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RESEARCH ARTICLE

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Institutional voids and new venture performance: The moderating role of founders' political ties

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Abstract

Building on the institutional voids (IVs) and resource-dependence perspectives, this study examines the moderating impact of new business founders' political ties on the relationship between IVs and new venture performance (NVP). We developed and tested a unique model using data obtained from 309 new ventures in the MENA region, specifically Egypt. The results demonstrate that founders' political ties enhance firms' complementary assets and mitigate the negative effects of IVs on NVP in developing markets. The theoretical and practical implications concerning NVP in a developing market environment are examined.

KEYWORDS

developing markets, Egypt, founders' political ties, institutional voids, new venture performance

INTRODUCTION

Recent years have witnessed a growing body of research on emerging and developing markets, which demonstrate that they are characterized by institutional voids (IVs), such as underdeveloped market institutions and greater economic uncertainty (Khanna & Palepu, 1997; North, 1990; Peng, 2002). Such voids are typified by factors such as corruption, which raises uncertainty, reduces transparency, and adds extra costs to economic transactions, making the entrepreneurial process risky (Baron et al., 2018). Previous studies on IVs (e.g., Mair et al., 2012; Mair & Marti, 2009; Soliman, Keles, & Fottouh, 2023; Webb et al., 2020) show that the absence of institutions plays a critical role in the developing market context in influencing the behavior of both firms and entrepreneurs. Although some previous studies have considered IVs to have the potential to generate positive outcomes for new ventures, such as domestic and international learning efforts (Adomako et al., 2019, 2021; Khanna & Palepu, 2010; Mair & Marti, 2009), much of the current literature indicates a more negative outcome associated with them (Pindado et al., 2023). For instance, IVs can impede small business performance and competitiveness (Venkatesh et al., 2021) and hinder entrepreneurship and innovation in developing markets (Bu & Cuervo-Cazurra, 2020). Therefore, it remains unclear how IVs affect new venture performance (NVP) in developing markets. This may be because entrepreneurs' responses to IVs in the enhancement of their ventures are influenced by both institutional and individual factors, which makes this process complex (Adomako et al., 2019).

Recently, Saka-Helmhout et al. (2020) reported that firms used informal mechanisms such as social networks and trust to address IVs, which can be used as a substitute for weak formal institutions. In addition, the absence of formal market-supporting institutions forces entrepreneurs to depend on trust within the networks in developing markets (Puffer et al., 2010). In the presence of IVs, entrepreneurs may rely on developing cooperation with networking ties or with trade organizations to acquire resources to enhance their venture performance (Sydow et al., 2022). Research suggests that effective networking strategies can be developed by establishing and maintaining strong connections with government officials and other regulatory organizations (Boso et al., 2023; Peng & Luo, 2000; C. L. Wang & Chung, 2013; J. Zhang, Sun, & Qiao, 2020). It has also been shown that entrepreneurs can take advantage of ties with government officials to acquire valuable resources and seize opportunities in the external environment to increase their venture performance during the early years of their operations (Krammer & Jimenez, 2020). Our study considers political ties to be personal and informal relationships, extending to various levels of government and officials in other supporting and regulatory organizations (Peng & Luo, 2000). In the context of developing markets and IVs, political ties play a critical role in navigating uncertain institutional environments (Wang et al., 2022; J. A. Zhang, O'Kane, & Chen, 2020), in entrepreneurship in developing markets (Luo et al., 2020), and contribute to NVP (H. Li & Zhang, 2007). Founders' political ties play a critical role in mitigating IVs because the development and maintenance of strong relationships with government officials allow firms to understand the "rules of the game" (Child & Tse, 2001; J. A. Zhang, O'Kane, & Chen, 2020) and can fill IVs as they serve as an alternative to formal institutional support (Xin & Pearce, 1996). Filling such voids is viewed as a positive action that leads to favorable outcomes (Franczak et al., 2023), and that development can be achieved by addressing weaknesses in developing markets (Heeks et al., 2021). Therefore, founders' political ties may moderate the impact of IVs on NVP.

Wang et al. (2022) suggested that firms should take advantage of their political connections with governments in order to overcome IVs. However, Ge et al. (2019) found that IVs encourage entrepreneurs to maintain political networking with government officials and other agencies. Indeed, organizational life chances (i.e., firm growth and survival) are predicted by the ability to obtain political resources/expertise, as well as by managing uncertainties stemming from external stakeholders (J. A. Zhang, O'Kane, & Chen, 2020). In addition, most of the literature has focused on investigating the role of IVs at large firms and has ignored SMEs (Mickiewicz & Olarewaju, 2020). Thus, the question of how new venture founders' political ties can potentially impact the association between IVs and NVP has been under-researched. To address this research gap, we combine the resource-dependence theory (RDT) and IV literature (Ge et al., 2019; Khanna & Palepu, 1997; Mair & Marti, 2009; Wang et al., 2022) to examine (1) how IVs impact NVP in developing markets and (2) how founders' political ties moderate this relationship.

In view of the shortcomings noted in the current literature, unique data obtained from 309 new ventures in Egypt were used to test the theoretical contention outlined. Egypt provides an ideal context for the following reasons: First, it is one of the largest economies in the Middle East and has received considerable attention from investors and donor organizations, given that entrepreneurial activities have a major effect on economic development (Adel et al., 2020; Tantawy et al., 2021). Second, the business environment in Egypt is only ranked 114th out of 190 countries worldwide in terms of ease of doing business due to several factors such as capital, regulatory, and labor market voids (Soliman, Keles, & Fottouh, 2023). Third, it is evident that IVs exist because of the insufficient role of formal institutions in supporting small and medium-sized enterprises (SMEs) in Egypt and because political ties are prevalent in the country (Narooz & Child, 2017). This is due to the fact that IVs in the Egyptian environment have contributed to the growth of the informal economy, which accounts for between 40% and 68% of the total economy, which is dominated by SMEs (Soliman, Keles, & Fottouh, 2023).

This study makes several contributions to the literature. First, it contributes to the existing IVs literature (Khanna & Palepu, 1997; Mair & Marti, 2009) by extending the understanding of the enabling or impeding role of IVs on NVP (Adomako et al., 2019, 2021; Pindado et al., 2023). Given the lack of studies on the impact of IVs on entrepreneurship, this study adds to the current literature (Bu & Cuervo-Cazurra, 2020) by examining how IVs hinder NVP. It also provides a better understanding of how IVs can hamper a new venture's ability to survive and remain competitive in the market due to the lack of resources and financial providers (Luthans & Ibrayeva, 2006; Venkatesh et al., 2021). Second, our study extends the entrepreneurial networking literature (Anwar & Ali Shah, 2020; Bruton et al., 2018; Hiatt et al., 2018) by examining the mechanisms that affect the IV–NVP relationship. We shed light on how founders' political ties play a critical moderating role in enhancing NVP and overcoming IVs in developing markets. In addition, although previous studies have demonstrated the critical role of interpersonal networking with government officials in mitigating IVs (Cantwell et al., 2010; Cuervo-Cazurra & Genc, 2011; Puffer et al., 2010; Wang et al., 2022), there is a lack of research on the role of building of political ties in weak institutional environments. In addition, previous studies have tended to focus on large and established firms. However, scholars have recognized that new ventures are different from large organizations due to their limited resources and legitimacy, which constrain new venture survival in the markets during their early years of creation (H. Li & Zhang, 2007). Finally, this study enriches the literature on IVs within the scope of new ventures operating in developing markets. It offers a theoretical contribution to the understanding of IV by focusing on the unique aspects of new ventures. Furthermore, this research provides insights into both the direct impacts and boundary effects of IVs across various institutional contexts.

