

**INFLUENCE OF ENTREPRENEURIAL NETWORKING ON SMALL  
ENTERPRISE SUCCESS IN THE SERVICE INDUSTRY IN ELDORET  
TOWN, UASIN GISHU COUNTY, KENYA**

**BY**

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**NOVEMBER, 2014**

## DECLARATION

### Declaration by the Candidate

This thesis is my original work and has not been presented for examination in any study. No part of this work may be reproduced without prior permission of the author and / or Moi University.

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**DEDICATION**

I dedicate this thesis to my family for their enormous patience and support in every aspect (husband and children). My late father Willie K. Serem, an icon of genuine humility. My mother Prisca Jebitok Serem - she inspired me in all aspects of life.

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## ABSTRACT

The increasing use of networks in Micro and Small Enterprises (MSEs) has been reported as an influential factor in the development process of entrepreneurial activity. In Kenya Micro and Small enterprises are a source of livelihood of low income earners and also a major source of innovation in creating new products technologies and services. Despite availability of other resources, research indicates that MSEs die before maturity. While network relationships have been recognized as indispensable for MSEs to the achievement of growth, a particular focus on entrepreneurial networks in the service industry has been limited. The main objective of the study was to examine the influence of firm's entrepreneurial networking on the success of MSEs in Eldoret Town, Uasin Gishu County. Specific objectives were: to examine the relationship between entrepreneurial networks and enterprise success, to determine the relationship between entrepreneurial ties and enterprise success, to assess the relationship between trust and enterprise success and to examine the relationship between goodwill and enterprise success. The study was guided by Relational Theory of Social Networks. The study utilized exploratory survey design. Micro and Small business owners in the service industry were divided into a sample and a stratified random sampling technique was employed whereby a sample of 240 MSEs was drawn from a target population of 600 registered MSEs in the service sector, Eldoret Town, Uasin Gishu County. The study employed both qualitative and quantitative methods of data collection. Primary data was collected through the use of questionnaires and interview schedules. Secondary data was collected from municipal office, department of Small enterprise development. Data was sorted coded and analyzed using inferential statistics namely, Spearman's Rho Correlation, Analysis of variance (ANOVA) and multiple regression. The whole Cronbach reliability was significant at 0.834. The study found out that, there was a strong positive relationship between trust [ $r=.907$ ], good will [ $r=.833$ ], networking [ $r=.683$ ] and ties [ $r=.559$ ] on entrepreneurial success. This indicated that an increase in networks, ties, trust and goodwill lead to great entrepreneurial success. The study recommended that MSEs should be encouraged to use entrepreneurial networks to gather noble business information. The study findings could contribute to the literature of entrepreneurial Networks, theory development and could also assist to sharpen entrepreneurs' skills, policy formulation and further research in performance of MSEs.

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## OPERATIONAL DEFINITION OF TERMS

Several terms and concepts in this study will need definition to better understand the context and content of the study. The interests in this study are entrepreneurial networks, social ties, trust, norms and goodwill and other terminologies used in the study.

<b>Entrepreneur:</b>	Refers to a person who organizes and operates a business taking various risks.
<b>Networking:</b>	Refers to the exchange of information or services among individuals, group or institutions.
<b>Business Networking:</b>	Refers to an activity by which groups of like-minded people, business people recognize, create or act upon business opportunities.
<b>Entrepreneurial Networks:</b>	These are entrepreneurial linkages and connectivity through which entrepreneurs obtain information resources and social support(Thorelli,1986).
<b>Goodwill:</b>	Refers to a long term asset categorized as intangible asset
<b>Micro enterprise:</b>	Refers to a firm employing less than 3 employees (Sengaloun and Takahashi, 2010).
<b>Service Industry:</b>	Is defined as businesses offering service which in this case include food and hospitality shoe shining and repairs maintenance and transport of bicycles, motorcycles, photocopying, typing, tailoring, hospitality, M-pesa, saloon, barber service, computer repairs, watch repairs, radio repairs among others.
<b>Small Business:</b>	Refers to a firm employing less than 20 workers (Changati, 2006).
<b>Trust:</b>	Firm belief in the reliability, truth, ability, strength and integrity.
<b>Firms' resources</b>	Is defined as "Stock of resources of available factors that are owned and controlled by the firm which are

converted into final products through use of wide Range of the firm's assets and bonding mechanism" (Amit & Schmaker, 1993).

- Ties:** Refers to linkages from family, friends, competitors and business associates Nahapiet and Ghoshal, (1998).
- Networks:** Networks are defined as relationships between different actors (Gulati, 1995).
- Networking in business:** It is defined as activities in which the entrepreneurially oriented MSEs owners build and manage personal networks with particular individuals in their environment (Carson, 1995).
- Social capital:** In business is defined as 'the sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or a social unit' (Nahapiet and Ghoshal, 1998).
- Resources:** Is defined as "All assets capabilities, organizations process firm attributes, information among others controlled by a firm that enables it to improve its effectiveness (Barney, 1991).

**LIST OF ABBREVIATIONS**

<b>ANOVA:</b>	Analysis of Variance
<b>CBD:</b>	Central Business District
<b>EMC:</b>	Eldoret Municipal Council.
<b>GDP:</b>	Gross Domestic Product.
<b>ICT:</b>	Information Communication Technology.
<b>ITG:</b>	Information Technology group.
<b>KIPPRA:</b>	Kenya Institute of public policy and analyst.
<b>MSE:</b>	Micro and Small Enterprises.
<b>NESCB:</b>	National Economic Survey Central Bureau.
<b>NHC:</b>	National Economic Social Council
<b>OECD:</b>	Organization of Economic Co-operations and Development.
<b>RBV:</b>	Resource Based View.
<b>SME:</b>	Small and Micro Entrprises.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Overview**

This chapter presents background of the study, statement of problem, objectives of the study, research hypotheses, scope of the study, and significance of the study.

#### **1.1 Background of the Study**

The increasing use of networks for Micro and Small businesses has been reported as a factor of influential in the development process of entrepreneurial activity (Baines and Wheelock, 1998). According to Curran (1995), networks usually consist of firms' owner manager support agencies, voluntary associations and other bodies through which small firms connect to the wider economy. The process of networking usually involves participants in engaging in the activities which brings networks into existence.

While network relationships have long been recognized to be indispensable for MSE's to achieve growth (Johanson and Mattsson, 1988; Coviello and Munro, 1995; Lu and Beamish, 2001), a particular focus on social networks has been limited to date (Ellis & Pecotich, 2001; Harris, 2005). Scholars have recently emphasized that informal social networks or networks of social relationships serve as the initial basis from which formal networks of business linkages are developed in new territories (Chen and Chen, 1998; Chen, 2003), and through which exporting relationships are formed (Ellis and Pecotich, 2001). Past research (Losccoco, 1993) indicated that small business is the engine of economic growth in developed and developing countries

economies. Small businesses have contributed to economic growth and job creation and this is believed to be related to growth in total earnings (Loscoco, 1993).

In particular, empirical findings support that social networks are vital to the identification of new opportunities benefits to those who are connected by exclusive or non-redundant personal ties, irrespective of whether the nature of the social relations is strong or weak (Burt, 1992:1997). It is now widely recognized that related networks are able to reduce transaction costs or increase transaction values through facilitated exchange of resources, information (Stanford and Marshall, 2000). The study of networks has attracted growing attention in recent years, in a number of disciplines. For example, in sociology, the mapping and study of the number and extent of networks has generated considerable interest over the last 30 years. People are limited by bounded rationality and suffer from limited or biased information and poor communication, and are subject to processes of social influence and reconstruction of reality. Hence comprehensive explanations of entrepreneurship must include the social relationships through which people obtain information, resources and social support (Aldrich and Zimmer, 1986).

Past studies examining networks indicate that entrepreneurial networks is key to enterprise success, however these studies postulate that starting your own business is not only guided by individuals own attitudes and perceived abilities but also by their perceptions about others beliefs and behavior (Hetcher-Borland, 2001; Cialdini, 1980). An entrepreneur is always part of an economic and social network and the creation of business is the outcome of many influences in the understanding of entrepreneur's social network and relationship. A broad consensus exists among



entrepreneurs and enterprises scholars that networks play a central role in an enterprises growth (Hoang-Antonic, 2003) and that network relationship are necessary for the survival and business growth (Gulati, 1995; Hite-Hesterly, 2001).

Although researchers categorize entrepreneurship differently they all agree that research in entrepreneurship should concentrate with the early stage, how opportunities are detected and how new companies are created. Past research study suggested that (De Carolis Saporito, 2006) more research is needed to show how social entrepreneurial networks factors may influence entrepreneurial success. Although there seems to be a general agreement on the importance of new venture to the economic growth of regions and countries the agreement is not so strong when determining the factors that distinguish successful ventures from unsuccessful ones. In a data collected from informal enterprises which systematically collected information over 15 years in 1980 on 50000 enterprises employing upto 50 workers in Dominican Republic, Botswana, Kenya, Malawi, Swaziland, Zimbabwe Sierra Leone, Bangladesh, Jamaica, Thailand and Egypt. It indicated that 20% of these enterprises with four or less workers did not grow at all (Mead,1994:1999) The high 'death rate' of newly created ventures is an issue and the greater the amount of information obtained the more it will favor the developments of enterprises in the first years of life. Empirical findings of MSEs in Ireland identified the challenges faced by MSEs as lack of resources because of lack of information in terms of human and financial resources (Coviello and Aullery, 1995).

In a survey of 59 MSEs manufacturing industries in India researchers reported that, those who utilized networks registered a higher labour productivity and growth,

(Müller-Falcke, 2001). Similarly, in the scenario of Africa, a survey in MSEs in Botswana revealed the biggest information gap to new customers is the need to network. Information is also lacking about sources of skills and training. This lack of information was found to raise costs and reduce income (Prasad, 2004).

Past studies examined why business owners do not use networks as a resource of getting business ideas. This study discusses the use of networks in relation to business success in Micro and Small enterprises. These networks are formal or informal and it includes networks, ties, trust, and goodwill which have been argued to be critical in resource in small business firms. Networks are useful in setting up a successful business (Apitzschet, 2006; Anthias, 2006; Cruickshank and Rolland, 2006; Jarillo 1990; Nahapiet and Ghoshal, 1998) examined and noted that networks play an increasingly role in business firms. While the usage of networks has been done in developed economies, such research has not been done. According to a research on MSEs conducted at Kwame Nkuruma University of Science and Technology Accra Ghana, it was revealed that, Ghana was introduced to Internet by Network computer Systems. Today MSEs in Ghana are utilizing networking to get information (Obeng, 2004). MSEs in Ghana therefore have gradually intensified in networking and they benefited in gaining a competitive advantage, knowledge sharing, reductions in inventories cost saving and best transfer of services. The internet is a powerful channel for reaching new markets and communicating information to various stakeholders (Obeng, 2004).

According to Kenya's Economic Survey 2008 (ROK, 2008), MSEs were found to be faced with the challenges of the growing competition in the market place, the advance

of manufacturing technologies, and shorter product lifecycles has exerted strong impacts on the entire MSEs. Past statistics indicates that three out of five businesses fail within the first few months of operation and some of the problems cited were, lack of access to credit inadequate managerial and technical skills and low levels of education (Kenya National Bureau of Statistics, 2009). According to ITG in Hanna, (2010) Market signals on business opportunities and customer trends are not communicated effectively to MSEs, who perform better in information rich environments (KIPPRA, 2006). From a Survey conducted in Kenya and Tanzania (Matambalya and Wolf, 2007) MSEs who used different forms of networking rated their effects mostly positive. Studies indicate a low adoption of ICT by MSEs (Ritchie and Bridley, 2005; Kiveu, 2008) MSEs have not harnessed ICT potential as compared to larger enterprises that enjoy better market access. In a Study of the graduation of MSEs in Edoret town according to Municipal Achieves report Most enterprises that start small continue to be small: in the segment of enterprises of four or less workers only 1% graduated to the next size category of more than 10 workers The results also show that enterprises with four or less workers (, 98%) do not graduate to the next size category of five workers and mor do not graduate to the next size category(Kenya National Bureau of statistics, 2010.)

Moreover such studies of networking in Micro and Small enterprises in the service industry in developing countries are limited, especially in the context of Kenya. The scarcity of this type of research makes it particularly important to explain the extent to which these western findings in relation to resources are applicable to developing countries given the differences in social structures between developed and developing

countries. There is little or no research on networking in Micro and Small service industry in Kenya.

## **1.2 Statement of the Problem**

Despite high potential in contributing to economic development, MSEs continue to face binding constraints that limit their potential growth. Lack of market information high transaction costs and short life cycle continue to persist despite numerous policy interventions. This calls for a new approach to address networking problems in the sector. Past research studies have indicated that three out of five MSEs die before their maturity. Past studies have also noted that, the low performance registered by MSEs may be attributed to lack of information which can easily be achieved through networking. Yet, there is still an urgent need for academic research to systematically investigate the influence of networks on enterprise success; past studies indicate that Micro and Small enterprises owners focus on other resources like finance and personal goals which influence success other than networking. Networking in MSEs is scanty and this study undertook to bridge the gap. Past studies in developed economies report that there has been little empirical evidence to date of an association between the enterprise and the owner's use of networks in a developing economy such as Kenya. Most of the research has been conducted on the nature and the structure of networks; hence there is a gap in the influence of networks in MSEs.

