectives. The survey was solely conducted online, covering the entire Pakistan with SEs established in Pakistan as the primary unit of analysis.

The study focused on Pakistani organisations that received official recognition as social businesses. In Pakistan, most self-employed individuals begin their careers in the unofficial sector. Pakistan has almost 3.2 million officially registered enterprises, with nearly 90 percent of them falling under the group of small businesses (Small and Medium Enterprises Development Authority [SMEDA], 2018). Nonetheless, the Pakistani government has not disclosed the number of SEs in any publicly available records. The only source that provides the exact number of registered SEs of 448,203 organisations is the British Council's 2016 report.

This study used Krejcie and Morgan's (1970) table to calculate the sample size based on the provided data. A sample size of 384 was decided upon. We gathered data for the State of Social Enterprise in Pakistan programme from various sources, together with the National Rural Support Programme (NRSP), secondly from Pakistan Poverty Alleviation Fund (PPAF), thirdly from Securities and Exchange Commission of Pakistan (SECP), fourthly SMEDA, and lastly British Council in Pakistan. We also collected data from (WhatsApp groups) the owners and directors of the SEs. In addition, simple random sampling technique was utilised. This technique confirms that every individual within the population has an equal probability of being elected from a sample that is randomly represented from said population.

We used the obtained random numbers from British Council, SMEDA and SECP as the basis for selecting different mechanisms. The sample size was expanded to include 700 enterprises (Salkind, 2012) to enhance contribution and minimise the impact of non-response error.

3.1 Data Collection Technique

We asked a specific part of the population to complete an online survey with pre-selected questions for data collection. We sourced the email addresses from State Bank and WhatsApp groups. The

participants included SE directors and managers. We emailed each of the 700 respondents to invite them to take part in the survey. The survey was conducted from July to Oct 2025. After a week, we sent a friendly email reminder, urging them to complete and submit the questionnaire. In all, 384 participants participated in the survey and offered their opinions in an impartial manner. As a result, the sample for this paper consisted of 384 SE directors and managers.

3.2 Measurement of Variables

This study considers business networking and dynamic capabilities as independent variables, access to finance as moderator, and innovation as mediator to assess the SEs financial performance in Pakistan. We adapted the scale for financial performance from Hussain et al. (2024), who developed financial performance indicators. We calculated financial performance, including firstly, return on investment (ROI), secondly, market share growth, thirdly, sales growth, and lastly the profit growth, by asking participants to select from undermentioned seven options, namely, 0%, 1% to 10%, 11% to 20%, 21% to 30%, 31% to 40%, 41% to 50%, or more than 50% (Hussain et al., 2024).

Business networking is to introduce others to the company and, perhaps, revolve them into their clients. The study adapted the items for business networking from Hussain et al. (2024) and utilised a 7-point Likert scale. Business networking was assessed using a variety of methods, including networking with suppliers, with customers, with competitors, with society, as well as networking with complementary businesses (Hussain et al., 2024).

For the availability of financial resources, the study adapted the items from Dzomonda (2022) and used a 7-point Likert scale and for innovation, we adapted the items from Liu, Zhao, and Zhao (2018) and also used a 7-point Likert scale. For dynamic capabilities, present study adapted the items from Forés et al. (2023) and scale was exercised a 7-point Likert scale.

This study applied both descriptive and inferential statistical methods to accomplish its objectives. In descriptive statistics, the focus of the analysis is on demographic features of the participants and the organisation. Inferential statistics, which involve testing hypotheses using the data collected from the target SEs, can explain direct or indirect influence of the variables. The first section of analysis emphases on the respondents' demographic profile, including age, gender, and educational attainment, as well as their managerial position within the organisation's hierarchy and nature of the industry. SPSS26 was applied to conduct the descriptive analysis. In the second part of the study, we applied PLS-SEM 4.1.0.0.

4. Analysis of the Data

4.1 Demographic Summary

In Table 1 provides a summary of the respondents in demographically. About 62.50% are males, and 37.50% of the respondents are females. Agewise profile of the respondents, 5.21% of the defendants are

between 21 and 29 years old, 32.55% are 30 to 39 years old, 41.67% are 40 to 49 years old, 13.80% are 50 to 59 years old, and 6.77% are over 60 years old. Consequently, 41.67% of the respondents are between the ages of 40 and 49.