The remainder of this paper proceeds as follows. The following section provides a brief review of the literature on IVs and the resource-dependence perspective, together with the hypotheses to be tested. The subsequent section sets out the research method and measures used in the study, followed by an analysis of the data and a presentation of the key findings. Finally, we explore the theoretical and practical implications of this study.

THEORETICAL BACKGROUND

Institutional theory provides a valuable theoretical framework for addressing institutional challenges in emerging and developing markets (North, 1990; Wright et al., 2005). In developing countries, formal market institutions are underdeveloped, making it difficult to control market transactions and maintain property rights, which could lead to more opportunistic and illegal behavior in transactions (Xin & Pearce, 1996). Such institutions represent the "rules of the game" (North, 1990; Peng, 2002) that affect firm success. Therefore, underdeveloped ones may lead to the presence of IVs (Barnard & Mamabolo, 2022; Khanna & Palepu, 1997), which refer to "the absence or underdevelopment of a market-supporting formal infrastructure such as market intermediaries, a functioning regulatory system, legal protection of shareholders, and contract-enforcing mechanisms" (Ge et al., 2019, p. 1124). Building on institutional theory, Mair and Marti (2009) show that IVs exist where there is an absence of formal institutions that support the market or where institutions fail to perform their role in the market. Khanna and Palepu (2010) analyzed the particularly critical role of IVs in developing markets. The existence of IVs leads to corruption, raises uncertainty, diminishes transparency, and adds extra costs to economic transactions, all of which make the entrepreneurial process riskier (Baron et al., 2018). To fill these voids, firms may need to alter their business models to gain competitive advantages, as institutional entrepreneurs may view IVs as opportunities (Mair & Marti, 2009).

In Egypt, IVs are characterized by different types of voids, such as regulatory, labor, and capital (Soliman, Keles, & Fottouh, 2023). Regulatory voids in the Egyptian context, particularly in areas such as streamlined cross-border trade and effective contract enforcement mechanisms, continue to be problematic and challenge the ease of doing business, thus playing a significant role in fostering the growth of the informal economy (Soliman, Keles, & Fottouh, 2023). One prominent problem with labor voids in Egypt is skills mismatch, with formal education failing to equip graduates with the necessary skills for employment. While larger companies adopt in-house training to bridge this gap, it remains less feasible for SMEs due to cost constraints (Soliman, Papanastassiou, & Saka-Helmhout, 2023). Capital market voids in Egypt encompass weaknesses within its financial system; since 2004, it has been struggling to effectively connect investors with the private sector, which presents difficulties for both private sector companies and SMEs. Only 36% of large firms and 13% of SMEs have access to available sources of finance (Soliman, Keles, & Fottouh, 2023). DiMaggio and Powell (1991) proposed that informal institutions in developing economies often have a stronger impact on behavior than their formal counterparts. Within this context, the dynamics of social networks and trust play critical roles in the creation of informal agreements between local communities (Mair et al., 2012). Previous studies have proposed that effective networking strategies can be developed by cultivating and building strong ties with officials at various levels of government and regulatory organizations (Boso et al., 2023; Peng & Luo, 2000; C. L. Wang & Chung, 2013; J. Zhang, Sun, & Qiao, 2020). This study proposes that ties with political officials can mitigate IVs in developing markets.

RDT proposes that resourcing factors and interdependent network relationships affect firms' decisions and outcomes (Pfeffer & Nowak, 1976). New ventures rely on valuable resources provided by external stakeholders because they cannot competently manage the resources required for their survival and growth (H. Li & Zhang, 2007). Hence, building a good relationship with stakeholders is important to gain access to such resources. As a primary source of valuable resources, the government plays a critical role in guiding firms' business policies and corporate operations (Sheng et al., 2011). Since the government controls vital resources and can adopt policies that affect firms' performance and efficiency, it is the main source of uncertainty and constraint for businesses (Jiang et al., 2018; Luo et al., 2020). RDT views new ventures as resource dependent on their environment through the main stakeholders in government and other organizations (Pfeffer & Salancik, 1978). In this regard, RDT posits that "firms may use political means to alter the condition of the external economic environment" (Pfeffer & Salancik, 1978, p. 190). New ventures can reduce their dependence on the government by building and maintaining good relationships with various government officials and those of other regulatory organizations (Zheng et al., 2015). Scholars' views of political ties have evolved from seeing them as a largely theoretical construct, to considering them as resources that firms can utilize to improve their competitiveness in the marketplace. Political ties refer to "personal ties with government officials as connections with political leaders in various levels of the government, officials in industrial bureaus, and officials in regulatory and supporting organizations such as tax bureaus, state banks, and commercial administration bureaus" (Peng & Luo, 2000, p. 491). Relationships with government officials provide new ventures with access to valuable information and knowledge and facilitate opportunity recognition. This is particularly important in developing markets because strong political ties can help firms update information and policies related to institutional change, allowing new ventures to discover opportunities in the existing environment. In emerging and developing markets, political ties provide low-cost access to valuable resources and offer finance alternatives with low market rates, which in turn increase firms' performance during the early years of their operations (Krammer & Jimenez, 2020). Such ties are particularly important when resources are scarce.

Egyptian culture implies the expectation that institutional regulations and processes will not be equally applicable to everyone. It also suggests that nurturing distinct relationships with officials at various government levels is both essential and normal (Narooz & Child, 2017). Egyptian SME managers exhibit a pronounced inclination to engage in close networks characterized by robust and enduring connections. This inclination, coupled with their proclivity for particularism, emphasizes their reliance on close relationships encompassing various social networking actors, which serve as pivotal avenues through which they can secure information and resources, as well as addressing challenges resulting from IVs (Narooz & Child, 2017).

Figure 1 depicts our conceptual model, which integrates IV and entrepreneurship research, together with the networking perspective, to examine how IVs impact NVP through the moderating role of founders' political ties.