Network effectiveness is proposed to positively influence venture success, past research from developed economies, further emphasized that socially effective new venture founders experience more new venture success than venture founders who are not socially effective. The study posited that profits are substantially higher for

entrepreneurs who know family network and extensive network do better in business comparatively, therefore networks is associated with entrepreneurial success. Past research indicates that social ties yield a tighter structure which eventually yields to enterprise success. The studies further noted cohesive group's circles are crucial for the advancement and necessary rapid scientific growth in an enterprise. Past studies argued that the most entrepreneurial effective group and organization are those with the highest level of trust and goodwill.

Goodwill from various stake holders like family, friends and other people contribute to entrepreneurial success. Entrepreneurial networks are an issue of concern to entrepreneurs given the challenges of business related to competition, and the factors affecting entrepreneurial success. However, networking has received little attention in business given that an understanding of entrepreneurial networks can be a major factor in shaping entrepreneurial success. While past studies have discussed the influence of networks on entrepreneurial success in developed economies, little has been done in a developing economy such as Kenya and more so on entrepreneurial networking in the MSEs in the service industry in Eldoret Town.

### **1.3 The Main Objective**

The Main objective of this study was to examine the influence of Networking on enterprise success.

#### **1.3.1 The Specific Objectives**

In order to achieve the broad objective of the study the following specific objectives were addressed.

- i. To examine the influence of entrepreneurial networks on enterprise success.
- ii. To determine the relationship of ties on enterprise success.
- iii. To assess the influence of trust on enterprise success.
- iv. To examine the relationship between good will and enterprise success.

#### **1.4 Research Hypotheses**

**H<sub>01</sub>:** There is no significant influence of the entrepreneurial networks on enterprise success.

**H<sub>02</sub>:** There is no significant difference between the ties and enterprise success.

**H<sub>03</sub>:** There is no significant difference between trust and enterprise success.

**H<sub>04</sub>:** There is no significant difference between goodwill and enterprise success

#### **1.5 Justification of the Study**

This research was undertaken to enhance the business owners to identify if entrepreneurial networks influence the performance of Micro and Small enterprises while focusing the stated networking of the firm which included networks, ties, trust, norms and goodwill.

#### **1.6 Significance of Study**

The study is significant in that it could enhance the business owner's entrepreneurial skills by which in turn will improve entrepreneurial performance. As such, the study findings could be used as a stepping stone towards improving the Micro and Small enterprises which are the livelihood of low income earners. The findings may be useful to policy makers, contributes to the literature and theory development. It is hoped that the results of this study will assist the Ministry of Trade and Industry to

establish supportive policy formulation and development of framework for entrepreneurs.

### **1.7 Assumptions of the Study**

The assumptions in this study were, firstly, respondents may be open, cooperative and provided reliable answers to all items. All the respondents were equally affected by the indicators under scrutiny.

### **1.8 Scope and Delimitation of the Study**

The main objective of the study was to examine the influence of firm's entrepreneurial networking and its influence on the success of MSEs in Eldoret Town in Uasin Gishu County. Secondary data was collected from Eldoret Municipal department of small enterprise, while primary data was collected through the use of questionnaires and interview schedules. Micro and Small business owners were the respondents for the study. The study was conducted between February and June 2014.

The researcher anticipated positive results from the respondents by being cooperative and giving relevant information. The study was delimited to MSEs operating within Eldoret Town as it has a conglomeration of many MSEs of different types. Eldoret Town is more convenient and accessible for this type of study as it brings together the various types of businesses within a small area.

### **1.9 Limitations of the Study**

Although there are problems in any research design, strong attempt was made to help limit the effects of relevant issues through proper planning for stronger and overall research study. The non-response on the survey posed a problem among the business owners. This research also relied on data involving registered small businesses and those non-registered with only licenses for operating business in Eldoret Town, this may have deferring effects. The researcher also faced challenges when administering questionnaires the case being that some businesses opened late and some closed early. The researcher was faced with the challenge of meeting the business owners who were either away or engaged in other activities. The challenge of measuring success affected the researcher and this is because measures vary for variety of reasons of timing, depreciation, and accounting methods. However some owners of business were not willing to respond to items relating to their finances hence the researcher adopted the subjective measure.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presents a review of the related literature of the study, theoretical perspective and conceptual framework.

#### **2.1 Concept of Entrepreneurial Networking**

Past research studies posited that the use of networks for MSEs has been reported as a factor which influences development process of entrepreneurship activity (Baines and Wheelock, 1998). Networks usually consist of firm's owner manager's support, support agencies, voluntary associations and other bodies through which firms connect to the wider economy. Since the 1960s, the network metaphor has been employed extensively to analyze any kind of interaction among individuals, groups and organizations. It has, therefore, been applied in many different fields, such as sociology, political science, organization theory and more recently in business. Other studies revealed that, Networking in a small firm context is defined as activities in which entrepreneurially oriented Micro and Small enterprise owners build and manage personal relationship with particular individuals in their environment (Carson, 1995). Networks are defined as relationships between different actors (Aldrich and Zimmer, 1986; Gulati, 1995). Nowadays, in a broad sense, we use the term network to indicate a social structure that includes a set of relationships between a group of individuals, while the term networking is used for the activity by which this kind of structure is built, developed and run.

The concept of network includes four key components: actors, links, flows and mechanisms (Conway, 2001; Conway and Jones, 2006). The actors are the individuals that make up the network and are usually represented graphically as the nodes of a web. They may be different kinds of entities, according to the nature of the phenomenon to be analyzed: human beings, places, computers, organizations or – in the case of our area of interest – firms. The links (or ties) are the arches that connect individuals' nodes and represent the relationships between the actors. They may have different forms, directions, lengths and intensities. The flows indicate the exchanges that occur between the actors within the network and may have different natures and transaction contents: flows of information, advice, money, goods (raw materials, components, and equipment), power, friendship, etc. Finally, the mechanisms of the network are the modes and rules of interaction employed by the actors within the networks. Depending on the different aims of the networks, they include face-to-face interactions, meetings, planning, and joint participation (for instance) in trade fairs or business seminars and can be more or less structured, formalized, planned and active. The application of the concept of network (and the subsequent social network approach) to the relationships between business organizations originates in the mid-1980s (Conway, 2001; Conway and Jones, 2006).

In his seminal work, Thorelli (1986) defines business networks as an intermediate form between 'hierarchy' and 'market', the two alternative modes of organizing economic activities. Thorelli sustains that, through building lasting relations with other actors, firms within networks can compete efficiently, reducing the costs of transactions (typical of markets) without incurring large investments (typical of the hierarchical mode of organizing economic activities). According to resource-based

views of strategy, firms with valuable, rare, and networks (including non-substitutability) have the potential for achieving superior performance (Barney, 1991; 1994).

In a business management context, networks are sometimes seen as a key element of the social resources which small businesses are able to exploit in order to build their skills and ties overcome some of entrepreneurial challenges and potential institutional barriers (Starr and Macmillan, 1990) by providing access to other links that can be used to develop the business. From a business perspective Curran and Blackburn (1995) have pointed out that firms can enter into a wide variety of external relationships with suppliers, customers, accountants, solicitors, banks, trade associations and business support agencies. Some of these relationships are voluntary, whilst others may be a necessary part of undertaking business activity, although such relationships need not have been expressly formed for such a purpose. Those links which are essentially transaction based may be considered value added network links if, for example, the firm receives market information from the customer that goes beyond that necessary to complete an individual transaction.

## **2.2 Theories Guiding the Study**

The theories of this study will be drawn from relational theory of social networks and structural theory of networks. The section discusses the theory then the networks and its relationship in the enterprise success.

### **2.2.1 The Relational Theory**

The central foundation of social network theories is the transmission of knowledge or useful information through interpersonal ties and social contacts with individuals (Mitchell, 1969). According to Granovetter (1985) he stated that relational theory of social networks states that sporadic interactions of weak ties are effective means for gaining noble information and accessing to diverse pools of information sources. In contrast, strong ties are characterized by frequent and stronger social interactions, where information is perceived to be more trustworthy (Granovetter, 1985), and thus more effective in the transmission of tacit and complex knowledge for experiential learning (Sorenson, 2003).

The dimension of relational capital is based on the idea that firms are considered not to be isolated systems but as systems that are, to a great extent, dependent on their relations with their environment. Thus, this type of capital includes the value generated by relationships not only with customers, suppliers or shareholders, but with all stakeholders, both internal and external. The relationships of this type that contribute value to the firm are considered to be relational capital. In other words, it is the knowledge that is found in the relationships between the organisation and its reference groups. Sveiby (2000) calls this dimension the external component and includes in it the relationships with customers and suppliers, the product names, registered trademarks, the reputation and the image. Some of those elements can be legally protected while in other cases this is practically impossible.

### **2.2.2 The Structural Theory**

The structural theory of social networks (Burt, 1997) also emphasizes the information value of social interactions and personal contacts. In particular, Burt's (1992) notion of 'structural holes' features both an appeal to the brokering opportunities of a social network full of disconnected contacts and an appeal to the advantages of the diversity of information and, implicitly, knowledge and learning that could take place with access to timely information and referrals to other contacts in the network. Burt's (1992) also stated given that individuals linked within the same social network tend to have redundant information, the spread of information about new ideas and opportunities typically comes through those bridging ties that link individuals in separate networks of social relations (Burt, 1997).

Social network theories are of growing significance in various literatures, including organizational studies (Batjargal, 2003), strategic management (Adler and Kwon, 2002) international marketing (Ellis and Pecotich, 2001) and the most recent entrepreneurship and international business research (Ellis and Pecotich, 2001). In the extent literatures, however, many different terms have been used to describe the meaning of social networks, such as social ties, interpersonal relationships, personal connections, social relations, and relational networks.

### **2.2.3 Social Capital Theory**

The theory related to the study is social capital theory, which rests on the premise that in addition to purely economics-driven contractual relationships, important socially driven dimensions also need to be taken into account. Researchers from various disciplines have in recent years increasingly focused on social capital theory, on

interpersonal relationships in social systems (Burt, 1997; Nahapiet and Ghoshal, 1998; Lin, 2002; Adler and Kwon, 2002). Social capital can be seen as resources embedded in a particular social structure, while at the same time being made accessible and mobile by purposive actions (Lin, 2002; Bolino, 2002) summarize previous research on social capital by concluding that individuals work together more effectively and efficiently when they know one another, and trust and identify with one another.

Social capital is composed of individual and collective social networks, ties and structures that help the individual get access to information and know-how. Aldrich and Wiedenmayer (1993), in his study found that social ties connecting entrepreneurial actors to resource providers (other entrepreneurs and knowledgeable individuals) facilitate the acquisition of resources and the exploitation of opportunities. Social ties can either be strong or weak. In the literature, weak ties have often been associated with idea generation, whereas strong ties tend to be related to problem solving (Barton and Sinha, 1993; Henderson and Cockburn, 1994).

Some researchers suggest that weak ties are more effective means for knowledge sharing. Persons in networks characterized by weak ties are more likely to gain access to noble information than those networks characterized exclusively by strong ties (Granovetter, 2007). To collect information and establish business relations, the entrepreneurial actor needs to get in contact with other people who can provide complementary knowledge and resources (Johannisson, 2000). These people might be reached directly or indirectly through private or business-related ties.

However, strong ties based on personal relationships may also play important economic and social roles during entrepreneurial agency (Hu and Korneliusson (1997)

showed that personal ties result in improved company performance. Support, knowledge and complementary links may be acquired through such social ties, resulting in social cooperation between key players. Johanson and Mattson (1987) and Powell (1990) attribute success in interorganizational relations to sentiments of friendship and the sense of diffusing personal obligations (social contracts) that arise between people involved in exchange relationship.

#### **2.2.4 Theory and Hypotheses Development**

The constructs under study are entrepreneurial networks, ties, trust, and goodwill. The conceptualization is shown in figure 2.1. Most researchers posited that a particular focus on social networks has been limited to date (Ellis and Pecotich, 2001). Scholars have recently emphasized that networks or networks of social relationships serve as the initial basis from which formal networks of business linkages are developed in new territories (Chen, 1998:2003). In particular, empirical findings support that social entrepreneurial networks are vital to the identification of new opportunities benefits to those who are connected by exclusive or non-redundant personal ties, irrespective of whether the nature of the social relations is strong or weak (Burt, 1992:1997). Past studies indicate that entrepreneurial network relationships contribute to achievement of growth (Johanson and Mattsson, 1987).

Aldrich and Wiedenmayer (1993) in their study found that social ties connecting entrepreneurs to get resources and knowledge which facilitate the acquisition of resources the exploitation of opportunities which can lead to the success of an enterprise. Other studies report that interpersonal trust is vital in all market transactions which improves the performance of business enterprises (Granovetter, 1985). The effect of family

controlled firm on earnings mentioned that family controlled firm has a better knowledge of their business activities which enabled them to detect goodwill manipulation of information which can give affirm competitive advantage. The effect of family controlled firm on earnings mentioned that family controlled firm has a better knowledge of their business activities which enabled them to detect manipulation of information which can lead affirm to gain competitive advantage. The studies explained further that competitive advantage focuses on competitive strategy where firms may create competitive products markets in order to obtain more economic business performance.