Table 1

Demographic Detail		
Demographic	Frequency	(%)
Male	240	62.50
Female	144	37.50
Age Wise group		
From 21–29	20	5.21
From 30–39	125	32.55
From 40–49	160	41.67
From 50–59	53	13.80
60 years and above	26	6.77

4.2 Measurement Model

We scrutinized the validity as well as reliability of the measurement model, it is also known as outer model of the research, which serves as the study's foundation. Figure 2 illustrates the outer loadings of the factors in the comprehensive measurement model utilised in this study. Every factor has a value exceeding the minimal threshold value of .60. Hence, the outer loadings of the factors are acceptable for the model to fit in the current study. As a result, we can apply the model to both validity and reliability tests, which are the next step in the analytical procedure.

4.2.1 Reliability, Validity, and Internal Consistency

The model's composite reliability (CR) is utilised to ascertain the reliability of its internal consistency. Table 2 shows that all CR values exceed .60, signifying the fulfilment of both requirements and criteria (Sarstedt et al., 2019). Likewise, Hair et al. (2017) stated convergent validity as the level through which latent construct may describe the variance in its indicator. Furthermore, Table 2 displays those three factors with average variance extracted (AVE) values larger than 0.50 account for 50% of the total variance, thus surpassing the cut-off values endowed by Hair et al. (2017).

Table 2

Factor Loading, Convergent Validity, and Internal Consistency Reliability

Constructs	Items of the Variables	Loadings	Cronbach's Alpha Value	Composite Reliability	(AVE)
Business Networking	BN 1	0.769	0.908	0.910	0.542
	BN 2	0.701			
	BN 3	0.744			
	BN 4	0.685			
	BN 5	0.787			
	BN 6	0.758			
	BN 7	0.744			
	BN 8	0.706			
	BN 9	0.751			
	BN 10	0.710			
Financial Performance	FP- 1	0.758	0.813	0.813	0.641
	FP- 2	0.811			
	FP- 3	0.797			
	FP- 4	0.835			
Dynamic Capabilities					
	DC- 1	0.744	0.928	0.934	0.551
	DC- 2	0.712			
	DC- 3	0.740			
	DC -4	0.746			
	DC- 5	0.755			
	DC- 6	0.733			
	DC- 7	0.766			
	DC- 8	0.763			
	DC-9	0.755			
	DC- 10	0.694			
	DC- 11	0.781			

Constructs	Items of the Variables	Loadings	Cronbach's Alpha Value	Composite Reliability	(AVE)
	DC- 12	0.710			
Access to Finance	AF- 1	0.802	0.908	0.910	0.609
	AF- 2	0.811			
	AF- 3	0.747			
	AF- 4	0.817			
	AF- 5	0.800			
	AF- 6	0.775			
	AF- 7	0.752			
	AF- 8	0.734			
Innovation	IN- 1	0.747	0.874	0.875	0.615
	IN- 2	0.834			
	IN- 3	0.750			
	IN- 4	0.799			
	IN- 5	0.804			
	IN- 6	0.765			

4.2.2 Discriminant Validity

It is explained by the square root of the AVE (Fornell & Larcker, 1981). If the square root of the AVE exceeds the value of the latent variables, it will specify the discriminating value (Fornell & Larcker, 1981). In Table 3, each diagonal value is larger than the values of other latent variables. This aligns with the second requirement, which confirms the validity of the construct (Kline, 2015). This study's result suggests that the measurement model used in the study is error-free. Stated differently, this study has completed the criteria for the discriminant validity.