HYPOTHESES DEVELOPMENT

IVs and NVP

Emerging and developing markets are characterized by greater economic uncertainty and a competitive environment. Those with low levels of institutional development lead to the presence of IVs, which affect new venture success (Khanna & Palepu, 1997). In addition, the absence of institutions in developing markets influences the role and behavior of new venture founders and may affect market formation and economic development (Khanna & Palepu, 1997; Mair et al., 2012). Polishchuk (1997) claims that IVs promote rent-seeking and corrupt behavior among administrative authorities. They exist in capital markets and cause uncertainty because access to valuable resources and government policies is limited (Kim & Song, 2017). Previous research on IVs shows that the absence of institutions plays a critical role in the developing market context by influencing the behavior of both firms and entrepreneurs (Mair et al., 2012) and can impact development, economic growth, and market formation (Amankwah-Amoah et al., 2023; Khanna & Palepu, 1997). IVs have also been discussed in relation to the effect of the institutional environment on the entrepreneurial process (Mair & Marti, 2009). While IVs provide both challenges and opportunities, they have been linked with new venture activities in eliminating institutional shortcomings and reducing the costs associated with operating in environments where such deficiencies exist (Doh et al., 2017).

IVs prevent markets from functioning, thereby affecting participation and development and increasing transaction costs (Mair & Marti, 2009; Stephan et al., 2015; Turker & Vural, 2017). Therefore, only firms with high profitability and performance will be able to survive in the face of weak institutions (Tran, 2019). The literature suggests that IVs can hamper new ventures' ability to access financial and human resources in order to survive and remain competitive in the market (Luthans & Ibrayeva, 2006: Manolova et al., 2008). In addition, they emphasize the founders as a critical organizational resource and the main source of legitimacy (Hearn & Filatotchev, 2019). Recently, Venkatesh et al. (2021) found that new ventures are unable to gain a competitive advantage due to IVs and unfavorable government policies. Moreover, Bu and Cuervo-Cazurra (2020) suggest that IVs negatively affect innovation and entrepreneurship in developing economies. Due to a lack of financial providers, new ventures in developing markets may also face increased costs when acquiring finance (Khanna & Palepu, 1997), which may hinder their growth and performance. We argue that IVs impede NVP in developing markets and propose that:

> **Hypothesis 1.** IVs are negatively related to NVP.

Founders' political ties and NVP

The literature suggests that political ties can positively influence entrepreneurship, particularly in emerging and developing economies (Ge et al., 2017; Luo et al., 2020),

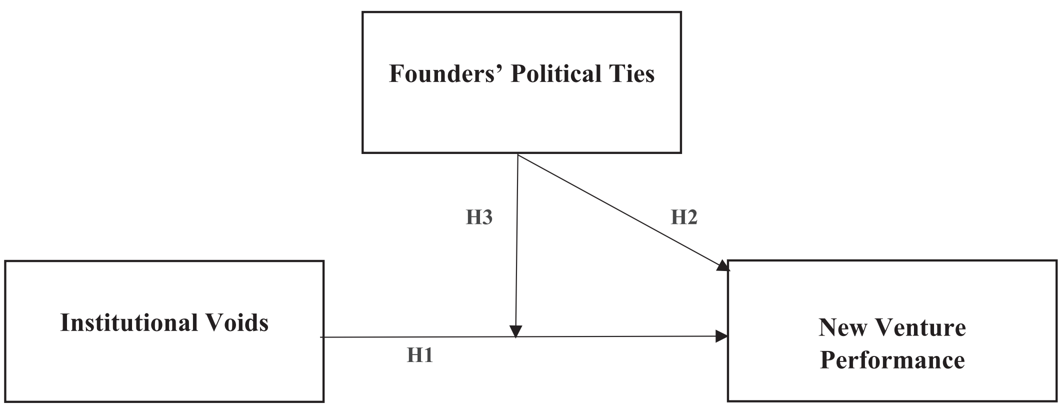

FIGURE 1 Conceptual model

because of their deficient formal institutions (Zhou, 2013). Recent studies on political ties have used RDT to examine how firms interact with the government (Bai et al., 2019; Dieleman & Widjaja, 2019; Guo et al., 2014; J. A. Zhang, O'Kane, & Chen, 2020). Building such ties is considered a non-market strategy aimed at increasing firm performance through engagement with the government (Jean et al., 2018). This can be defined as informal social connections that firms can build with various levels of government officials (Sheng et al., 2011). Such ties can provide new ventures with valuable resources and support to deal with uncertainties, thus enhancing their growth (X. Zhang et al., 2016). They also help new ventures to acquire enhanced innovative capabilities and maintain their legitimacy in weak and inefficient environments (Mellahi et al., 2016; W. Zhu et al., 2017).

Scholars have focused on how political ties affect new venture survival in emerging markets (Bruton et al., 2018; H. Li & Zhang, 2007). However, findings on the effect of such ties on NVP have been mixed. While some studies have found a positive relationship between the two (Anwar et al., 2018; Hiatt et al., 2018; H. Li & Zhang, 2007; J. J. Li & Zhou, 2010; Lin et al., 2014; Y. Zhu, 2020), others have reported a negative relationship (Bruton et al., 2018; C. Su et al., 2022; Wu, 2011; Yeniaras et al., 2020) or no significant relationship (Tocher et al., 2012; C. Zhang et al., 2021). These findings suggest that the relationship between political ties and NVP is more complicated than a simple and direct one (Lin et al., 2014). Therefore, it is unclear how such ties may benefit NVP in developing markets. This study proposes that the political ties–NVP relationship is different in developing markets for the following reasons. First, new ventures face challenges in developing markets due to various circumstances, such as economic situations characterized by a lack of stable and consistent markets and uncertain political, regulatory, and economic environments compared to developed markets (Lingelbach et al., 2005). Understanding these differences is important for the development of new ventures in emerging markets. Second, in developing markets, the government influences resource allocation, and institutional infrastructure is underdeveloped, factors which affect firm performance (J. J. Wang et al., 2020). The government controls critical resources, develops industry plans, and implements governmental policies.

By cultivating ties with political actors, including regulators and government officials, organizations are better able to capture external knowledge, understand and navigate unstable institutional environments, and gain legitimacy (Amankwah-Amoah et al., 2022). These benefits provide the necessary ingredients for organizations to improve their problem-solving efforts, as well as to develop political capital, which can help improve the chances of new product development efforts. Therefore, building good connections with government levels may increase NVP. Hence, we propose that:

> **Hypothesis 2.** Founders' political ties are positively related to NVP.

The moderating impact of founders' political ties

Cuervo-Cazurra and Genc (2011) argue that firms use non-market strategies that support their activities in markets where formal institutions are weak. They also suggest that as IVs impact firms' operations in developing markets, new ventures need to utilize various resources to deal with market deficiencies. When discussing the role of networking in the IV context, the literature has extensively focused on the role of political ties with government officials and other regulatory organizations (Peng & Luo, 2000). We argue that founders' political ties play a significant role in the IV–NVP relationship for the following two reasons. First, scholars have stressed the importance of non-market strategies in mitigating IVs (Cantwell et al., 2010). Studies have indicated the critical roles of social capital and trust-based interpersonal networks in the context of IVs (Ge et al., 2019), which are used as a critical strategy to mitigate the risks of opportunism (Narayanan & Fahey, 2005). Studies have also noted that the most effective networking strategy is the building of political ties with government officials and other regulatory organizations (Peng & Luo, 2000). However, few studies have focused on the relationship between IVs and founders' political ties, particularly in the context of new ventures in developing markets (Ge et al., 2019).