Past studies Putnam (1993:1995:2000) also suggests that networks, and the associated growth of public trust in business. Putnam's study regarding the issue argued that in American areas with lack of homogeneity, some individuals neither participated in bonding nor bridging social capital. In societies where immigration is high (USA) or where ethnic heterogeneity is high (Eastern Europe), it was found that citizens lacked in both kinds of ties and were far less trusting of others than members of homogenous communities were found to be. The social capital theory states that, capital includes the value generated by relationships not only with customers, suppliers or shareholders, but with all stakeholders, both internal and external. The relationships of this type that contribute value to the firm are considered to be relational capital. In other words, it is the knowledge that is found in the relationships between the organisation and its reference groups. Sveiby (2000) calls this dimension the external component and includes in it the relationships with customers and suppliers, the product names, registered trademarks, the reputation and the image.



## **2.3 The Constructs of the Study**

### **2.3.1 Entrepreneurial Networking**

Networking in a small firm context is defined as activities in which entrepreneurially oriented MSEs owners build and manage personal relationship with particular individuals in their environment (Carson, 1995). Many small firms cooperate beyond their individual scope with other organizations, large and small to exploit new technologies in networks. This is considered as entrepreneurial networking (Groen, 2005). Research has highlighted that entrepreneur's network build support systems. These networks are used as strategic alliances for specific purposes including how to manage business, access to resources, develop ideas and cultivate social support (Moore and Buttner, 1997).

Other researchers define networks as an intermediate form between 'hierarchy' and 'market', the two alternative modes of organizing economic activities (Thoreli, 1986). He argues that sustaining and building lasting relations with other actors, firms within networks can compete efficiently, reducing the costs of transactions without incurring losses. Networks refer to the inter-personal linkages that make up social life. There are many cases of networks, both bilateral and multilateral, which impinge on and help to shape the economic sphere. However, to understand how these networks impact on social and economic life, it is necessary to examine their qualitative nature and the strength of the ties that hold networks together, as well as simply demonstrating their existence.

Networks can range from weak ties of acquaintances that can move between groups carrying both ideas and information, to the strong ties of families where in-group

solidarity may actually militate against multiple identities and co-operation with outsiders (Granovetter, 2007). Today's market conditions are forcing companies to adapt to changes in order to survive, grow and be competitive. Such changes include intercompany cooperation and networks which allow for competition and innovation in a dynamic environment. Today almost all industries are affected by the evolution of networking relationships within and between firms; however, previous studies have revealed that companies differ in their competitive strategies, technological orientation and methods of networking. Most of these studies have linked networking with performance with less empirical evidence on linking networking in SMEs with company growth. There are different types of networks depending on the firm. O'Doherty (1998) identified the main categories of networks as follows:-

**Informal and unorganized Networking:** This is the most basic form of networks consisting simply of firms helping other firms. It does not require any form of conscious facilitating or brokering, even though there may be room for some type of third party assistance for awareness rising to nurture habits of mutual help.

**Membership-Based Networks:** This includes traditional industry associations where members pay dues and commit themselves to a certain level of joint problem solving, but where their business success does not depend significantly on the actions of other members. While getting firms to commit to this level of interaction is not easy by any means, the relative lack of interdependence makes this type of co-operation easier to organize and facilitate than more closely-knit networks.

**Customer-Supplier Networks:** This involves a number of supplier firms co-operating with each other in meeting the needs of a customer, who often sets up and facilitates the collaboration.

**Independent Networks of Firms:** These are small, formal groups of sometimes competing firms who carefully select each other and agree to co-operate significantly with each other (often at a high level of trust) in 'horizontal' networks, in order to achieve some benefit not available to them independently. Examples include: co-production networks where firms cooperate in manufacturing components, assemblies or finished goods; co-marketing networks where firms jointly market their products; learning networks in which firms seek to learn collectively about some complex changes essential to improving their competitiveness; research networks in which firms pool resources to develop a new product or process.

**Development Networks:** Bilateral, organizational or personal, regular and purposeful contacts between MSEs or entrepreneurs. No business relationship exists; it is enough that entrepreneurs openly discuss things that have been experienced as important. The difference between this and informal discussions of entrepreneurs is that in a developmental circle the meetings are regular. This kind of cooperation aims at learning from each other and is considered mutual mentorship within a group (Vesalainen, 1999).

Success of a company depends on its collaboration with other organizations that influence the creation and delivery of its products or services (Valkokari and Helander, 2007). Networks of MSEs are especially based on personal relationships

where the small companies' networks overlap with entrepreneurs' networks (Biggiere, 2001). Other research carried out in Slovenia on the impact of entrepreneurial networking suggests that, networks could be characterized by many attributes. (Witt, 2004) analyzed three groups of network characteristics namely, activities to build networks, structure of network, and acquired information by network partners. A number of different items have been suggested in the reviewed literature to measure networking activities. One of the proposals is to state the amount of time an entrepreneur invests in a defined period on the creation, preservation, and enlargement of his personal network. Another suggestion to measure the frequency of communication between the entrepreneur and network partners during a defined time (Witt, 2004; Ostgaard and Birley, 1994). However, the structure of network could be measured by different items, such the size of an entrepreneur's personal network and the heterogeneity of network contributors or their diversity (such as different groups of people - family, friends, and business partners). Another structural measure is the density of network (Witt, 2004), which means the number of direct relations between the entrepreneur's personal network partners (Witt, 2004; Hansen, 1995). The third attribute of the network characteristics is the output of the network, which consists of benefits attained through entrepreneurial networking activities (Witt, 2004). The benefits could be measured by frequency of new information provided by other contributors in the network or by their supportive actions. From the above suggestion it can be concluded that networking activities represent an adequate way of gathering information (Ostgaard and Birley, 1994). The information exchange contributes to greater efficiency as a result of lower transaction costs (Jarillo, 1990).

Networks are useful in setting up a successful business (Apitzsch, 2006, Anthias, 2006). The scholar's postulate that in a research undertaken in a female Eastern European Restaurant, advertised the services provided. The findings registered and posted a positive image of the restaurant and their profits increased rapidly. Starting from the mid-1980s research has highlighted the relevance of social networks and collaborative strategies as tools for contributing to the development and success of firms, particularly MSEs. Joining a strategic network or alliance has been acknowledged as a valuable path for MSEs striving to gain a sustainable competitive advantage within their business environments: lower transaction costs, social capital creation, entering foreign markets and achieving economies of scale have all been reported as positive outcomes of establishing ties with other firms in the markets (Cruickshank and Rolland 2006; Nahapiet and Ghoshal, 1998). Building on this new social network perspective, the entrepreneurship literature has emphasized the importance of networks to small firms, particularly as a means of obtaining resources which would otherwise be unavailable to them (Starr and MacMillan, 1990). In particular, research into entrepreneurship in transition economies shows that social capital is an important determinant of resource acquisition and that many of the competitive advantages of transition economies are based on network relationships (Hoskisson, 2000; Manev, 2005; Manolova, 2002). Some researchers reported new options regarding the ways small businesses may build their competitive advantage, in both domestic and international markets (Johannisson, 1987:2000).

By developing networks, small firms can obtain support for their activities in the domestic market. Moreover, cooperation among MSEs has also proved to be beneficial for promoting exports by favouring both the start-up of export activities and

improving export performance. Network-based research has shown that the internationalization process of firms is largely driven by network relationships, the establishment of which is even more important for MSEs, as they face a variety of internal constraints due mainly to the lack of financial and managerial resources have shown that SMEs rely extensively on networks in pursuing international opportunities (Johannison, 2000). Network links also help MSEs to overcome the risks and challenges associated with foreign market entry decisions. Small entrepreneurs accumulate social capital in networks that support their pursuit of growth opportunities, including internationalization. The information, knowledge and resources that may be useful in exploring foreign markets are generally drawn from the formal and informal contacts that entrepreneurs establish outside their organization. In inter firm networks, the competitive advantage of each firm is linked to the advantages of the network of relationships in which the firm is embedded, as these relationships may provide valuable 'rents' for both the network and the member firms. However, the creation, maintenance and development of social capital within a network is a costly task. The process of forming and exploiting the networks requires investment and time. Furthermore, the process is subject to constant (but not necessarily rational and well-informed) assessment of its relative costs and benefits by the network members.

While network relationships have long been recognized to be indispensable for SMEs to achieve international growth (Johanson, 2000; Coviello and Munro, 1995; Lu and Beamish, 2010; Hadley and Wilson, 2003), a particular focus on networks has been limited to date (Ellis and Pecotich, 2001; Harris and Wheeler, 2005). Scholars have recently emphasized that informal social networks or networks of social relationship

serve as the initial basis from which formal networks of business linkages are developed in new territories (Chen,1998:2003), and through which exporting relationships are formed (Ellis and Pecotich, 2001). In particular,empirical findings support that social networks are vital to the identification of new opportunities benefits to those who are connected by exclusive or nonredundant personal ties, irrespective of whether the nature of the social relations is strong or weak (Burt, 1992:1997).

It is now widely recognized that related networks are able to reduce transaction costs or increase transaction values through facilitated exchange of resources, information, and knowledge(Standifird and Marshall, 2000).The study of networks has attracted growing attention in recent years, in a number of disciplines. For example, in sociology, the mapping and study of the number and extent of networks has generated considerable interest over the last 30 years. People are limited by bounded rationality, suffer from limited or biased information and poor communication, and are subject to processes of social influence and reconstruction of reality. Hence comprehensive explanations of entrepreneurship must include the Social relationships through which people obtain information, resources and social support (Aldrich and Zimmer, 1999).

Similarly, in a study of 1710 German firms found out that ventures operated by founders indicated that owners who maintained larger networks with a mix of different business people (i.e. prominent business people in the community, competitors and strategic alliance members) broke even more quickly and experienced higher sales than businesses operated by owners with less networks (Davidsson and Honig, 2003). Firms participate in network relationships with others

to reap the resources that are unavailable within. The resources may consist of goods, services, information, advice or support. The flow of resources into the firm has the potential enhance the capability of a firm to react to the external competitive environment. Generally network relationships can be formal and/or informal. For a small firm, a network is more likely to be informal and have social links to individuals such as family, friends and acquaintances. Thus, an entrepreneur's social capital includes all the entrepreneur's social networks who assist the entrepreneur in starting and running a business (Burt, 1992) indicated that new ventures started by founders with high levels of social capital experience more new venture success than new ventures started by founders with less social capital (Bruderl and Preisendorfer, 1998; David'sson and Honig, 2003; Florin, Lubatkin, and Schulze, 2003). However, there is still much to learn about the relationship between social capital and venture success (Hoang and Antoncic, 2003).

Empirical research on the topic indicates that' networks is proposed to greatly enhance an entrepreneur's ability to perform functions such as gathering critical information, recruiting and hiring competent employees, and raising capital (Baron and Markman, 2003). New venture founders who are in the early stages of venture creation must forge many social relationships from scratch with a variety of stakeholders such as customers, suppliers, local authorities, prospective employees, and investors. Further, the new venture itself has little legitimacy during these early stages of development (Williamson, 2000). Due to this limited amount of firm legitimacy, when new venture founders are forging important social relationships with stakeholders, they will probably not be able to rely on factors such as the new venture's reputation, good name, and being aligned with industry norms (Aldrich,



1999). Thus, the new venture founder will likely need to rely heavily on her/his personal networks and social effectiveness when developing important social relationships with stakeholders. Hence, it is believed that a new venture founder's networks and social effectiveness are crucial factors in whether a new venture founder will be able to establish fruitful social relationships with stakeholders and thus enhance their chances of establishing a successful firm.

Networks are theorized to be valuable during the venture creation process because it provides founder's access to a body of individuals from whom to gather market knowledge and other critical resources necessary to identify and exploit opportunities (David'sson and Honig, 2003). Specifically, empirical research indicates that new venture founders with more social ties were better able to obtain information necessary to identify and exploit opportunities (Ozgen and Baron, 2007). Similarly, social effectiveness is proposed to new venture founders develop stronger and more productive relationships with other individuals such as stakeholders (Baron and Markman, 2003). Such stronger relationships are expected to help socially effective new venture founders create more successful firms than founders who are not as socially effective. Further, there is still much to learn about the relationship between social capital and venture success (Hoang and Antoncic, 2003).

According to Perry (1999), small firm networks are constructed around social networks developed through associations formed by family, friends and acquaintances. The small firm networks can be viewed in the form of types of networks that are represented by different linkages, which are family and ethnic, place, organizational, and buyer supplier networks. The linkages of family and ethnics

are based on the utilization of personal and family contacts that are usually embedded in close-knit communities (Fadahunsi, 2000; Perry 1999; Ram, 1994). The examples of this type of network are the Overseas Chinese networks, ethnic minority enterprise and business family (Fadahunsi, 2000; Haley and Tan, 1999; Perry 1999; Ram, 1994). They engage in business activities that can operate on the basis of capital and gain an advantage from the flexibility of labour drawn from family members. The place network, which is usually referred to as an industrial district network is based on cooperative and competitive business relations in a geographical locality.