Table 3
Discriminant Validity Matrix: HTMT

AF	AF	BN	DC	FP	INN
BN	**0.986**				
DC	0.705	**0.825**			
FP	0.610	0.726	**0.655**		
INN	0.710	0.880	0.851	**0.735**	

Table 4
Discriminant Validity: Fornell- Larker Criterion

AF	AF	BN	DC	FP	INN
	0.780				
BN	0.886	**0.736**			
DC	0.669	0.801	**0.742**		
FP	0.528	0.635	0.605	**0.801**	
INN	0.635	0.801	0.805	0.622	**0.784**

4.3 Structural Model

We analysed both the measurements and the structural models. The structural model can help to analyse the path coefficient and *t*-value of the relationships to shed light into how the direct and indirect links interact with one another (Sarstedt et al., 2019). These values are used to aid in making decisions on the research hypotheses. Figure 3 depicts the structural model for the investigation. This research employed PLS-SEM by using algorithm as well as the bootstrapping technique to calculate the structural model. Examining the associations between the latent constructs is part of estimating the structural model. Figure 3 illustrates the relationships (sometimes referred to as “paths”) between the exogenous and endogenous constructs. We tested every direct relationship, also known as a direct hypothesis, throughout the structural model’s assessment.

5.0 Testing the Hypotheses and Discussion

Table 5 demonstrates that the present research validates all the hypotheses. The current study investigated how business networking, dynamic capabilities, innovation, and AF affect on the FP of Pakistani SEs. One moderator, one mediator, and two independent variables were selected to estimate their impacts on the dependent variable. As a result, ten hypotheses were developed, taking into account

the present study's goal and the underlying issues. Then, we conducted statistical analyses using SPSS v. 26 and PLS-SEM 4.1.0.0 to explore the constructs. The results support eight hypotheses and reject two hypotheses regarding the impacts of the independent variables, moderator, and mediator on the FP of Pakistani SEs.

The first hypothesis is accepted because the direct relation between business networking and innovation is positive as well as significant (β = 0.656; *t*-value = 7.937; *p*-value = 0.000,, i.e., *p*-value < .05). This means that networking activities in Pakistan made a good impact on SEs to be creative and innovative. Networking activities in Pakistan create the abilities in SEs to be creative and innovative. SE can effectively compete with other SEs by leveraging business networking. Prior findings of the studies have discovered a positive and significant correlation between business networking and innovation in SEs (Wang & Chung, 2020; Anwar & Ali Shah, 2020).

The second hypotheses is also accepted because the results for the second hypothesis shows a positive as well as significant correlation between DC and innovation (β = 0.421; *t*-value = 7.728; *p*-value = 0.000, i.e., *p*-value < .05). Thus, the second hypothesis is accepted, which means DC have a positive as well as significant impact on innovation. The findings indicate that accessibility of customer requirements drives innovation (Lin, & Chen, 2025). The findings and results are in link with prior research (Strønen et al., 2017; Vu, 2020).

Th third hypothesis shows direct correlation between business networking and FP (β = 0.314; *t*-value = 3.347; *p*-value = 0.001, i.e., *p*-value < .05). The findings of present research demonstrate that there is a statistically significant correlation between business networking and financial performance. which supports the third hypothesis (H3). Along the same vein, prior findings of the studies have proven a statistically positive as well as significant correlation between BN and FP (Wichmann & Kaufmann, 2016; Martínez-Pérez & Beauchesne, 2018).

The results of the fourth hypothesis show a positive as well as significant correlation between dynamic capabilities and FP because of beta's positive value and p value is less than 0.05 which means accepting the fourth hypothesis (β = 0.158; *t*-value = 0.077; p-value = 0.040, i.e., *p*-value < .05). which means that resource and capability development can improve the performance of organisations in Pakistan's dynamic environment. Using dynamic capabilities, there is the potential for a local social enterprise to compete with other enterprises situated around the world. Numerous studies have found an increase in dynamic capabilities would affect the financial performance (Yu et al., 2019; Eslami et al., 2021). Moreover, the findings for the fifth hypothesis demonstrate a positive and significant association between innovation and FP (β = 0.243; *t*-value = 3.589; p-value = .000, i.e., *p*-value < .05). Henceforth, the fifth hypothesis is accepted, which means innovation plays a positive role to improve the performance of SEs.