Second, new ventures face certain difficulties and high mortality rates, as they lack legitimacy and have limited access to valuable resources (Aldrich & Fiol, 1994; Coleman, 2004). In developing markets, governments guide business policies and corporate operations (Sheng et al., 2011) and influence the distribution of critical resources and other management procedures, which could either limit or facilitate a new venture's activities (Hillman & Hitt, 1999). In addition, government officials usually control significant resources and have absolute power over investment projects (Acquaah, 2007). However, obtaining access to governmental resources can take a long time and involve considerable costs for new ventures (Luo et al., 2020). Due to the lack of formal market institutions, firms in developing markets face significantly higher transaction costs when accessing valuable resources and industry policies (Xin & Pearce, 1996). As a result, if a new venture has strong ties with government officials, it is more likely to obtain support and useful resources from government institutions (Peng & Luo, 2000), as well as access to information about policies, impending regulations, and industry plans, which all help to face uncertainty in the environment (Acquaah, 2007).

New ventures need to maintain good relationships with government officials and agencies in order to offset the challenges of IVs. In this regard, as Wang et al. (2022) suggest, maintaining political ties is a critical strategy for firms to fill such IVs. Such ties will help them acquire unique resources, enhance innovative capabilities, and maintain legitimacy within a weak and inefficient environment (Mellahi et al., 2016). This means that when new venture owners are faced with such voids, this will encourage them to establish and maintain political ties with various levels of government, which will in turn affect NVP.

Therefore, we propose that:

> **Hypothesis 3.** Founders' political ties moderate the relationship between IVs and NVP, a relationship that is stronger with higher levels of political ties.

METHODS

Research context

Egypt was used as the research setting for the following reasons. First, it represents a distinctive emerging economy in Africa and holds a unique position within the Middle East and North Africa (MENA) region, with a population of more than 112 million in 2023, projected to increase to 125 million by 2030. It is characterized by a rising middle class, an increasing number of consumers, an influx of foreign direct investment, and a growing economy (Pesu, 2022). Nevertheless, the country is also plagued by excessive bureaucracy and high levels of corruption (Department for International Trade [DIT], 2015). It is further marked by the strong influence of political actors, thus offering fertile ground for exploring the intersection between politics and business in shaping firms' competitive moves and actions (Pesu, 2022). Second, Egypt as a developing country is surrounded by a weak formal institutional environment, as characterized by IVs (Narooz & Child, 2017), which manifest themselves in various types, such as capital, regulatory, and labor market voids (Soliman, Keles, & Fottouh, 2023). Egyptian IVs take various forms, such as an inadequate proficiency within public entities and a limited provision of institutional support, occasionally contingent on the payment of bribes. They also include malfunctioning bureaucratic processes, an inability to effectively employ trade agreements, and poor institutional efficacy (Narooz & Child, 2017). In addition, the regulatory voids in the Egyptian environment challenge attempts to improve the conduct of business, thus playing a critical role in fostering the growth of the informal economy (Soliman, Keles, & Fottouh, 2023).

Finally, SMEs play a pivotal role in the Egyptian economy, comprising approximately 2.5 million projects, representing 99% of non-agricultural private sector ventures. These SMEs serve as major employment providers, contributing to around 75% of all jobs in the country. Moreover, their substantial impact extends to economic growth, as they account for approximately 80% of GDP; contribute 75% to the nation's exports; and represent over 10% of total industrial production in the country (Daily News, 2016). However, despite their significant contributions, SMEs in Egypt confront numerous challenges that hinder their progress and success, such as financing issues, as many struggle to access adequate funding for their operations and expansion. In addition, the government's support system for SMEs is insufficient in terms of enhancing their product development, facilitating international exports, and providing essential services such as marketing assistance. Consequently, addressing these challenges is crucial for fostering the growth and sustainability of SMEs in Egypt (Daily News, 2016). Therefore, this context provides a unique opportunity to explore the issue of IVs and their impact on new ventures in Egypt in particular, and in developing markets in general.

Data and sample

The data were collected between December 2021 and June 2022. We used the following procedures to select the sample (Adomako et al., 2019). First, we focused on new ventures, their activities and market and non-market strategies. Regarding non-market strategies, we were particularly interested in the efforts of new ventures to engage in building and cultivating strong ties across different government levels, including governorates, cities, towns, ministries, political parties, and legislative bodies. From this, we were then able to identify new ventures involved in political tie activities. Second, we selected new ventures that were a maximum of 8 years old in order to capture different stages of their development, including their early stages of identifying potential opportunities (Adomako et al., 2019). While it might seem arbitrary to use a specific time frame to distinguish new ventures from established businesses (T. Wang & Bansal, 2012; Zahra et al., 2000), a period of 8 years has been frequently cited as a standard measure in previous studies (e.g., Atuahene-Gima & Li, 2004; H. Li & Zhang, 2007; McDougall et al., 1994; Zahra, 1996). Because of the lack of a formal/exact sampling frame for new ventures in Egypt (Adel et al., 2020), and as the population size of the study was unknown, we employed convenience sampling, which is one of the most common, cost-effective, and quickest data collection techniques in business research (Onofrei et al., 2022). The data were collected using an online survey questionnaire that was sent to new venture founders using an electronic link through the online platform Qualtrics. The survey's cover page explained its main purpose and the items used to measure the study variables using a 7-point Likert scale (from 1 = *strongly disagree* to 7 = *strongly agree*). We then distributed 550 online surveys, and a total of 329 responses were received, representing a 59.82% response rate. After reviewing all the questionnaires, 20 responses were discarded because the respondents provided incomplete answers. Therefore, our final sample consisted of 309 complete responses, representing a 56.18% response rate.

Sample characteristics

Table 1 shows the demographic traits of the sample. Ninety-two percent of the respondents were male, with ages ranging from 26 to over 56, thus providing a good spread across all age groups. The new ventures had been in business on average for 7 to 8 years (44%) and had 11 to 30 employees (46%). On average, their business was conducted in the commercial (43%) and industrial (30%) sectors, together representing 73% of total industries.

TABLE 1 Sample characteristics.

Variables	Category	Frequency	Percentage
Gender	Male	285	92%
	Female	24	8%
Education	High school	20	6%
	HND	4	1%
	Bachelor's	225	73%
	Post	48	16%
	Others	12	4%
Age	26–35	44	14%
	36–45	68	22%
	46–55	102	33%
	Over 56	95	31%
Marital status	Married	285	92%
	Unmarried	19	6%
	Others	5	2%
Venture age	1 year or below	2	1%
	2 years	8	3%
	3–4 years	37	12%
	5–6 years	127	41%
	7–8 years	135	44%
Venture size	10 or below	57	18%
	11–30	142	46%
	31–50	68	22%
	51 or above	42	14%
Industry type	Industrial	94	30%
	Commercial	134	43%
	Services	70	23%
	Agricultural	11	4%

Note: $N = 309$.