Small firm networks may be distinguished by different linkages according to the form of the type of network (Perry, 1999). However, they share the same structural characteristics. The small firm network can be measured by its characteristics, the density, diversity, relationships and ties, trust and network content (Birley, 1991; Johansson, 2000). In an investigation of the level of co-operation within the wine tourism industry in the Niagara region. Telfer, (2001) reported that formal and informal collaboration, and vertical and horizontal linkages exist between all sectors.

In another example, a social or informal network is considered to play an important role in the business development of micro and small firms in the hospitality sector (Lynch, 2000). In a home stay networking study, Lynch (2000) suggests that networks at all levels are more likely to be informal with a high content of affective relationships. In the networking activity, the hosts were identified as giving advice on cost cutting and reference for good practice. As a result, the informality is seen to influence the quality of host and supports interventions, and the training and development of the host family sector. Lynch (2000) predicts that there may be

similar relevance in other accommodation sectors. Furthermore, the context of Lynch's (2000) home stay networking study was in an urban setting; thus, it is appropriate for further research to take place in a rural setting. Moreover, networking activity is considered important to the small tourism and hospitality firms for their survival. Therefore, networking activities allow the small firm owner-managers to learn from others' success factors as well as to obtain information and advice on business and social matters which eventually lead to business success. However, how small tourism and hospitality owner-managers participate in the networking has not been explored in any depth.

#### **2.4 Entrepreneurial Ties**

Ties are linkages from family, friends, partners and business associates. Nahapiet and Ghoshal, (1998) believe that if the relationship among members is closer, group members will have a common vision, which can facilitate the exchange and combination of resources. Other researchers report that entrepreneurs need ties as one of the resources to enhance their business networks and suggested that family social ties play a crucial role in building up business empires (Anthias, 2002). Other researchers reported that in a research conducted in South of England which involved entrepreneurs in the food sector, one Greek family run a successful restaurant business selling English food and branded it Greek in this because the owner did not want to be branded as non-English (Anthias, 2006). They also used ethnic ties to recruit their staff which lowered their employee's turnover. The characteristics and categories of the resources acquired via the network rest with the variety of networking members. Since range means the variety and number of connections

according to Burt (1982:1992), the broader the external network is the easier to have access to resources.

According to Mesquita and Lazzarini (2008), in developing countries or at least in countries without a supportive environment, due to the weakness of infrastructures and institutions MSEs can achieve greater efficiencies and obtain access to global markets by building vertical and horizontal ties with other small firms. They support this statement with the results of an empirical analysis of 232 Argentine furniture MSEs in the Province of Buenos Aires, concluding that horizontal relations promote collective sourcing of resources and joint product innovations, while vertical relations can increase manufacturing productivity.

The level of ethnicity ties has a lot of impact on entrepreneurial success. The authors highlighted that ethnic groups are characterized by use of mobility (Wright, 1998). Ties and bonds have a link with various groups in terms of business concerns. Whilst networks and ties are a focus also in the work of Putnam (1993; 2000), who according to Savage (2005) has developed theoretical framework, as well as Coleman (1988: 1990), unlike Bourdieu these are considered in terms of their ability to produce solidity forms of sociality. Putnam (1993, 1995 and 2000) focuses on civic engagement as well as social networks, trust and reciprocity. In addition he differentiates between bonding and bridging social capital. Bonding ties are identification and close knit solitary ties, whilst bridging ties are ties which are looser and more associational (Putnam, 2000). Bonding networks links directly with social ties articulated through homogeneity of values and interests such as those attributed to

ethnic groups (although it is questionable whether such bonds actually require such strong forms of similarity (see Anthias, 2002).

Bridging social ties are related to loose knit solitary ties which articulate common interests shared by those who belong to different ethnic groups. Hamilton (1991) found that business networks in the form of social (relationship) capital based on interlocking connections (Quanxi, in the Chinese context) provide Asian firms with a wide range of competitive advantage, such as reduced transaction and search costs for buyer. Many firms are challenged to be competitive globally. Lindqvist (1988) found that the pace and pattern of international market growth and choice of entry mode for small firms is influenced by close relationships with customers.

The importance of trans-ethnic ties (Anthias, 1998) is central in a modern state and negates the most exclusionary boundary formation practices hailed by the ethnic category there is a problem in the ways the distinction between bonding and bridging is made in the work of Putnam. The definitional elements here have the danger of becoming essentialist in as much as the boundaries between bonding and bridging may be flexible and changing, depending on context and meaning. This is because there is always a problematic relating to what and who is the group and who belongs or doesn't belong to it. Moreover, bonding ties which denote strong business connections are seen as a resource. This ignores the differential power relations within groups which include those of gender; class and generation (Edwards, 2004). A key area of exploration in research on transnational families, for example, is the ways in which social ties is variously distributed across and within communities (Reynolds, 2004; Zontini, 2004). Moreover, an unproblematic notion of community (Amin, 2005)

underpins social capital approaches. An additional problem is that it conflates social ties as a property of individuals, social networks, or the society as a whole (Bankston and Zhou, 2002; Portes, 1998; Portes and Landholt, 1996).

Moreover, co-ethnic ties differ in terms of the links that they possess and are differentially classified (Portes and Rumbaut, 2001, Anthias, 2006). Using ethnic contacts for business in such cases for example can lead to access to business information. Networks depend on the position in the hierarchical social order. Therefore, as Bindi Shah has recently commented (Shah, 2007) we need to look at the ways in which gender and youth power structures link in with those of ethnicity in discussing the role of ethnic ties as a form of social capital. In addition, belonging to the ethnic network may be more useful at some times rather than others. For example an ethnic network may yield useful information for providing a customer base if one is setting up a business, facilitate recruitment of workers, and help in accessing funds. On the other hand, it may be less useful in gaining a job in the open labour market, accessing good schooling or knowledge and information about mainstream social provisions (Shah, 2007).

Although self-employment is largely structured by lack of opportunities in paid employment, either as the result of racism or the result of limited educational or other skills (Kloosterman and Rath, 2001), there are a number of additional factors that need to be taken into account. One of these relates to the kinds of family and ethnic networks and relations that make small business at least an option where other opportunities are limited. For example, ethnic ties can be useful for setting up a business, a point reinforced by recent work (Apitzsch and Anthias, 2006). This is only

one facet of the use of such bonds. The maintenance of ethnic bonds is always an active and ongoing process. One of the functions of 'ethnic' cafes and restaurants, for example, is that they provide a place where members of the same ethnic origin can meet and this contributes to the ratification and enhancement of such attachments (Anthias, 2006).

Whilst promoting oneself as an ethnic subject (being a good or Muslim for example: Ramjit, 2006) is a way of accessing the benefits of embeddedness within the group, it is also the case that distancing oneself from the ethnic category can provide a way of avoiding stigmatization. According to studies in the USA many Greek Cypriots of the Diaspora deliberately switch to speaking English amongst themselves in front of British tourists when visiting Cyprus. This is a way of avoiding being branded as unsophisticated 'natives'. It also functions to indicate a cosmopolitan superiority in the presence of Cypriots who live permanently in Cyprus and marks them as diasporic and successful (although their perception by Cypriots in Cyprus may be quite different (Anthias, 2006).

Ethnic ties are used situationally, abandoned or recreated as in constructing new forms of ethnic authenticity or in switching ethnicity. For example, branding a restaurant as ethnic can be pursued strategically, either by drawing on one's own ethnic background or adopting that of another one. Another example is found when minority ethnic entrepreneurs turn to a non-ethnic customer base and to branding the business as mainstream. One Greek Cypriot family run a successful restaurant business selling everyday English food and resist branding it as Greek (in this because the owner doesn't want to be branded as non-English (Anthias, 2006). Using ethnic

connections for the recruitment of staff that can be trusted is an important resource for minority ethnic entrepreneurs. For example, many entrepreneurs rely on ethnic networks (Anthias, 2006). Such co-ethnic or trans-ethnic recruitment is linked to trust relations, effective communication and common understandings as well as to common experiences in Britain. It also relates to promoting the business as 'really Spanish' or 'really Greek' i.e. as authentic and the gender and ethnic bonds/resources in the context of ethnic business.

Ethnic networks constitute a resource for men, on the whole and women's relationships are often mediated through men (Anthias, 2006). For example where pooling resources within kinship networks is concerned this is more likely to come from men (Anthias 2006; Apitzch, 2006). Where women entrepreneurs are able to use ethnic ties these are primarily with co-ethnic women.

Studies of entrepreneurial success have mostly focused on how the resources are attained. Individuals cannot be separated from the cultural context in which they were born which is believed to be true with Chinese cultures where harmony in social relationships is encouraged (Huang, Hu, and Wu, 2010). This curious given that a major culture Chinese emphasizes diligence and responsibility which promote national ties and employee turnover.

Strong ties in the business world do help entrepreneurs in achieving success in their businesses. A study of McClelland (2005) showed that the entrepreneurs in Canada, Singapore and Ireland utilized networking as a means of business development of which it contributed to their success in business. Other studies suggest that family



links provide support to entrepreneurs. The role of extended family in providing capital for new firms and facilitating the apprentice training of its members is significant to the success of prospective entrepreneurs (Nafziger, 1969).

Studies done in southern region of Malaysia reported that entrepreneurs sometimes feel the need to communicate with others who understand and know what they are going through. This can be done through social networks like groups of other entrepreneurs who regularly get together to discuss and share their problems and views. Although establishing an effective network among entrepreneurs is not an easy task, this network helps to make members feel like a part of the group since they know that everybody else has possibly been through the same experience. In addition to that, it is a good way to brainstorm and generate ideas for their businesses to grow and develop (Nafziger, 1969).

Research entitled *Entrepreneurship and Social Inclusion* by Fielden and Dave (2004) suggest that socially constructed barriers are responsible for inhibiting business progressions. Furthermore, the study acknowledged that mentoring network support, especially at the local level, is crucial in boosting entrepreneurs' attitudes with respect to business leadership and new venture creation as financial support. According to Granovetter (1985), Aldrich and Zimmer, (1986) and Burt (2000) women participation in network is less than men in the society. Lin (1999) pointed out that entrepreneurs network is influenced by family connections and it might present a barrier in business terms.

## 2.5 Trust

Trust is defined as the expectation that an actor can be relied on to fulfill obligations, will behave in a predictable manner, and will act and negotiate fairly when the possibility for opportunism is present (Zaheer and Harris, 2006). Trust has been examined in a variety of social science contexts and defined in a number of different ways (Misztal, 1996). A dictionary definition of trust is a firm belief in the reliability, truth or strength of a person: a confident expectation and a reliance on the truth of a statement without examination (OED, 1996).

Wicks and Berman (2004) emphasized the important idea that trust is a costly governance mechanism, to be deployed only when necessary. They suggest that the greater the degree of interdependence between the parties to the exchange, the greater will be the need for trust. Importantly, the authors point to the notion that, the extent of trust in inter-organizational relationships is a choice made by firms. They go on to suggest that trust in these relationships is supported by institutional, socio-cultural, and industry norms, and these 'trust support mechanisms' moderate the relationship between the choice firms make about how much to invest in trust and performance outcomes.

Trust in Micro and enterprises increases relationship investments, communication and performance and reduce costs and opportunistic behaviours (Selnes and Sallis, 2003; Smith & Barclay, 1997). In the absence of trust, conflict between collaborating firms may prevent future investments or even lead to the withdrawal of existing investments (Inkpen and Beamish, 1997). Mutual trust functions as a safeguarding and controlling

mechanism that promotes information sharing and reduces collaborating firms' incentives and propensity to engage in opportunistic behaviours (Lane, 1998).

Trust can be viewed as the product that is natured through social relationships (Kay and Hagen, 1998). Studies conducted in Taiwan industries reported that the most effective groups are those with the highest level of trust or social capital. From the study it is clear that trust is one of the constructs of entrepreneurial resource which must be put under consideration if success is to be achieved. According to Cohen and Prusek (2001) there are many benefits in terms of profits and sales turnovers with organizations with high level of reputation and trust.

The individual 'boundary spanner' at a single firm establishes relationships with both individuals and groups of individuals belonging to the partner organization. Hence, if the origin of the relationship is always an individual, the counterpart may vary. This insight is very useful in avoiding the cross-level fallacy (Russeau, 1985), for one can then distinguish between these two levels of analysis. This insight has been of great value, especially in examining the relationships among MSEs which are prone to an overlap of interpersonal and inter-organizational ties.

In accordance with this approach, trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. Infact, other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust (Luo, 2002; Zaheer and Harris, 2006). Trust should be enhanced by network members in response to three main constraints which discourage small firms from establishing long-term collaboration agreements: the risk

of opportunism among the entrepreneurs, low commitment from counterparts and the culture of the actors joining an alliance. In the network context between upstream and downstream, a close relation between customers and suppliers can decrease uncertainty and thus generate better inventory control and lower inventory cost (Chung, 2000).