Furthermore, the sixth and seventh hypotheses are indirect relationship of AF. How AF moderates the relation between BN, DC and innovation. The sixth hypothesis demonstrate a positive and significant impact (β value = 0.160; *t*-value = 3.060; *p*-value = .002, i.e., *p*-value < .05). The finding leads to the

accepting the sixth hypothesis moderates the link between BN and innovation, which supports prior studies (Hussain et al., 2024). Subsequently, in order for a firm to have a greater opportunity of competing against its competitors in unsound marketplaces in emerging countries, the company must be able to have quick access to financial resources. For the seventh hypothesis, the result shows that AF plays a positive moderating effect on the link between DC and innovation (β = 0.102; *t*-value = 3.375; *p*-value = .001, i.e., *p*-value < .05). The hypothesis is thus validated. It suggests that access to finance in Pakistan can improve the capabilities of innovation in SEs Prior studies (e.g., Boohene, 2018; Ali et al., 2021) have discussed this topic extensively

The eighth hypothesis shows a direct link between AF and innovation. The results explained a negative but significant with each other (β = -0.341; t = 4.045; *p*-value = .000, i.e., *p*-value < 0.05). This hypothesis is rejected because of the negative value of the beta. The nineth hypothesis shows the indirect influence of innovation on the link between BN and FP. Results explain negative but significant (β = 0.831; t = 6.769; *p*-value = .000, i.e., *p*-value < 0.05). Hence, the hypothesis is rejected due to the negative value of the beta. Partnerships with suppliers, with customers, and other external stakeholders lead to innovation, and these connections should be fostered since they facilitate access to a variety of knowledge pertaining to innovation and eventually affect performance. According to this study's results, innovation does not mediate the relation between BN and FP among SEs in Pakistan. Thus, government officials and the authorities should focus on improving business networking activities and creating new products in SEs to contribute to SE improvements as discussed in earlier studies that novelty of the products cannot play a productive and effective role between networking activities and the performance of SEs (e.g., Khattak & Hassan, 2019; Li et al., 2019; Singh et al., 2022).

On the other hand, for the last hypothesis, the result shows that innovation has a positive mediating influence on the link between DC and financial performance (β = 0.116; *t*-value = 3.067; *p*-value = .002; i.e., *p*-value < 0.05). Henceforth, this hypothesis is accepted. The finding shows that innovation positively mediates the relation between DC and FP, indicating that dynamic capabilities improve financial performance by enabling SEs to produce new and innovative products and services.

Table 5
Results and Summary of Hypothesis Testing

H1	Relationship	Standard. Beta	Standard. Error	t Values	p Values	Decision
	BN→INN	**0.656**	**0.083**	**7.937**	**0.000**	**Accepted.**
H2	DC→INN	0.421	0.054	7.728	0.000	**Accepted.**
H3	BN→FP	0.314	0.094	3.347	0.001	**Accepted.**
H4	DC→FP	0.158	0.077	2.055	0.040	**Accepted.**
H5	INN→FP	0.243	0.068	3.589	0.000	**Accepted.**
H6	BN→INN→FP	0.160	0.052	3.060	0.002	**Accepted.**
H7	DC→INN→FP	0.102	0.030	3.375	0.001	**Accepted.**
H8	AF→INN	-0.341	0.084	4.045	0.000	**Rejected.**
H9	BN→AF→INN	-0.155	0.042	3.697	0.000	**Rejected.**
H10	DC→AF→INN	0.116	0.038	3.067	0.002	**Accepted.**

Note: INN; Innovation, BN; Business networking, AF; Access to finance, DC; Dynamic capabilities, FP; Financial Performance

5.1 Moderation Analysis

For the moderation analysis, it is crucial to consider the change in R^2 (Ramayah et al., 2018). In the present paper, the R^2 values of financial performance is 0.732 (before the interaction term) and 0.740 (after the interaction term). Thus, the variance of R^2 increases by about 0.80% upon the adding of the interaction term, as indicated by the change of 0.008. We determined the effect size (f^2) of the moderating correlation using the f^2 equation. The f^2 value of .0307 is large based on the benchmark values of 0.005(small), 0.01(medium), and 0.025(large), as per the recommendations of Aguinis, Beaty, Boik, and Pierce (2005) and also Kenny (2018) explained about the effect size (f^2) of the moderation analysis. However, this moderation has a large effect.