Measures

The survey instrument included well-established scales based on previous studies. To ensure that the new venture founders were able to understand and correctly interpret these measures, all the items were generated in English, then translated into Arabic, and subsequently back-translated into English by two experts in the entrepreneurship field. When necessary, the scales were revised in line with the context and the key informants' characteristics. All items showed acceptable Cronbach's alpha values ($\alpha > 0.80$) (see Table 2), which exceeded the threshold level of 0.70 (Netemeyer et al., 2003).

NVP

Measuring NVP is challenging due to the lack of data and financial reports (Anwar & Ali Shah, 2020; Anwar et al., 2018). Previous studies have used both subjective and objective measurements. Obtaining objective measures for new ventures can be challenging, as their financial data are viewed as confidential, and are often not publicly accessible (H. Li et al., 2005). Nonetheless, subjective measures have been widely used in new venture literature (e.g., H. Li & Zhang, 2007) In addition, Dess and Robinson (1984) suggest that there is an advantage in using perceptual performance measures over objective measures, as managers' perception of their performance has important managerial consequences. Therefore, this study adopted performance measures ($\alpha = 0.96$) from H. Li and Zhang's (2007) scale, which asked respondents to rate their performance relative to their principal competitors over the previous 3 years, an approach adopted by previous studies (Bruton et al., 2018; Z. Su et al., 2015).

IVs

This study used eight items from Giachetti's (2016) study to measure IVs in developing markets ($\alpha = 0.89$), as also used in studies by Adomako et al. (2019) and Donbesuur et al. (2023). These were based on a scale from 1 to 7, with 1 = *not at all* and 7 = *very much*. We also focused on asking new venture founders about the extent to which IVs are present in their business environment. These items were adopted from Khanna & Palepu (1997, 2010). In-depth interviews were also conducted as part of the questionnaire development, with a pilot testing process undertaken with the market experts, which ensured a robust foundation for using the research scale (Giachetti, 2016).

Founders' political ties

The network literature generally employs two popular methodologies to measure the effects of social ties,

TABLE 2 Construct validity and reliability.

Items	Factor loading	AVE	CR	Cronbach's alpha
Institutional voids (IVs)		0.51	0.89	0.89
IV1: Lack of infrastructure to facilitate the relationship between new ventures and their clients or between new ventures and their suppliers	0.71			
IV2: Difficulties in obtaining adequate and reliable information about the tastes and preferences of consumers and the reliability of suppliers	0.57			
IV3: Difficulties in advertising and communicating effectively products and services to potential consumers	0.68			
IV4: Underdeveloped education infrastructures and the need for intensive training of employees	0.74			
IV5: Distrust and lack of acceptance toward foreign firms and foreign managers on the market	0.69			
IV6: Difficulties for foreign firms to access to financial resources and loans	0.74			
IV7: Underdeveloped payment systems and consequent difficulties in completing transactions	0.78			
IV8: Ambiguous legal system.	0.79			
Founders' political ties (FPT)		0.72	0.88	0.88
FPT1: Political leaders in various levels of the government	0.77			
FPT2: Officials in industrial bureaus	0.96			
FPT3: Officials in regulatory and supporting organizations such as tax bureaus, state banks, commercial administration bureaus, and the like	0.80			
New venture performance (NVP)		0.77	0.96	0.96
NVP1: Return on sales	0.83			
NVP2: Return on assets	0.89			
NVP3: Profit growth	0.90			
NVP4: Return on investment	0.90			
NVP5: Sales growth	0.88			
NVP6: Market share growth	0.88			
NVP7: Cash flow from operations	0.86			
NVP8: Overall performance	0.88			

Abbreviations: AVE, average variance extracted; CR, composite reliability.

namely position and name generators (Batjargal, 2003). The name-generator approach usually employed in the network literature is based on asking participants to provide the names of their contacts (Burt, 1997). However, this approach has been found to be ineffective in the management ties literature, as participants were reluctant to provide the names and positions of their contacts (Peng & Luo, 2000). Therefore, most studies use perceptual measures of political ties by asking respondents general questions about their ties with political entities, rather than employing the name-generator approach (e.g., Batjargal & Liu, 2004; J. J. Li et al., 2008; Peng & Luo, 2000). Consequently, this study used three items from Peng and Luo (2000) to measure founders' political ties ($\alpha = 0.88$), which have been extensively used by previous studies (Acquaah, 2007; Park & Luo, 2001; Sheng et al., 2011; X. Zhang et al., 2016). Research has suggested that Peng and Luo's scale has played a leading role in networking literature (Fan et al., 2013). In this study, the respondents were asked to determine the extent to which their new ventures adopted political ties with officials at various levels of government and other supporting regulatory organizations. We measured the ties on a 7-point scale, from 1 = *very little* to 7 = *very extensive*.

Control variables

Because NVP can be influenced by new ventures and industry characteristics, certain controls were used at the founder, venture, industry, and country and regional levels, based on previous studies (Bruton et al., 2018; Hiatt et al., 2018; H. Li & Zhang, 2007).

At the founder level, we controlled for the founder's age, education, gender and experience. Xie and Lv (2016) suggested that gender discrimination negatively affects NVP. We consequently controlled for founder's gender, coding it as 1 = male and 0 = female. We also controlled for founder age, because the age of founders may explain some variance in the performance of new ventures. This is due to that fact that founders need more time to develop and maintain ties with government officials (Hite, 2005). This variable was coded as a categorical variable (1 = 26–35; 2 = 36–45; 3 = 46–55; 4 = over 56). Gimeno et al. (1997) found a positive relationship between owner's education and NVP. Accordingly, founders' education was coded as 1 = high school, 2 = HND, 3 = bachelor's, 4 = postgraduate, 5 = other. Finally, we controlled for the founder's managerial experience, as it has been found that management experience positively impacts NVP (Miller & Toulouse, 1986). We measured this as a continuous variable by asking the founders to reveal the number of years they had owned or managed the venture.

At the venture level, we controlled for the venture age, size, and legitimacy. Venture size and age are commonly used in the entrepreneurship literature. Dyke et al. (1992) indicate that older companies have had more time to develop profitable businesses and assets such as cash and equity, which are critical for enhancing firm performance. Therefore, venture age was measured as the number of years since the new venture was established, whereas venture size was determined by the number of employees working there. Previous studies suggest that venture size has different effects on NVP (Fan et al., 2013; Peng & Luo, 2000). The variable is a categorical one (1 = 10 or below; 2 = 11–30; 3 = 31–50; 4 = 51 or above). New ventures lack legitimacy and access to resources due to their liability of newness (Stinchcombe, 1965), which increases their failure rate and affects performance during their early years (Aldrich & Fiol, 1994). We then controlled for new venture legitimacy, which was measured using the four-item scale developed by Yu et al. (2018).

At the industry level, we controlled for the industry type. Political ties might develop when a venture operates in a regulated industry. Consequently, they may create a spurious negative correlation between firm performance and political ties (Bruton et al., 2018). Therefore, we controlled for industry type by using a categorical variable: 1 = industrial, 2 = commercial, 3 = services, 4 = agricultural.