The risk of opportunism derives from the divergence of objectives and management styles of the firms involved, as well as from environmental volatility. Williamson (1999) defined it as 'self-interest seeking with guile'. Opportunism increases the complexity of the alliance-building process by increasing the transaction costs, reducing confidence levels among participants, and by focusing on short-term rather than long-term interest, thus discouraging reciprocity and repeated commitment (Luo, 2002; Parkhe, 1998). A high level of commitment is necessary for a successful strategy in a firm as well as in a strategic alliance. According to Salancik (1977), commitment represents the binding of an individual to behavioural acts, and defines it as the tendency towards the persistence of a firm's strategy, underlining its relevance in producing superior performance. Conversely, alliances characterized by the low commitment of its members - due to important differences in self-interest, business characteristics and market strategies - may collapse, owing to substantial differences between the firms in the amount of time and resources invested (Medcof, 1991). In such a context, the development of trust among alliance members has been widely recognized as a fundamental issue for establishing effective relational ties (Parkhe, 1998; Zaheer and Harris, 2006).

In its simplest form trust in relationships is the belief that a party's word is reliable and that a party will fulfill its obligation in an exchange (Luo, 2002). It refers to the confidence that a partner will not exploit the vulnerabilities of the other (Barney, 1994). The confidence that people prefer in business are the people with honesty and can help in building up trust of other customers. In business, people tend to trust one another by transacting towards the achievement of business growth. Trust in the context of business alliances is offered by Zaheer and Harris, (2006) who emphasize trust characteristics and define trust as: “the expectation that an actor can be relied on to fulfill obligations, will behave in a predictable manner, and will act and negotiate fairly when the possibility of opportunism is present.

Trust is closely related to social networking. Coleman (1988) contends that a system of mutual trust is an important form of social capital on which future obligations and expectations may be based. Putnam (1993) regards trust as a source of social capital that sustains economic dynamism and business performance. Nahapiet and Ghoshal (1998) treat trust as a key facet in the relational dimension of social capital. These different but related perceptions of the relationship between trust and social capital are partially the result of the close relationship between the sources of trust and the sources of social capital (Adler and Kwon, 2000). Trust involves risk taking; that is, both parties know that the actions of one party can materially affect the other, but both share ideas, concerns or issues candidly notwithstanding. The sociological literature conceptualizes trust as either the property of individuals, social relationships, or the social system with disproportionate attention to behavior based on actions at the individual level (Misztal, 1996).

When seen as a characteristic or property of individuals, trust is a personality variable, there by placing emphasis on individual characteristics like feelings, emotions, and values (Wolfe, 1999). A second perspective regards trust as a collective attribute that can be drawn upon to achieve organizational goals. It may therefore be applied to the institutional fabric of society (Misztal, 1996). The third treats trust as a valued public good facilitated and sustained by a social system. Putnam (1993), for example, has argued that trust within the community is what has made democracy work in the Northern Italy.

These three different levels of trust are interconnected. On the individual level, you trust an individual to do something based on what you know of his disposition, his ability, his reputation and so forth not merely because he says he will do it. On the collective level, if you don't trust an agency or organization with which the individual is affiliated, you will not trust him to fulfill an agreement (Dasgupta, 1988). In addition, individuals consider the background, culture, and social system of another when seeking to determine whether to trust him. It is the interconnectedness that suggests how building trust on the micro-level contributes to the determinant of a more abstract form of trust on the macro-level (Luhmann, 1988).

Trust is a social mechanism that is embodied in structures of social relations. Granovetter (1985) has stressed that social relations are mainly responsible for the production of trust in economic life. He believes that trust is generated when agreements are "embedded" within a larger structure of personal relations and social networks. Trust needs to be embodied in social institutions and cannot be fully understood and studied without examining how institutions influence human being's

duties and obligations. Trust is necessary for social order and human action to continue (Misztal, 1996). Fukuyama argues that trust is a characteristic of systems. He claims that “a nation’s well-being, as well as its ability to compete, is conditioned by a single pervasive cultural characteristic the level of trust inherent in the society.

Other studies from Japan, Germany and the United States are characterized by their development of large-scale corporations out of trust from family firms through the medium of a rich and complex civil society (Fukuyama, 1995: 130). Farrell and Knight (2003) argue that institutions create rules, incentives and sanctions for people to behave in a trustworthy manner, thereby fostering trust. In addition, institutions can disseminate information about expected behavior to affect social beliefs about trust. Trust has been at the center of theorizing about cooperative and productive interaction. Trust facilitates cooperation because it is like a pre-commitment, a tool “that we can use to impose some restraint on ourselves and thus restrict the extent to which others have to worry about our trustworthiness (Gambetta, 1988). Organizations that use Deming’s management and leadership system depend on trust. This management system advocates that departments should cooperate through trust instead of building their own kingdoms as before (Latzko and Saunders, 1995).

Family plays an important role in a person’s life. Many entrepreneurs manage their enterprises with support from family and friends, both at start-up and expansion. Most people nowadays do prefer to work as they feel that they should be helping out by bringing in additional income. Those people that are not lucky enough to have any job choose to be self-employment (owned business entrepreneurial job) to overcome their unemployment problem. However, it is necessary to gain full support from their

family because of the trust advocated by the relationship of the family members. According to Brindley (2005), the main source of support and assistance for entrepreneurs during a startup phase came from family and friends i.e. trusted sources of help that the entrepreneurs had previously experienced. Thus, family and close friends play a very important part in ensuring the emotional stability of entrepreneurs.

Other studies suggest that in a committed business environment that evidences high-standards of success and intellectual development that yields social networking cannot exist without a reasonable level of trust. No other management device can compare trust in its importance to promoting organizational effectiveness. Cook and Wall (1980) conclude that trust between individuals and groups within organizations are a highly important ingredient in the long term stability of the organization and the well-being of its members (p. 39).

Employers, in turn, can benefit from networking links to develop and achieve higher turnover rates because of the heightened job security employees feel (Leana and Buren, 1999). Professional development opportunities and job security demonstrate an organization's willingness to place trust in its employees. In return, employees are more likely to exhibit high trust in management since they are offered opportunities to develop professionally (McCauley and Kuhnert, 1992). Therefore, there will be less "voluntary turnover", avoiding losses to organizations when individuals who are successful in creating social capital networking decide to terminate an employment relationship (Dess and Robinson, 2001). Loss of human and social capital resulting from voluntary turnover may dramatically damage social capital with consequent negative effects on organizational performance, since these high-performing



individuals might maintain strong network ties to external stakeholders, customers and suppliers (Dess and Robinson, 1984).

Trust grows from and contributes to transparency to the firm. Meetings, weekly reports, and detailed information concerning works in progress will let colleagues know what people are doing. Clear and consistent promotion and compensation policies will also lower suspicion among employees. All these help build trust not only among colleagues but also trust towards the “system” of organizations (Cohen and Prusak, 2001). Higher levels of organizational social capital justify individual commitment to the organization by employee’s involvement in, and identification with, the organization (Mowday, Porter, and Steers, 1982).

Interpersonal trust is vital in all market transactions when those involved are unwilling to rely on institutional arrangements or cultural norms alone (Granovetter, 1985). It is based on a perception of the probability that other agents will behave in a way that is expected (Gambetta, 1988). It is therefore a calculation and an assessment of risk, although the means by which an individual makes a calculation are shaped in part by the social forces affecting them. This is evident throughout the case studies in Ghana and UK, undertaken by one of the co-authors (Lyons and Mehta, 2001), whether it is trust between individuals can enhance business growth, trust through intermediaries or trust in the actions of other members of groups. Individuals will weigh up the perceived risk and act according to their perceptions. They will draw on information based on the reputations of other network members and also evaluate the extent to which sanctions can be applied. The sanctions may be peer pressure, exclusion from future benefit, or recourse to authority.

In a small number of cases sanctions can be threats of violence. Therefore knowing where a creditor lives is often a crucial factor in the decision to lend money in Ghana, and knowing the academic background of a researcher and the scientific community they belong to shapes the decisions about collaboration in UK pharmaceutical industry. However, trust can exist without calculation, such as when someone acts out of habit. Habits are drawn on by all of us, in order that we can assume away some risks and make other calculations possible (Hodgson, 1988). This was evident in cases in both West Africa and in UK where people were asked why they co-operated when there was risk that the other party would default. A common response was for people to laugh at this question because it was not something they had considered explicitly before. There is also reference to acting on gut reactions. Norms define what actions are deemed acceptable and are the foundation on which trust is constructed. Norms also relate to the types of sanctions that can be used to ensure other individuals co-operate (Hodgson, 1988).

There has been considerable debate over the role of trust and norms in economic development (Platteau, 1994; Moore, 1994), although the intangible nature of norms makes them difficult to observe empirically. Most studies of norms rely on game theory modeling or historical studies, with only limited attempts to draw on ethnographic studies that have illuminated the subject within the context of their wider objectives (Granovetter, 2007). The cases referred to above are based on a wide range of norms that shape how people behave, the nature of the co-operation, and how they reciprocate. The sanctions applied to people are also shaped by the moral values and the sanctions exerted through shame in a social context. This form of ostracism or peer pressure is greater when people live in proximity or work in a specialist area of

work such as research community. Where people do not live near each other, they were found to be looking for commonalties or shared values such a same religion or church, shared membership of a professional or social group, or common ethnic group (Granovetter, 2007).

## **2.6 Goodwill**

Enterprise goodwill is the value of earnings or cash flow directly attributable to attributes of the enterprise that results in earnings from consumers that return because of the enterprise relationship. According to International Glossary of Business Valuation, goodwill is that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified. According to Yusuf (1995) the most critical factors contributing to business success consist of good management skills, access to financing, personal qualities, and satisfactory government support.

Studies in the U.S, U.K., Australia and the European countries provide evidence that managers have the tendency to recognize goodwill impairment loss while they were experiencing a decline in profitability because of lack of customers frequenting Micro and Small enterprises (Haman and Jubb, 2008), to engage in income decreasing incentives (Poel, 2009) and to avoid debt covenant violation (Beatty and Weber, 2006). Customers tend to have a repeat buying because of the relationships between them and the business owners. Goodwill cannot be felt it is an intangible asset which can be earned through a name or reputation of the organization (Claessens, 2000).

Past studies report that, businesses in Malaysia, being part of the Asia, are highly concentrated and largely influenced by the government goodwill (Ball, 2003) and families (Claessens, 2000). Against this background, it is clear that the government of Malaysia contributes to the growth of Micro and Small enterprises. The effect of goodwill is highly concentrated on ownership structure, family controlled firms and government controlled firm. Goodwill is something that cannot be bought but has to be earned; there is no way to earn it overnight. It will take considerable time and effort to develop goodwill in for a business. Some of the factors listed aids in developing goodwill in business.

### **2.6.1 Family and Government Controlled Firms**

Past studies report that, Malaysia is identified as a country with high political connection and high concentrated shareholding that may reduce the level of Goodwill (Ball, 2003). In Malaysia, the types of concentrated ownership structure are dominated by two groups of firms which are family controlled firms and government controlled firms. Since most of the large firms in Malaysia are very much influenced by government agencies due to substantial government shareholdings while some other firms are mostly run by families, the likelihood of these managers to receive goodwill as a tool to manage and enhance business reputation is high.

The effect of family controlled firm on earning (Ball, 2003) mentioned that family controlled firm has a better knowledge and trust of their business activities which enabled them to detect manipulation of information hence better business performance. Founding families firms will limit managers' ability to manage earnings (Jiraporn and Dadalt, 2007) but there is also a likelihood that the controlling families

engage in expropriation of minority shareholders' interest that would result in lower performance (Fan and Wong, 2002). Due to high level of concentration, ineffective communication of information and weak shareholders protection, the second incentive may dominate i.e. controlling family may engage in expropriation of minority shareholders wealth. Thus, value damaging expropriation activities may results in lower recoverable amount and, goodwill impairment loss is unavoidable (Fan and Wong, 2002).

Malaysia is known with the close linkage between many large corporations and conglomerates with the government. This close connection may resulted in an exclusive business relationship with state owned enterprises and thus have a preferential access to major government contracts (Gomez and Palich, 1999). Prior studies found that the extent of government intervention on firm's performance is mixed due to two different perspectives. Some firms with government intervention performed better as they are under the watchful eyes of the public and thus more concerned to maximize the shareholders' value (Ang and Ding, 2006). The other firms with high government ownership are restricted on their innovation and more focus on public service which resulted in poor performance (Wei and Varela, 2003). At the same time, government controlled firm has conflict to maintain a good reputation by reporting high performance as they are managing the capital of the society through government agencies.

Goodwill can lead to business success if enterprises maintain the quality of their products or services – Remember that the first impression is the best impression. If the business provides quality products/services right from the beginning enterprises

are taking the steps towards developing goodwill. Rapport building and integrity is another consideration whereby people will find dealing with your business easier when you take pleasure in servicing them and when you provide business integrity. Brand commitment leads to success in business in that business must be should be one step ahead of your competitors. A business under the limelight for the right reasons will attract goodwill for itself.

Service satisfaction is whereby a customer is likely to return to you and also recommend your services/products if he is happy with his experience. Community service not only helps in developing business good will but also leads to small business longevity - As your business grows, you should focus on investing in community goodwill. Some suggestions could be, making a small donation to community functions or by giving a helping hand to those start-ups of a different industry that are struggling. You can also promote amateur artisans and musicians by holding exhibitions or concerts for them. Local residents would be willing to buy tickets that are fairly priced. It will pay-off with long-term sales growth and business referrals. Goodwill is all about the nature of the business and the integrity and ethics with which you conduct your business. The understanding between your customers and you, your employees and you also contribute to the business goodwill. Consider goodwill as an honor that is impossible to imitate.