$$\text{Effect size } (\text{f2}) = \frac{R\square \text{ (included)} - R\square \text{ (excluded)}}{1 - \text{R2 (included)}}$$

$$\text{Effect size } (\text{f2}) = \frac{0.740 - 0.732}{1 - 0.740}$$

$$\text{Effect size } (\text{f2}) = \frac{0.740 - 0.732}{1 - 0.740}$$

$$\text{Effect size } (\text{f2}) = 0.0307$$

6.0 Conclusion

The present study's findings are of relevance for managers and academicians. The establishment of business networks is crucial for fostering entrepreneurial development, leading to improved financial performance. The research presented novel evidence regarding the contentious association between business networks and financial performance. While DC have no direct positive influence on FP of SEs, they do have a positive and considerable influence on financial performance through mediation. This study also verified that the construct of dynamic capabilities might be unidimensional, particularly for SEs that are informal and operate in poor economies. Further, the findings shows that innovation plays a vital role in involving DC with financial performance. Moreover, the existence or absence of innovation leads to conflicting outcomes. Additionally, the results validated that innovation has a significant influence on the relation between business networking and FP. SEs that produce innovative products but do not engage in business networking activities often see lower financial performance. The study shows that the performance of SEs improves when combined with entrepreneurs' business networks. Entrepreneurs acquire knowledge and skills from their network activities, enabling them to mitigate the negative impacts of a complex business environment.

The results also reveal that availability of financial resources have an important role in influencing the relation between business networking and innovation. Networking activities facilitate the creation of new goods and services. However, access to financial resources do not positively affect the relation between DC and innovation. Nonetheless, the availability of financial resources has positively and significantly impact on SEs' financial outcomes in SEs of Pakistan. The results of the present research may enhance understanding of BN, AF, and dynamic capabilities in SEs, all of these variables can impact the financial performance of SEs in Pakistan.

This study makes a significant theoretical contribution by linking three theories together, namely, RBT, POT, and SNT. Practitioners may apply the study's findings to evaluate the likelihood of individuals continuing to imitate reactive and risk-averse conduct within the tightly controlled environment of SEs. Companies in business networks strive to increase the strength of their connections, which are defined by a higher degree of contact. Hence, the SE sector should prioritise the development of extensive networks and strive for mutual benefits rather than engaging in intense competition that may result in the closure of certain SEs. Individuals must believe in the concept of shared knowledge in order to effectively recognise and collectively address new opportunities.

6.1 Theoretical Contributions

There is a dearth of information regarding the effects of DC, BN, innovation, and access to financial resources on financial performance of SEs. This research focusses this gap by suggesting an integrated model which elucidates how business networking, innovation, access to financial resources, and dynamic capabilities provide better performance of SEs. Present study makes a valuable influence to the

existing body of knowledge and also in research by drawing attention to the importance of present variables in the process of attaining a competitive advantage. Moreover, the understanding and assessment of these framework's implications in developing economies is inadequate. Considering this, the results and findings of this paper contribute to the development of this field of study by offering empirical assistance for the utilization of present framework in order to improve financial performance in the industry of SEs.

6.2 Practical Implications

This study recognises and values the importance of business networking, innovation, dynamic capabilities, and access to financial resources for SEs. This research plays a crucial role for managers, owners, regulators, and policymakers in gathering and utilising resources, as well as in implementing appropriate guidelines, rules, regulations, and laws that ensure a company can access these resources without encountering conflicts. The most important aspect in which it can be of assistance is in supporting social companies in enhancing their relations with a variety of stakeholders, mobilizing their resources, and exchanging information, which ultimately leads to an increase in their financial performance.

6.3 Research Recommendations and Research Limitations

This paper is particularly suitable for SEs operating exclusively in underdeveloped countries. The performance of SEs in developing countries is different from those in developed countries due to financial resources. Researchers from low-income countries may replicate this study to broaden its scope. This study's findings may not apply universally to all SEs in advanced economies due to their distinct cultural contexts and varying socio-economic circumstances. Hence, considering the cultural and value differences between developing countries and developed countries, this study should be applied in developing countries for further research. We noted during the literature assessment that innovation is a broad area of study. A comprehensive investigation that considers all aspects of innovation has the potential to greatly improve the existing body of knowledge.

Declarations

1- Ethical approval letters were obtained from the Research ethics Committee at university Utara Malaysia (under the supervision of the director Research), Malaysia (Ref. no.: UUM-RA 1567 dated 13 November 2025). Moreover, a group with written informed consent was obtained from all participants.