At the country level, to account for macroeconomic factors, we used the country's GDP per capita for 2022 in Egyptian pounds, in line with previous studies (Pindado et al., 2023). Due to the regional diversity in emerging and developing markets, firm performance varies across regions. For example, firms within specific geographic clusters, such as provinces, often show higher survival and performance rates than those outside these regions (Gilbert et al., 2008). Therefore, at the regional level, we used the geographic location as five dummy variables to control for regional effects because we collected our data from five different cities.

ANALYSIS

Reliability and validity assessment

Confirmatory factor analysis (CFA) was conducted to assess the validity and reliability of the constructs using AMOS.28. The main CFA results showed adequate model fitness, giving the following values: $\chi^2 = 820.991$ (149); root mean square error of approximation (RMSEA) = 0.7; incremental fit measure (CFI) = 0.86; Tucker–Lewis index (TLI) = 0.84, and standardized root mean square residual (SRMR) = 0.8. Table 2 shows the standardized estimates of the CFA constructs. The factor loadings for each variable are above 0.5. In addition, based on Bagozzi and Yi (1988), our analysis supports convergent validity, as all the factor loadings were significant ($p < 0.01$). In addition, the average variance extracted (AVE) values were above 0.50, which indicates adequate convergent validity (Fornell & Larcker, 1981). To test reliability, we used Cronbach's alpha to establish the internal consistency of each construct. The analysis showed that the Cronbach's alpha values were above 0.70 (Netemeyer et al., 2003), indicating that our data were reliable. In addition, the composite reliability (CR) values should be equal to or higher than 0.70 in order demonstrate good reliability (Netemeyer et al., 2003). The findings show that all the CR values were above 0.70, which also indicates the reliability of the data.

Common method bias

We undertook various approaches to consider the common method issue in the design of the questionnaire. The survey items were improved using practitioners in the field and the questionnaire was kept concise by ensuring correct, clear grammar (MacKenzie & Podsakoff, 2012). We distributed the questions on independent and dependent variables across the survey. These were also not clustered into a single section, which would limit the respondents from making any association between independent and dependent variables (Nagy et al., 2022). The respondents who assessed the survey items were highly educated and experienced in the subject (MacKenzie & Podsakoff, 2012). In addition, they were reassured of their confidentiality and anonymity in the study (Podsakoff et al., 2003). To test for common method bias, Harman's single-factor test was employed, as suggested by Podsakoff et al. (2003), in order to determine if any of the variance could be explained by a single factor. In exploratory factor analysis (EFA), all study variables are loaded with principal component factoring without rotation. The results showed that five factors were found with eigenvalues >1.0, explaining 38.60% of the total variance. In addition, the first factor explained 7.72% of the variance, and there was no dominant factor. Therefore, no common method bias was detected.

Non-response bias

To test non-response bias, we followed Wagner and Kemmerling's (2010) approach by taking selected variables and comparing the responses from both complete and incomplete surveys (which is a proxy for non-respondents), using independent sample *t* tests. The main findings show that there were no significant differences between the two groups, which confirms that non-response bias was not a problem. In addition, using Armstrong and Overton's (1977) method, which compares late and early responses, the main results of the independent sample *t* tests indicated that there were no differences between these, which confirms that non-response bias posed no threat to our study.

RESULTS

Table 3 shows the correlation matrix and descriptive statistics for the study variables (dependent, independent, moderating, and control). After running a regression, we tested for multicollinearity using the variance inflation factor (VIF). The findings show that all the factors were lower than 10 (the cut-off value being 10) and that the average VIF was 1.93, which suggests that the independent variables were unrelated, and that the problem of multicollinearity was not an issue (Hair et al., 2010). Data analysis was conducted using STATA 16.0.

Table 4 shows the results of the hierarchal regression analysis used in testing the study hypotheses. Hierarchal linear regression is regarded as an effective model estimator used in entrepreneurship (Rauch et al., 2009) and is suitable for configurational and contextual analytical models (Cohen et al., 2003). We created the interaction terms by mean centering both the independent and moderator variables to better understand the findings (Dawson, 2014). Model 1 includes the control and dependent variables, while Model 2 tests the effect of IVs on NVP. Hypothesis 1 posited a negative relationship between IVs and NVP. We observed that R^2 had changed significantly ($\Delta R^2 = 0.05$); correspondingly, the findings show that IVs hinder NVP at a significant level ($\beta = -0.251$, $p < 0.05$). Therefore, Hypothesis 1 was accepted. Model 3 shows the impact of founders' political ties on NVP. R^2 has again changed significantly ($\Delta R^2 = 0.04$). Hypothesis 2 proposed that if new ventures had strong ties at various government levels and other regulatory organizations, this would enhance their performance. We found that founders' political ties did have a positive impact on NVP, also at a significant level ($\beta = 0.204$, $p > 0.01$). Hence, Hypothesis 2 was also accepted. In addition, Model 4 shows the findings related to the Hypothesis 3 prediction, which concerned the moderating role of founders' political ties on the relationship between IVs and NVP. We also observed that R^2 had changed significantly ($\Delta R^2 = 0.13$) and found that new ventures with strong ties with the government were more likely to enhance their performance in overcoming IVs in developing markets at a significant level

TABLE 3 Descriptive statistics and correlation.

	Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Performance	4.85	1.73	1.00												
2.	Founder age	3.80	1.03	0.03	1.00											
3.	Gender	0.92	0.28	−0.02	0.20	1.00										
4.	Education	3.06	0.75	−0.04	0.07	0.16	1.00									
5.	Experience	2.70	1.94	0.16	0.03	−0.03	0.08	1.00								
6.	Venture age	4.25	0.81	0.17	0.44	0.18	0.15	0.21	1.00							
7.	Venture size	2.31	0.93	0.24	0.38	0.13	0.19	0.28	0.50	1.00						
8.	Industry type	5.05	1.90	0.16	0.04	0.01	0.15	0.77	0.23	0.33	1.00					
9.	Legitimacy	2.57	1.98	0.59	−0.05	0.02	−0.01	0.15	0.21	0.20	0.08	1.00				
10.	GDP	4.93	1.89	0.56	−0.16	−0.04	−0.06	0.14	0.25	0.18	0.06	0.74	1.00			
11.	Location	4.66	2.07	0.50	−0.13	−0.14	−0.08	0.06	0.14	0.10	−0.03	0.40	0.64	1.00		
12	Institutional voids	2.15	1.46	- 0.44	−0.01	0.01	−0.05	0.17	0.15	0.15	0.05	0.30	0.36	0.30	1.00	
13	Political ties	2.94	2.04	0.42	0.06	−0.02	0.06	0.29	0.19	0.32	0.34	0.31	0.26	0.18	0.04	1.00

TABLE 4 Regression results: New venture performance.