## **2.7 Entrepreneurial Success**

The dependent variable of this study is entrepreneurial success as measured in terms of growth in the sales turn over, profits, firm reputation number of employees and volume in sales indicated by level of earnings the business unit gets annually. Success

is defined as the having different forms, survival, profit and return in investment, number of employees, happiness and reputation (Foley and Green, 1989). In the past two decades the rate of growth of networks across all sectors has been dramatic (Doyle, 2000). An unprecedented number of business firms in many industries have entered into a variety of co-operative inter-firm relationships to conduct business. These networks include strategic alliances, partnerships, coalitions, joint ventures, franchises and various forms of network organizations, both formal and informal, involving collaboration in areas such as: research and development, production, marketing, training, exporting, financing and knowledge transfer (Murto-Koivisto and Vesalainen, 1994).

Networks have emerged as the new response to competition, a way for firms to develop joint solutions to common problems (Doyle, 2000). O'Doherty (1998) described the position as the nature of competition is changing. New competitive conditions are demanding new strategies. Global niche markets are replacing mass markets. To compete effectively firms must specialize and combine their capabilities with those of other firms and organizations.

The growth of networks allows firms to combine resources to gain knowledge, achieve economies of scale, acquire technologies and resources and enter markets that would otherwise be beyond their reach. Networks act as a source of competitive advantage especially for small firms (Brown & Butler 1995), and help smaller firms overcome the disadvantages of their size. The benefits of networking are manifold and have been summarized by O'Doherty (1998) as follows:-

**Material benefits:** Firms can increase sales and lower production costs by working together.

**Psychological benefits:** As firms eliminate their isolation they learn that their problems are shared by others;

**Developmental benefits:** By promoting interaction with other firms, networking increases learning and the ability to adapt to the changing economic environment. The NESO (1996) found that network arrangements can be seen as organizational instruments to increase economic efficiency in production and distribution, and more fundamentally, networks are now seen as advantageous in securing innovation. Networks can focus on, among other activities; joint marketing, bulk purchasing, training, product development, technical problem solving, technology transfer, R and D, and sub-supply.

According to Doyle (2000) one of the great advantages of networks in the age of globalization and the proliferation of new and cost effective information and communication technologies, is that borders need not bind them. It is argued that it is the creation of boundary spanning networks of firms, big and small and big with small that is the important new trend. Business advantage is gained through flexibility, the key to flexibility is new forms of networked organizations within and among firms. Networks, involving organized systems of relationships between entrepreneurs and the outside world are particularly valuable to the small business sector (Doyle, 2000). The fragility that accompanies small size can be offset by the supportive environment provided by resilient networks (Brown and Butler, 1995). Pyke (1994) argued that through engaging in alliances and other co-operative arrangements, small firms can gain individual strength and a measure of both individual and collective



independence. The reasons why MSEs co-operate can be due to the following: the advantage of achieving economies of scale; the sharing of information about the latest techniques and technologies might be an interesting mechanism for keeping small firms up to date and competitive; more rational and efficient distribution of activities; increase the size of production capacity (Mitford, 1997).

Networks presents MSEs with a number of options to overcome a range of increasing disadvantages they are experiencing in trying to compete in the ever –increasing globalization marketplace (Doyle, 2000) MSEs are being driven towards increasingly flexible specialization, honing their efforts on a narrowing field of production and concentrating their actions on their core skills. A consequence of this is that MSEs are less in a position to continue producing for local or national markets (Doyle, 2000). These demands mean that MSEs are operating in markets characterized by continuous change and also that MSEs are competing with larger firms. To remain competitive, Doyle (2000) argued that MSEs have two options: Grow or co-operate in networks. Growth has been the traditional route. Networks are the newer option and for many MSEs are now a viable way to get access to the resources which they would be unable to obtain by acting alone. MSEs are often dependent on co-operation with other firms, e.g. in order to get external resources, access to customers, product ideas and information (Malecki and Veldhoen, 1993). Business alliances can thus be an effective means of penetrating new markets (Welch, 1992). A local business network is largely the product of work undertaken by key actors who also act as gatekeepers to outside information and especially important is information oriented towards national and international markets (Malecki and Veldhoen, 1993).

Studies conducted by Rutashobya and Jaensson (2004) have shown that networks have value adding benefits for small business and that networks of owner managers initially facilitated entry into foreign markets. The main network benefits from the point of view of owner managers included access to foreign market information and access to foreign markets.

Moreover virtually, in most societies success in the business field is almost assessed by income (Loscocco, 1991). Small owned business performance depends essentially how well the management is able to use the planning in assessing performance of small business firms, they equate 'performance' with success a definition that is said to lack specificity. They further emphasized they are not on their own. However, Dess and Robinson (2001) posited that small firms use success or failure as performance measure in their research policy give evidence that it is difficult to use objective measures which use restricted performance data like financial data which the business owners are not willing to provide for research. This study use profits earned sales revenue, firm reputation, growth, number of employees and satisfaction as measures of performance. A number of researchers have argued that networks contribute to the success of firms by helping to identify new market opportunities and contribute to building market knowledge and technologies (Coviello and Munro, 1995; Chetty and Campell-Hunt, 2004).

Past studies used National Family Business Survey and other secondary data where objective measures are concrete items such as sales, revenues, profits, liabilities or assets that can be obtained from records of the business family units he annual sales turnover is based on the subjective measure , method that has also been used by

previous literature (Rosa, 1996). Growth of the firm is used in this study to establish the expansion of the business. However another measure is the number of employees the firm has, which can give an indication of whether the firm is progressing hence a firm with more employees is an indication that the firm is growing as they can pay the large number of the employees as opposed to firms with fewer number of the employees (Rosa, 1996).

The success of an enterprise is determined by profits, sales revenues, sales turnover and employee turnover. Empirical studies from 156 Privately owned enterprises in America conducted to examine social effectiveness and enterprise success reported that enterprises which develop stronger relationship is theorized to help socially effective enterprises perform better in their sales revenues (Baron and Markman, 2003). Information gathered from networking, ties, trust and goodwill can be used to improve enterprise success in developing more productive relationships with business partners and establishing more successful enterprises.

According to Paige and Littrell (2002) success is defined by intrinsic criteria include freedom and independence, controlling a person's own future, and being one's own boss; whilst extrinsic outcomes are, among others, increased financial returns, personal income, and wealth. On the other hand, research by (Masuo, 2001) found that business success is commonly defined in terms of economic or financial measures which include return on assets, sales, profits, employees and survival rates; and non-pecuniary measures, such as customer satisfaction, personal development and personal achievement.

Similarly, Buttner and Moore (1997) stated that business performance is usually measured from the economic perspectives of growth in sales or employees; and or by the increase in profits. As most people generally equate money and profits as the best way to measure individual and business success, many might not view a majority of women-owned businesses as successful due to it being smaller in size and slower in growth. As a result, some women define business success from an economic viewpoint. A handful of women entrepreneurs measure success as and when they can see that they are an economically valuable resource (Dhaliwal, 2000). This is to say that once they feel they are generating an income and contributing to the family, that and only then do they feel that they have attained some measure of success.

A study by Davies-Netzley (1998) found that gross receipts and sales of some entrepreneurs businesses remain significantly higher because of the networks that they use in their linkages in their firms. In term of the factors contributing to success of entrepreneurs in small business are varied. According to Yusuf (1995)the most critical factors contributing to business success consist of good management skills, access to financing, personal qualities, and satisfactory government support. Huck and McEwen (1991) in a study of Jamaican business owners reported that business owners in Jamaica considered that the marketing factor is the most critical ingredient for the success of a business. Family's emotional or instrumental supports are one of the crucial success factors for entrepreneurs. This emphasizes the importance of information in networking in gaining the right information to enhance business success (Huck and McEwen, 1991).

Lee and Choo (2001) studied work-family conflict in Singapore found that family members and others support can reduce the conflict of entrepreneurs. Furthermore, owning business and having family ties would have greater success in their performance. Similarly, Buttner and Moore (1997) stated that business performance is usually measured from the economic perspectives of growth in sales or employees; and or by the increase in profits. As most people generally equate money and profits as the best way to measure individual and business success, many might not view a majority of women-owned businesses as successful due to it being smaller in size and slower in growth. As a result, some women define business success from an economic viewpoint. A handful of women entrepreneurs measure success as and when they can see that they are an economically valuable resource (Dhaliwal, 2000). This is to say that once they feel they are generating an income and contributing to the family, that and only then do they feel that they have attained some measure of success.

## **2.8 Entrepreneurial Network Delimitation**

Sullivan-Mort and Weerawardena (2006) made the point that networks may not be a panacea for all ills for business. Managers need to be cognizant of the benefits and drawbacks of networks in their strategic decision making. Furthermore, firms can also suffer from being in what Uzzi (1997) refers to as an ‘over-embedded network’. According to Uzzi, these close relationships block out external information from other sources. This shows that the firm in such a closed network fails to recognize new and better opportunities. Indeed, these ‘ties that bind’ can lead to ‘ties that bind’ (Grabher 1993, p. 24). In this situation, it is important for the firm to have weak ties so that it can enter other networks and thus expose itself to new knowledge and opportunities (Granovetter, 1985). Furthermore, when firms exit a relationship, there are switching

costs, inactivity, and the impact on other interconnected relationships to consider (Johanson, 2000).

Much of the extended literature on networking tends to emphasize only positive effects (Sullivan-Mort and Weerawardena, 2006). However, networks can be described as a two-edge sword (Tang, 2009). That can facilitate as well as inhibit the development of firms (Chetty and Campbell-Hunt, 2004; Witt, 2004; De Wever, 2005). One constraint that has received considerable attention is the tendency for MSEs to under invest in relationship development. Curran, (1993), for example, found that small firms shunned 'voluntary relationships' and made little use of networking even to overcome problems that threatened the survival of the firm. Curran (1993), suggested that this is Much of the extant literature on networking tends to emphasize only positive effects (Sullivan-Mort and Weerawardena, 2006). However, networks can be as Tang (2009) described a 'two-edge sword' that can facilitate as well as inhibit the development of firms (Chetty and Campbell-Hunt, 2004; Witt 2004; De Wever, 2005).

One constraint that has received considerable attention is the tendency for MSEs to under invest in relationship development. Curran (1993), for example, found that small firms shunned 'voluntary relationships' and made little use of networking even to overcome problems that threatened the survival of the firm. Curran (1993) suggested that this is because of the independent attitude of entrepreneurs, coupled with the time constraints created by having to deal with many day-to-day management problems. In addition, entrepreneurs are sometimes fearful of 'outside' interference, loss of control and the potential for local competitors to gain inside knowledge.

Human and Provan (1998) compared two firms in two relatively large networks with a control sample of market firms, and found that market firms made minimal use of inter-firm relationships. Managers explained the minimal use of relationships in terms of limited time, no perceived need, and fear of losing proprietary information. Tang (2009) believes that small firms need to review and adapt their networks because of the independent attitude of entrepreneurs, coupled with the time constraints created by having to deal with many day-to-day management problems. In addition, entrepreneurs are sometimes fearful of 'outside' interference, loss of control and the potential for local competitors to gain inside knowledge. Human and Provan (1998) compared two firms in two relatively large networks with a control sample of market firms, and found that market firms made minimal use of inter-firm relationships. Managers explained the minimal use of relationships in terms of limited time, no perceived need, and fear of losing proprietary information. Tang (2009) believes that small firms need to review and adapt their networks.

Past studies indicate that entrepreneurial networks may not always be used for positive gains. Past studies done in German institution report that an example of the complexities of the effects of networks is violent or criminal gang activity that is encouraged through the strengthening of intra-group relationships (bonding networks). The negative consequences of networks are more often associated with bonding vis-à-vis bridging. Without bridging entrepreneurial networks bonding groups can become isolated and disenfranchised from the rest of society and, most importantly, from groups with which bridging must occur in order to denote an increase in entrepreneurial network (Putnam, 2002).

Past studies postulate that bonding Networks is a necessary antecedent for the development of the more powerful form of sharing information. Bonding and bridging Networks can work together productively if in balance, or they may work against each other. Bonding social networks can also perpetuate sentiments of a certain group, allowing for the bonding of certain individuals together upon a common radical ideal. The strengthening of insularities can lead to a variety of effects such as ethnic marginalization or social isolation. In extreme cases ethnic cleansing may result if the relationship between different groups is so strongly negative. In mild cases, it just isolates certain communities such as suburbs of cities because of the bonding social capital and the fact that people in these communities spend so much time away from places that build bridging social capital.

Networking links (in the institutional Robert Putnam sense) may also lead to bad outcomes if the political institution and democracy in a specific country is not strong enough and is therefore overpowered by the social capital groups. Past studies by Putnam also suggests that social networking <sup>1</sup>, and the associated growth of public trust are inhibited by immigration and rising racial diversity in communities. Putnam's study regarding the issue argued that in American areas with a lack of homogeneity, some entrepreneurs neither participated in bonding nor bridging social capital. In societies where immigration is high (USA) or where ethnic heterogeneity is high (Eastern Europe), it was found that citizens lacked in both kinds of social capital and were overall far less trusting of others than members of homogenous communities were found to be. Lack of homogeneity led to people withdrawing from even their closest groups and relationships, creating an atomized society as opposed to a cohesive community. These findings challenge previous beliefs that exposure to



diversity strengthens social capital, either through bridging social gaps between ethnicities or strengthening in-group bonds.