2- All participants involved in this study provided informed consent prior to their presence. Participants were fully informed about the purpose of the research, the procedures involved. Confidentiality and anonymity of the participants were strictly maintained throughout the research process. No personally identifiable information has been disclosed in this study. The data collected were used solely for academic and research purposes, where applicable, written consent was obtained from all participants, and the study adhered to the ethical standards prescribed by the relevant institutional and international research guidelines.

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Author Contribution

All of the authors confirm that they have made an equal contribution to the writing of this article, and declare that all of the authors have examined and given their approval to the final draft of the manuscript before it is submitted.

Data Availability

The data utilized in this review can be obtained upon an appropriate request from the corresponding authors.

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Figures

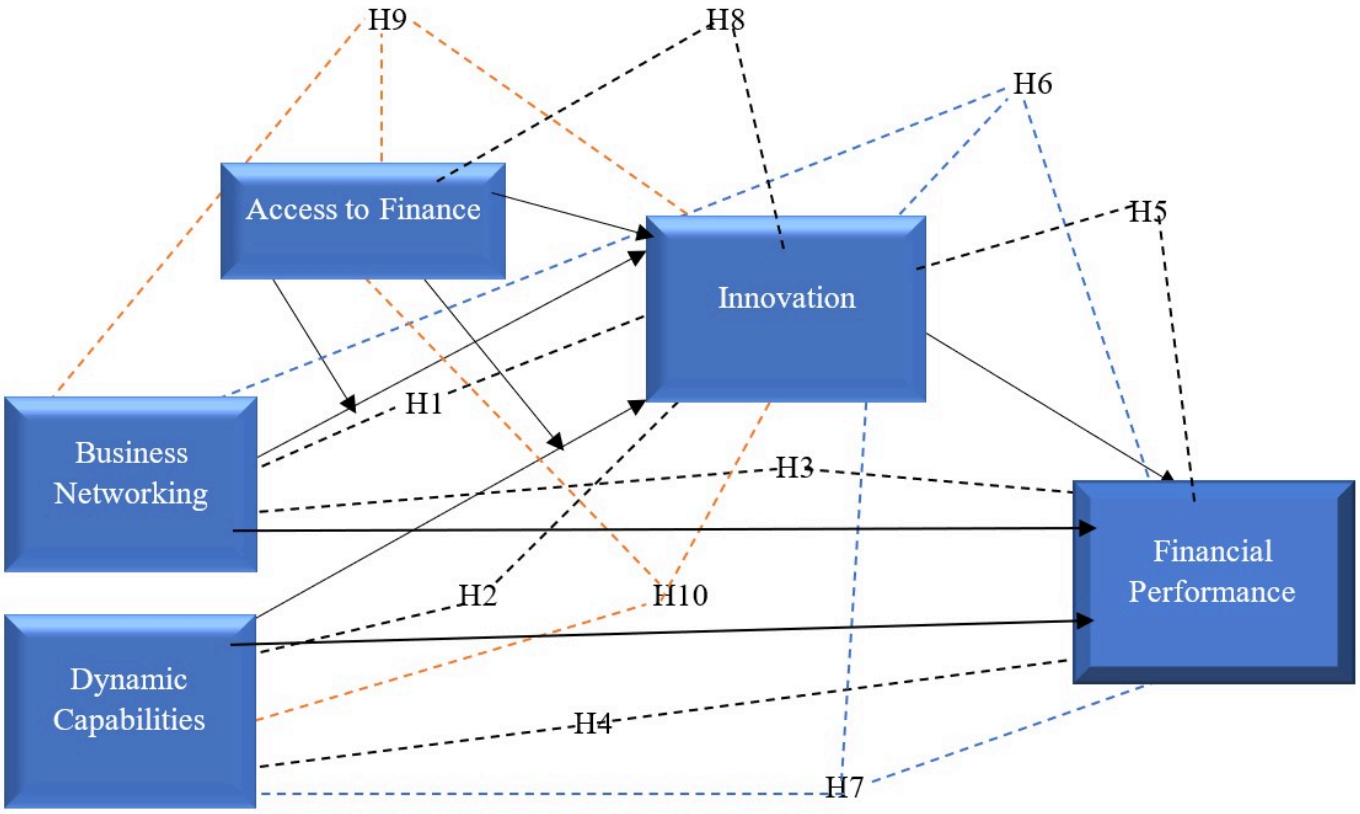


Figure 1

Research Framework

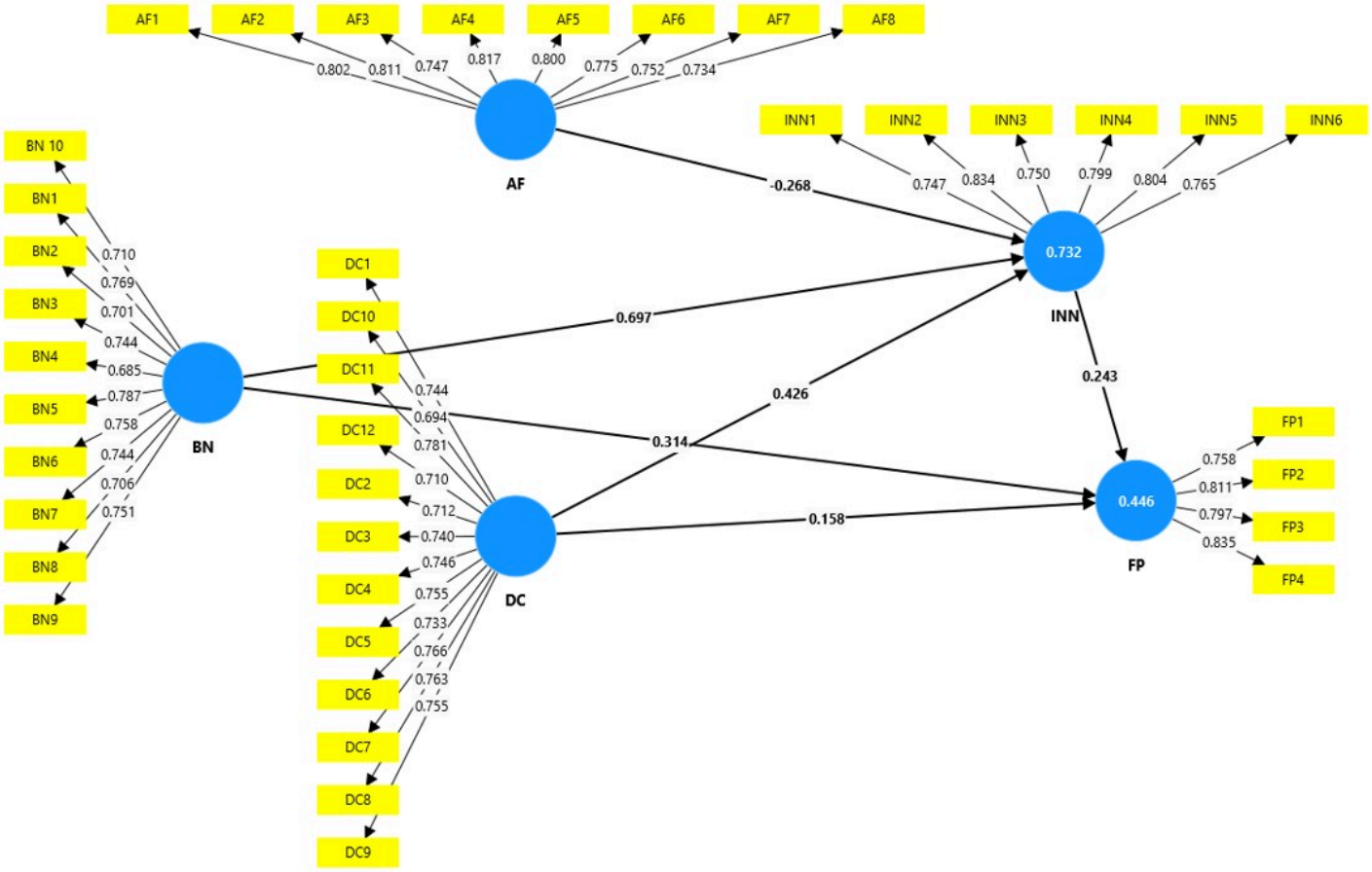


Figure 2

Measurement Model

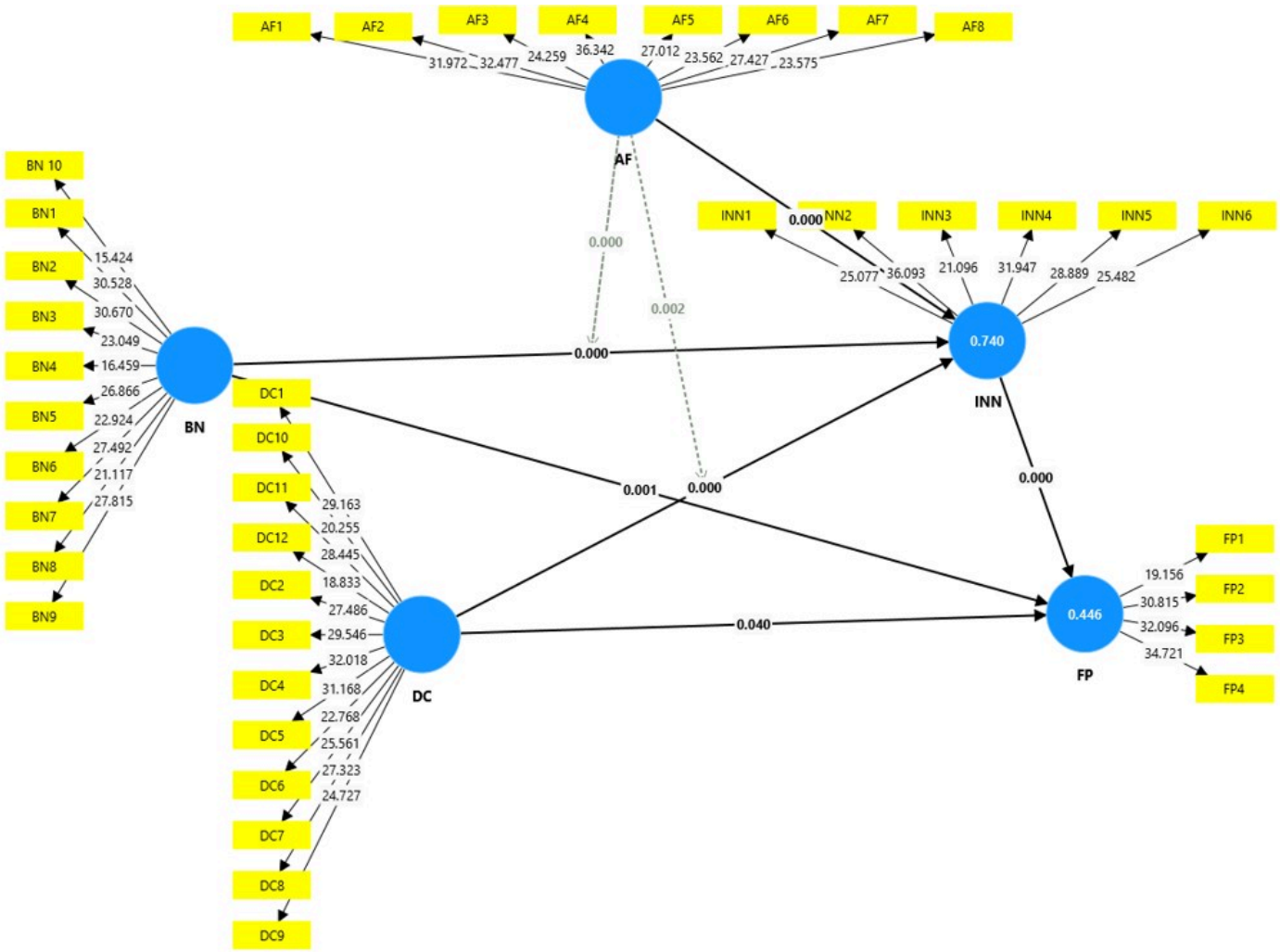


Figure 3

Assessment of the Structural Model