Variables	1	2	3	4
Control variables				
Founder age	0.190*** (0.88)	0.174*** (0.84)	0.168*** (0.81)	0.039 (0.07)
Gender	0.014 (0.28)	−0.025 (0.26)	0.022 (0.26)	0.063 (0.22)
Education	−0.078 (0.10)	−0.057 (0.10)	−0.058 (0.09)	0.009 (0.08)
Experience	0.257*** (0.05)	0.236*** (0.05)	0.218*** (0.04)	0.108*** (0.04)
Venture age	−0.181 (0.17)	−0.180 (0.11)	−0.174 (0.11)	−0.183*** (0.09)
Venture size	0.151*** (0.06)	0.186*** (0.06)	0.129*** (0.06)	0.117*** (0.05)
Industry type	0.370*** (0.05)	0.385*** (0.06)	0.303*** (0.05)	0.201*** (0.05)
Legitimacy	0.074 (0.07)	0.026 (0.07)	0.026 (0.07)	−0.008 (0.06)
GDP	0.149 (0.09)	0.118 (0.10)	0.035 (0.10)	0.012 (0.08)
Location	−0.053 (0.06)	−0.101 (0.06)	−0.106 (0.06)	−0.071 (0.05)
Independent variable				
Institutional voids (IVs)		−0.251 (0.05)	−0.278* (0.05)	−0.170* (0.04)
Moderating variable				
Founders' political ties			0.204** (0.04)	0.104** (0.03)
Two-way interaction				
IVs × political ties				0.484** (0.04)
Model fit				
F	25.68	27.81	29.17	116.29
R^2	0.46	0.51	0.55	0.68
Adj. R^2	0.44	0.49	0.53	0.66
ΔR^2	-	0.05	0.04	0.13

Note: Standard errors in parentheses.
*$p < 0.05$, **$p < 0.01$, and ***$p < 0.001$.

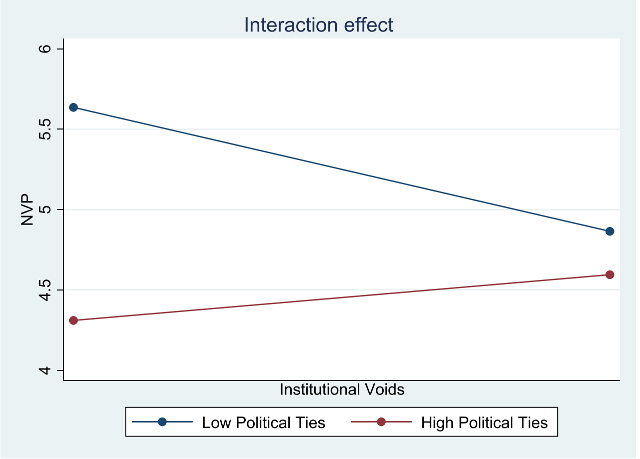

FIGURE 2 Interaction effect: institutional voids and founders' political ties on NVP

($\beta = 0.484$, $p < 0.01$). Consequently, Hypothesis 3 was accepted.

In Figure 2, we plot the significant interaction to facilitate the understanding of the moderating effect. The interaction between IVs and founders' political ties reveals that IVs negatively impact performance in new ventures with lower political ties. In relation to new ventures with higher levels of political ties, the higher the IVs, the stronger the NVP. Therefore, our study confirms the role of founders' political ties in mitigating IVs, which is reflected in improved NVP.

Robustness tests

We performed two additional analyses to ensure the robustness of the study findings. First, we re-estimated the model using an alternative measure of NVP as the main dependent variable (see Table 5). We used the three-item scale (Ahsan et al., 2021), which measures venture profit instead of NVP (i.e., profit margins, return on investment, and overall profit growth). The results remain unchanged and support our hypotheses: IVs were negatively associated with NVP ($\beta = -0.151$, $p < 0.001$); political ties were positively related to NVP ($\beta = 0.362$, $p < 0.001$); and founders' political ties positively moderated the IV–NVP relationship. Therefore, our findings were in the expected direction. Second, we tested our model using additional control variables such as environmental dynamism and entrepreneurial orientation. The results were consistent with our main findings

TABLE 5 Robustness analysis: venture profit.

Variables	1	2	3	4
Control variables				
Founder age	0.214*** (0.09)	0.200*** (0.84)	0.193*** (0.08)	0.064 (0.07)
Gender	0.015 (0.27)	−0.020 (0.27)	0.029 (0.25)	0.071 (0.21)
Education	−0.096 (0.10)	−0.076 (0.10)	−0.078 (0.09)	−0.009 (0.08)
Experience	0.222*** (0.05)	0.203*** (0.05)	0.184*** (0.04)	0.073 (0.04)
Venture age	−0.170 (0.12)	−0.170 (0.11)	−0.162 (0.11)	−0.172 (0.09)
Venture size	0.128*** (0.06)	0.159*** (0.06)	0.099*** (0.06)	0.086 (0.05)
Industry type	0.432*** (0.06)	0.420*** (0.06)	0.361*** (0.05)	0.260*** (0.05)
Legitimacy	0.010 (0.07)	−0.034 (0.07)	−0.034 (0.07)	−0.069 (0.06)
GDP	0.110 (0.10)	0.083 (0.10)	−0.005 (0.09)	−0.029 (0.08)
Location	−0.028 (0.06)	−0.071 (0.06)	−0.076 (0.06)	−0.041 (0.05)
Independent variable				
Institutional voids (IVs)		−0.231* (0.05)	−0.258* (0.05)	−0.150* (0.04)
Moderating variable				
Founders' political ties			0.216** (0.04)	0.114** (0.03)
Two-way interaction				
IVs × political ties				0.486** (0.04)
Model fit				
F	23.73	25.32	28.43	45.96
R^2	0.44	0.48	0.53	0.66
Adj. R^2	0.42	0.46	0.51	0.65
ΔR^2	-	0.04	0.05	0.13

Note: Standard errors in parentheses.
*$p < 0.05$, **$p < 0.01$, and ***$p < 0.001$.

DISCUSSION

This study investigates how founders of new ventures in developing markets overcome IVs, thereby improving their firms' performance. Specifically, it examines the moderating effect of political ties on the nexus between IV–NVP. New ventures need access to critical resources, such as financial and human capital, to survive and compete in markets that are characterized by institutional and competitive barriers. However, we note that IVs can impede new ventures' ability to access these resources, leading to increased costs (Khanna & Palepu, 1997) and lower competitiveness (Luthans & Ibrayeva, 2006: Manolova et al., 2008). We also posit that political ties can provide new ventures with access to valuable resources, such as land, skilled labor, and production facilities, as well as information about critical political decisions, investment plans, and government policies (Arnoldi & Villadsen, 2015). Empirical analysis, utilizing a unique dataset of 309 new ventures in Egypt, substantiates the argument that founders' political ties enhance NVP, whereas IVs impede it in developing market contexts. These findings are consistent with the conclusions of prior research (Anwar et al., 2018; Hiatt et al., 2018; Li & Zhang, 2007; Y. Zhu, 2020). Our results also indicate the enabling role of founders' political ties on the IV–NVP relationship. This result is in line with previous studies (Ge et al., 2019; Wang et al., 2022) on the critical role of political networking in mitigating IVs. These findings extend our understanding of the critical role of founders' political ties in facing IVs and enhancing NVP in developing markets.