## **2.9 Firm Size**

It is important to note that in order to avoid any bias in the research findings as a result of differences in the size of the firm, the age of the firm and the type of industries it was important therefore to control firm size, firm age and the type of the industry. Hence the service industry type was adopted. Firm size was considered as a control variable since evidence shows that the size of the firms may affect the level of firm performance. The bigger firms can benefit because they can produce larger inputs with little costs incurred. Penrose, (1985) cited, Dass, (2000) emphasized that firm size is posited to allow bigger firms accessibility to resources compared to smaller firms. The likelihood of bigger firms to access critical resources such as finance and other important resources is high. Additionally firm size is considered to be linked to the low costs of the firms (Goerzen, 2007; Chandy, 2000) explained that firm size is measured by the total number of current full time employees in the business firm, Past studies in Lao defined firm size basing it on Prime ministerial Decree no 42 (Prime Minister, 2004), Lao defines a micro firm consists of one or two employees; a small firm has three to 19 employees, a medium firm has 20-99 employees and a large firm has 100 employees or more, (Sengaloun and Takahashi, 2010). The questions concerning control variables are in the survey instrument, these questions covers the age of owner manager, age of the firm, owner status and also the number of employees.

### **2.9.1 Firm Age**

Firm age is included as a control variable because it was considered to be an important factor to firm performance. While older firms seem to be larger in terms of sales turnover, number of employees, and capital assets (Rosa, 1996). In addition, old firms have advantages as they benefit from external networks compared to small firms. Firm age can be determined by its strength and experience of the firm in its industry, which is said to lead to success. Firm age is measured by the number of years since the firm was formed, which is considered as the industry experience of the firm (Rosa, 1996).

### **2.9.2 Service**

Service has unique features, which include intangibility, heterogeneity (Booms and Bitner, 2001) and inseparability between production and consumption. In the hotel context, service is delivered by frontline employees who serve customers, usually face-to-face. How employees interact with customers determines to a great extent how customers perceive the service quality. Due to each individual employee's uniqueness in terms of personality, attitudes, and skills, the quality of service that employees deliver can hardly be consistent. Additionally, service is a highly interactive process, and both employees' and customers' physical well-being and moods could influence the service experience. Therefore, even the same employee's service performance may fluctuate across time and customer interactions.

### **2.9.3 Small and Micro Enterprises in Kenya**

Micro and Small Enterprises (MSEs) enormously contribute to the Kenyan economy through employment and income generation (Kenya National Development plan

1997). The definition of Micro enterprises varies greatly, even with a single country, different organizations and firms. This study specifies 1-4 workers as a Micro enterprise, 5-49 as small firm, 50-49 Medium enterprises. In Kenya, networking is one of the factors which impact growth of firms. Generally in many developing countries, there is limited research and scholarly studies about networking on entrepreneurial success of the MSEs sector in Kenya. Given this scenario, an understanding of networks in business enterprises is necessary for development of support programmes for MSEs and growth of the economy as a whole. Owing to its performance, the Kenyan economy in creation of employment, there is need to conduct the study to investigate which other resources may contribute to the success of an enterprise. The majority of Kenyans have desired to start, grow and sustain Micro and small businesses but their success depends on the availability and management or adequate use of these resources.

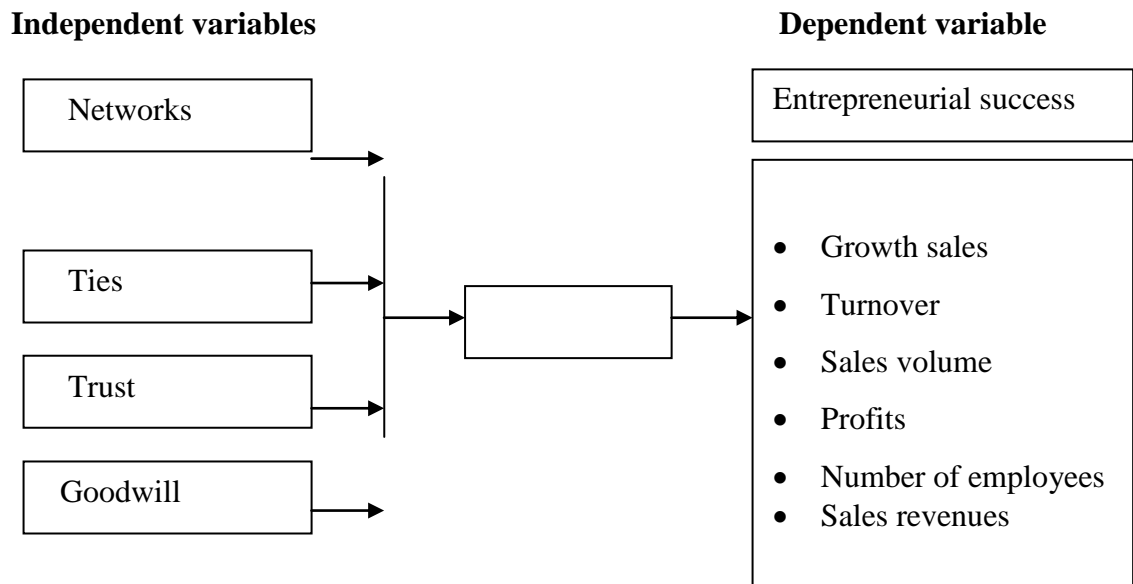
According to 1999 National Baseline Survey done by Central Bureau of Statistics, CEG and K-Rep Holdings provides the most recent comprehensive pictures of MSEs. In Kenya the small business survey indicate that small firms account for about 7% of small business according to ILO report of 2010. The report indicates that the promotion of development in Kenya, has been therefore documented (Sessional paper No.2, 2005). According to the 2006 Economic Survey, employment within the sector accounted for 74% of the total persons in employment. The sector contributes up to 18.4% of the country's Gross Domestic Product (GDP). The sector is not only a provider of goods and services, but also a driver in promoting competition, innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization. It is expected that by the year 2030, Kenya would

have been transformed into a newly industrialized nation. Thus if this country has a leap, then small enterprises must succeed and that failure rate must be minimized if not eradicated completely.

To this end there is need for a study to provide an understanding of the use of resources and enterprise success. Hence this study focuses that Micro Small enterprises sector as a means of strengthening Kenya's economy, as highlighted in the Sessional Paper No.1 of 1986, Sessional Paper No.2 of 1996 on industrial transformation to the year 2020. Thus the vision of the policy statement is to promote a strong Kenyan economy, which the small enterprises are effectively integrated and able to contribute in the production of goods and services.

### **2.10 The Conceptual Framework of the Study**

The study drew the framework from the concept of RBV and Grant (2002) and (Barney, 1991) model to develop the theoretical explanation underlying the casual relationships between the entrepreneurial networks and the success of the MSEs in the service industry. The conceptual framework in Figure 2.1 shows the proposed relationship between the firm's networks and entrepreneurial success. This conceptual framework is based on the theoretical background, previous studies, and emerging also literature reviews that are related to the network of the firm. The researcher's model was borrowed and developed from (Grant, 2002) which is based on (Barney, 1991) conceptual model.



**Figure 2.1: Conceptual Framework**

**Source:** Researcher Survey, (2014).

The conceptual framework Figure 2.1 shows the Conceptual Framework of the proposed relationship between networks and entrepreneurial success. The independent variables were networks, ties, trust and goodwill. Dependent variables is entrepreneurial success which includes profits, turnovers and shares, number of employees, sales volume, dividends and growth sales.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Overview**

The chapter presents information on the study area, the target population, sample size procedure, Research design, Data collection, Data types and sources, Data collection Instruments, Methods of data Analysis and Presentation, Reliability and Validity of instrument and Ethical considerations.

#### **3.1 Study Area**

Eldoret Town is located in Uasin-Gishu County in Rift Valley Province, Kenya.. It lies in Uasin-Gishu county with the  $0^{\circ} 31^{\circ}$  North of equator and longitude  $35^{\circ} 16^{\circ}$  East and 65 kilometres North of equator and at average altitude of 2,086 meters above sea level. Eldoret Municipality stretches to parts of Wareng West district, Wareng East District, Wareng South District and Wareng North District According to Uasin-Gishu District Annual report (2009). This county has a total area of 3,218 km<sup>2</sup> and is divided into six administrative divisions namely Anaibkoi, Kesses, Moiben, Turbo and Soy.

The study was carried out in North Rift Region, Uasin-Gishu County, Eldoret town. The main justification of the area is that the municipality has diverse small businesses mushrooming all over Eldoret Town and it records a high number of farmers. There are 3006 small traders distributed among all estates such as Langas, Huruma, Pioneer, Kimumu, Central Business district (CBD), Kapsoya and Maili Nne .Despite the fact the Town is a cosmopolitan and growing owing to a few group of wealthy business people, there exist under performance of Micro and Small enterprises with some

closing down after a short while yet past research, confirms that it is a source of livelihood to low income earners and also creates self-employment for some people, hence prompting the researcher to find out why these enterprises in the service sector are underperforming. Thus little or no research has been done in this area considering the level of entrepreneurial network variation use and performance of MSE's hence a new area for research study.

### **3.2 Research Design**

The research design for this study was exploratory which leads the researcher to gain great depth of understanding into how entrepreneurs through exploitation of networking (Entrepreneurial network, entrepreneurial ties, trust and Goodwill) influence the success of small and micro businesses in Eldoret town, in North Rift region of Kenya). The design was appropriate because it focused on discovering and gaining the insights and familiarity for later investigations of the study and leads the researcher into gaining background information on particular topic.(Kothari 2004) The data for the study will be collected using interval scale (Baker, 2001).

### **3.3 Target Population**

The target population was 600 Micro and Small enterprises. The study targeted population groups of enterprises licensed or registered under the Ministry of Trade and Industry. However, Micro and Small enterprises comprise 1 to 4 employees per the definition of employees.

### 3.4 Sampling Design Procedure and Sample Size

In order to adequately obtain representative data sample for the questionnaire survey, a total of 240 respondents was drawn from the population of 600 business owners of SME's in the sample area. Stratified random sampling technique was utilized to constitute the sample size. The population was divided into two more relevant and significant strata based on one more attributes (Saunders, 2007). This sampling design was used because it deemed suitable for highly concentrated geographical area where face to face contact is required and also where the population can be divided into two or more sub units based on certain internal characteristics (Mugenda and Mugenda, 1999) Each of the stratum to which the population is divided obtains an equal chance of being sampled. Further Kothari, (2004) recommends stratified random sampling, because it is accurate easily accessible, divisible into relevant stratas and enhances better comparisons, hence representation across the strata. Two considerations were taken into account. First, Yamene's formula (Yamene, 1967) was used to determine the sample size. The second considerations with regard with the sample size will be the number of responses for data analysis, thus a good sample size was needed for multiple regression which might be performed for rigorous state of impact evaluations (Israel, 1992). Hence the sample size should be appropriate for the planned analysis. The sample size for the study was determined using the formulae by Yamane (1967) for calculating sample sizes as follows:

$$n = \frac{N}{1 + N(e)^2}$$



Where:        n        - is the sample size  
                   N        - is the population size  
                   E        - is the level of precision

In this study the required confidence and precision levels was 95% and +5% respectively.

$$\begin{aligned}
 & \frac{600}{1+600(0.05)^2} \\
 = & \frac{600}{1+600(0.0025)} \\
 = & \frac{600}{2.5} \\
 = & \mathbf{240}
 \end{aligned}$$

### 3.6 Data Types and Sources

This type of data was collected or gathered from primary sources through the use of interview schedule and administration of questionnaire to the respondents who are the business owners of small and micro enterprises by the researcher and research assistants in the service sector.

### **3.6.1 Primary Data**

The primary data was drawn from the administered questionnaire and interview schedule to the respondents who are the business owners of small and micro enterprises by the researcher and research assistants in the service sector.

### **3.6.2 Secondary Data**

Secondary data consisted of extracting information from published and unpublished materials, journals, theses, government documents, articles and journals of MSE's and literature mainly in the library related to networking under study. The annual reports of Micro and Small enterprises from department of Small Enterprise Development Enterprise, Economic surveys, developed plans etc. Reports for financial institutions like K-Rep, Kenya Women Finance Trust, Family Banks and other Commercial Banks. The secondary Data obtained was from annual reports and were mainly on business owners on what contributes to their performance. Information obtained from department of small developments was mainly on performance and the status of MSE's in Kenya in terms of policies implementation and reviews.

### **3.7 Data Collection Methods and Instruments**

The instrument used was structured/unstructured questionnaires and interview schedule. The questionnaire was divided into four sections; section one covered demographic information, section two comprised of entrepreneurial networks, ties, trust, goodwill and section three covered Entrepreneurial success and section four was interview schedule and any other additional information from respondents.