Contributions to theory

The study makes several significant contributions to the existing literature. First, although previous research has focused on the effects of IVs on various settings, such as capital market development and formation (Kim & Song, 2017), social entrepreneurship and innovation (Turker & Vural, 2017), SME internationalization (Narooz & Child, 2017), and access to finance (Armanios et al., 2017), our study is among the first to specifically focus on the impact of IV on entrepreneurial outcomes, with a particular emphasis on NVP. Our study advances the discourse within the fields of entrepreneurship and IV by elucidating the adverse effects that the lack of established formal institutions, as well as constrained financial and human capital, exerts on market development and

NVP in developing markets. Building on the work of Barnard and Mamabolo (2022), Khanna and Palepu (1997), and Mair and Marti (2009), the study offers a fine-grained analysis of the ways in which IVs inhibit NVP in developing markets. This refined understanding provides a more focused lens on the critical intersection of IV and entrepreneurship literature.

Second, this study advances the resource-dependence (Pfeffer & Nowak, 1976) and political ties literature (Hiatt et al., 2018; H. Li & Zhang, 2007) by examining the moderating role of founders' political ties on the relationship between IVs and NVP, as such ties have been found to be critical in enhancing new venture success. Our analysis also seeks to determine whether such voids and ties complement or contradict each other. Our study builds upon and enriches previous research that has investigated the importance of non-market strategies and interpersonal networks in mitigating IVs (Cantwell et al., 2010; Cuervo-Cazurra & Genc, 2011; Puffer et al., 2010). Specifically, we focus on the role of political ties with various government officials (Peng & Luo, 2000) and how their absence can lead small business owners to depend on informal social connections to secure assistance from institutional officers in Egypt. From an IV context, research has extensively extended our knowledge by shedding light on the absence of formal rules.

Furthermore, the study further contributes to the entrepreneurial networking literature (Engel et al., 2017) by shedding light on the relationship between new venture founders and political actors, such as government officials and regulators, as mechanisms for gaining preferential access to information, support schemes, and resources. This is crucial in navigating institutionally constrained settings of a developing economy. Therefore, we enhance our understanding of how cultivating political networking capabilities (Boso et al., 2023; Kotabe et al., 2017) can simultaneously counteract the detrimental impacts of IVs and enhance new ventures' performance in the institutionally constrained settings of developing markets.

Additionally, our study extends the entrepreneurial networking literature (Engel et al., 2017) by shedding light on small businesses, which are largely overlooked in the current strategy and international discourse on cultivating political ties in developing economies. In addition, this study deepens our understanding by addressing the context surrounding new ventures operating in developing markets, which theoretically contributes to the IV view because of the unique aspects of new ventures and develops a better understanding of the direct and boundary effects of voids across institutional contexts. This research differs from previous studies that have primarily focused on multinational corporations and instead examines the unique challenges faced by new ventures in developing countries. Additionally, our study provides a single-country perspective, similar to Adomako et al. (2019), to examine the impact of IVs on new ventures in Egypt. Our findings suggest that new ventures in developing countries are likely to perform better when IVs exist in their operating environment. Overall, our study enhances the understanding of the role of institutions and networking in the development of new ventures in challenging environments.

Practical implications

This study provides several implications for new venture founders and policy makers. Our findings reinforce the importance of entrepreneurs' political ties with government officials and regulators as a means of gaining preferential access to valuable information and resources, which can offset the adverse effects of navigating IVs. The absence of formal market institutions and the presence of IVs in Egyptian new ventures necessitate the need for founders to recognize the potential impact of institutional contexts on their strategic directions and adapt their strategies accordingly. In this regard, building political ties through networking strategies (Wang et al., 2022) is crucial for new ventures in addressing IVs. Given the challenges posed by IVs, new venture founders must devote time and effort to acquiring valuable resources by building strong connections with various government officials and other regulatory organizations to increase their innovative capabilities and maintain their legitimacy. This strategy helps them deal with weak institutional environments and intense competition. Our findings suggest that consciously expanding political ties is an essential strategy for new venture founders to mitigate the effects of IVs on developing markets.

Our study has significant implications for policy makers, who are primary players and providers of scarce resources and business policies in developing markets. It is imperative that policy makers take an active role in supporting entrepreneurs by implementing initiatives such as mentorship programs, training, networking opportunities, and avenues for raising and accessing funds. These efforts, which facilitate networking between new venture owners and government officials, should empower founders to recognize the importance of acquiring new resources, information, and government policies that can significantly enhance their capacity to navigate IVs. By investing in such programs, policy makers can potentially boost the growth and survival of new ventures, generate more job opportunities, and create wealth and various economic benefits.

Limitations and future research

This study opens avenues for future research. First, our empirical findings are focused on the role of IVs in Egypt. Using this context may limit the generalizability of our findings to other economies. Future research could extend this scope to other developing and emerging markets where different institutional contexts and political ties play a significant role in the development of new ventures. Second, while this study focuses on the negative impact of IVs on NVP, it is important to recognize that such voids may also create opportunities for firms and entrepreneurs. Future research could, therefore, explore the mechanisms through which IVs positively affect new venture success in developing markets. Third, the literature suggests that the impact of IVs on NVP is a complicated issue. In this regard, our study examines the novelty of using founders' political ties as an important mechanism that affects this relationship. Future research could consequently investigate the underlying mechanisms that may affect the relationship between IVs and NVP, for example, forms of social networks such as business and family ties and environmental dynamism. Fourth, as our data are cross-sectional and were collected at a single point in time, this limits our ability to assume causality from our results. Another fruitful area for future research would be to employ longitudinal (panel) designs to analyze whether the impact of IVs changes over time. Although we used a survey questionnaire that included perceived measures for our variables, objective measures would be desirable, and scholars could use archival data to examine our research model, which will also support the longitudinal design. Additionally, we operationalize NVP via the financial performance measures of profitability and growth. Previous research in the networking and entrepreneurship literature (J. A. Zhang, O'Kane, & Chen, 2020; Zheng et al., 2015) has provided several additional variables that may better capture the aspects of NVP were not included in this study owing to data limitations. Therefore, future research may consider revising and extending our results by incorporating innovative performance, survival, and new venture internationalization as additional measures.

CONCLUSION

We investigate how founders' political ties moderate the impact of IVs on NVP in developing markets. Our hypothesize posit that, in order to fill such IVs, maintaining strong relationships with government officials can serve as a substitute for formal institutions, thereby facilitating the ability of new venture owners to address these voids and enhance their performance. Utilizing unique data from 309 new ventures in Egypt, our empirical findings support our main theoretical predictions that IVs have a negative impact on NVP and that founders' political ties exert a positive moderating influence on the IV–NVP relationship. The study makes theoretical contributions to the growing literature on IV and political ties and opens up fruitful avenues for future research. We hope that our study will inspire future researchers to explore the challenges related to NVP in developing markets.

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