### **3.7.1 Questionnaire and Interview Schedule Administration**

The questionnaires were administered by trained research assistants, who explained to the respondents on how to fill the questionnaire. The researcher identified research assistants to work with, with knowledge of business who administered the interview schedule to the respondents who are the business owners of small and micro enterprises who understand their firms and were responsible for any undertaking of their business activities as pointed out by (John, 1981). The personal structured interview schedule was used with a set of predetermined questions which was used by key respondents who did not have time to fill up the questionnaire. The approach was considered appropriate and it is the most common field work strategy in small business research. The method was also useful in seeking in depth information of data which was not provided for in the questionnaires. This reduced the errors as clarifications of the questions were done promptly, thus these immediate checks on consistency of the responses, hence ensuring all data information was captured.

The questionnaire was divided into four sections; section one covered demographic information, section two covered firms networking, section three covered firm's performance and lastly section four covered business characteristics. The instrument was first pre-tested through a pilot study done in Iten Town, Elgeyo-Marakwet County. The researcher obtained research permit from the ministry of Education Headquarters Nairobi.

### **3.8 Validity and Reliability of the Instrument**

#### **3.8.1 Validity of the Instrument**

Validity is the ability to measure accurately what it is attempting to measure (Bollen, and Hair, 1995). Validity, therefore was crucial in assessing the psychometric properties of the constructs under study, thus to ascertain the validity of the scales to be utilized in this study confirmatory factor Analysis was performed as suggested by (Gerbing, 1988) to assess non dimensionality. A pre-test of questionnaire was distributed to some business owners of Micro and Small enterprises. This was used to clarify the wording of the scales and to assure the accurate use of terminology therein.

The pre-test also assisted in clarification of the questionnaire instructions. The internal validity focused on four areas as suggested in Yin (2003) face validity, content validity, construct validity and criterion validity. Face validity involved the inspection of concepts being studied to see their appropriateness on its face. Construct validity – refers to the extent to which set of items in the research instruments reflects the theorized latent constructs, it is supposed to measure (Kothari, 2003). After the pre-test of the instruments, the results from the pre-test were evaluated and necessary action taken before finalizing the releasing research instrument.

#### **3.8.2 Reliability of the Instrument**

Reliability is a measure of internal consistency of a scale. It was assessed by scrutinizing Cronbach's alpha coefficient as indicators of internal consistency, it is utilized extensively in the social science (Churchill, 1979). Cronbach alpha coefficient scale reliability of this study was tested and calculated and the result was found to be of Cronbach's alpha coefficient for the Micro and Small enterprises in Eldoret Town,

Uasin Gishu County. The purpose of this measure was to determine if the scale which was employed provided consistent results across repeated measure hence showed how well the indicants measure each of the constructs of this study. The Cronbachs Alpha Coefficient for success of MSEs was Trust 0.907, Goodwill 0.833, Networking 0.683 and Ties 0.559 respectively showing the reliability of the research instrument. Feedback was utilized to review and adjust the research instruments accordingly. This result concurs with Pavot (1991) that the Satisfaction with Life scale has good internal consistency, with a Cronbach alpha coefficient reported at 0.85.

### **3.9 Methods of Data Analysis and Data Analysis**

The section described the processes which was used to examine statistics for independent and dependent variables the study used inferential statistics such as multiple regression Analysis of Variance (ANOVA) to establish the relationship between business owners' networking in relation to the enterprise success. Multiple regression and Statistical package measures was generated using Statistical Package for Social Scientists (SPSS) version 17. This statistical package was chosen because it provided rich statistical capabilities as well as features that make it easier to access and manage data; select and perform analysis.

Through Multiple regression analysis, scatter plot was used to determine whether there were any linear relationships between independent and dependent variables. The standard deviation, means, the relationship between items and totals reflected was interpreted, to give the direction on the variables relationships.

### **3.10 Ethical Considerations**

Before administering the instrument it was important to observe the research ethics and its implications on those concerns. The first step was to get a research permit from National Council of Science and Technology. In this research, it was important to protect the privacy and confidential information of the subjects and in case of need to disclose some information, it was proper to notify them, hence their identity was kept confidential throughout the study.

1. **Participants Consent:** The consent of the participants was sought with a copy of the consent request which was attached to each of the survey instrument which was read to them by researcher and research assistants. Generally, the respondent's participation was voluntary, however they were fully aware or informed of the purpose of the research study and the usefulness of the findings before the administration of the questionnaire and conducting of the interview.
2. **Anonymity and Confidentiality:** The information collected was handled with utmost confidentiality at no time any information was revealed to any person other than those who participated in the data collection process. The data collected was stored and arranged in a manner that it does not disclose the identity of the respondents.

## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF RESULTS**

#### **4.0 Introduction**

The chapter presents Demographic information, analysis and interpretation of the data and discussions of the Results.

#### **4.1 Response Rate**

A total of 240 questionnaires were administered to business owners and only 194 were used in the analysis and this accounted for a response rate of 80.83%, which was adequate for the study analysis. The descriptive statistics such as frequencies, percentages and mean were used in the study. Inferential statistics and multiple regressions, Spearman's Rho and ANOVA were used to establish relationship between variables.

##### **4.1.1 Demographic Information of Respondents**

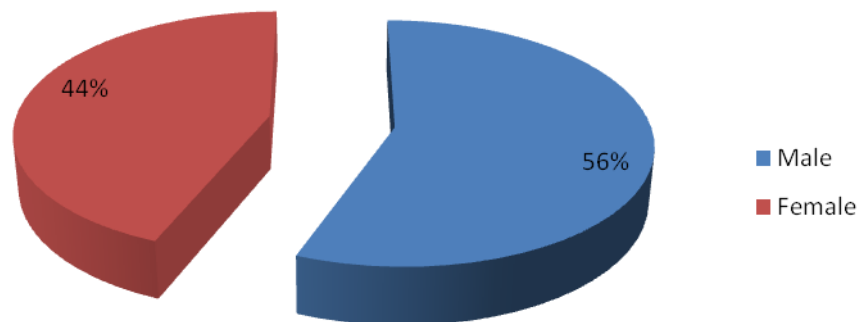
The background information of the respondents included gender, age bracket, sole proprietorship, other owners of business, persons active in business, others who manage the business firm, the number of working hours in a week in the business firm and the work experience they had before starting the current business.

##### **4.1.2 Gender of Respondents**

From the study majority 56.2% (n=109) of the respondents were male, while 43.8% (n=85) were female as shown in Figure 4.1. The findings show that male business owners were more than their female. Women traditionally are held responsible in

carrying out the family needs hence economic needs are more to men than to women though women do more household responsibilities.

The findings agree with Loscocco (1993) that gender roles predict alternative relationships among gender, family and need. The link between family needs and earnings are greater for men business owners than for women business owners. The demographic information was useful in this data interpretation as it helped in separating the questionnaires filled by female and those filled by male before carrying out simple random sampling technique as well as facilitating the analysis of data.



**Figure 4.1: Gender of the Respondents**

**Source:** Researcher's Survey Data, 2014.

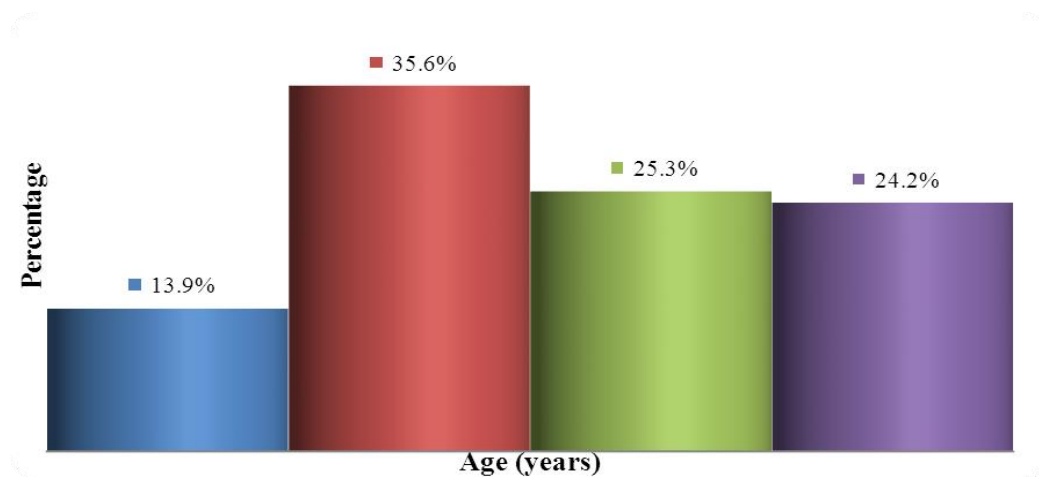
#### **4.1.3 Age of the Respondents**

The results on the age of the respondents shows that 35.6% (n=69) of the respondents aged between 26-35 years, 25.3% (49) were in the age bracket of 36-40 years, with 24.2% (47) were over the age of 40 years and 13.9% (27) aged between 21 and 25 years as shown in Figure 4.2. The findings showed that small and micro enterprises



were dominated by business owners (75.8%; n=147) who were in their active working age of below 40 years.

The findings are contrary to past studies which indicate that Census data from the US suggest that entrepreneurs are older and slightly more educated than employed workers.



**Figure 4.2: Age of the Respondents**

**Source:** Researcher's Survey Data, 2014.

Immigrant entrepreneurs have lived a long time in their new country before starting an enterprise (Portes and Zhou, 1996:1999). Age and length of residence help them accumulate networking for new firms.

#### **4.1.4 Sole Proprietor**

From the study the majority (64%, n=125) of the respondents were sole proprietor, while 36% (n=69) were managers and Supervisors employed to be in charge of the business as shown in Table 4.1.

**Table 4.1: Sole Proprietors**

	<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Sole proprietor	Yes	125	64.4
	No	69	35.6
	<b>Total</b>	194	100.0
Other owners	Spouse	15	7.7
	Sons	6	3.1
	Daughters	4	2.1
	Friends	17	8.8
	Relatives	27	13.9
	<b>Total</b>	69	35.6
Managers and supervisors	Yes	69	36

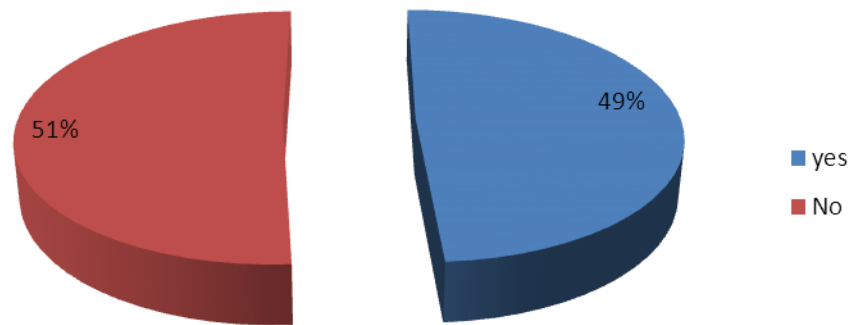
**Source:** Researcher's Survey Data 2014

This implies that the sole proprietor dominated the Micro and Small enterprises. However, 13.9 % (n=27) of the respondents owned the business with relatives, 8.8% with friends and 7.7% owned the business with their spouses. The findings showed that a significant proportion of the respondents had sole proprietor, a clear indication that they had few owners to partner with.

#### **4.1.5 Person Active in Business**

From the study most (50.5%, n=98) of the respondents were not the only person(s) active in business, while 49.5% (n=96) were the only person active in business as

shown in Figure 4.3. This showed that the sole proprietor had other people who assisted in the management of the enterprise.



**Figure 4.3: Person active in Business**

**Source:** Researcher's Survey Data, 2014.

From the findings as shown in Table 4.2, 16% (n=31) of the respondents had employed supervisors, with 11.9% being managed by relatives, 10.3% by spouses. This showed that relatives and family members always manage the business enterprises and they had developed trust with their kins and relatives to manage their business firms.

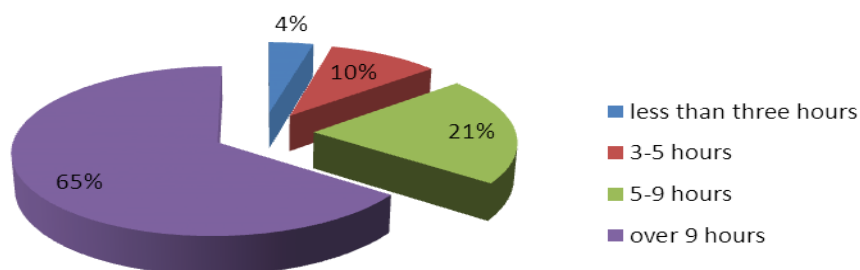
**Table 4.2: Managers of the Business Firm**

Managers	Frequency	Percent
Spouse	20	10.3
Daughter	3	1.5
Son	12	6.2
Friends	9	4.6
Employed supervisor/manager	31	16.0
Relatives	23	11.9
<b>Total</b>	<b>98</b>	<b>50.5</b>

**Source:** Researcher's Survey Data, 2014

#### 4.1.6 Hours Working in a Week

The number of hours in a week the respondents worked in their business firms and years of working experience business owners possessed before starting their current business is summarized in Figure 4.4.



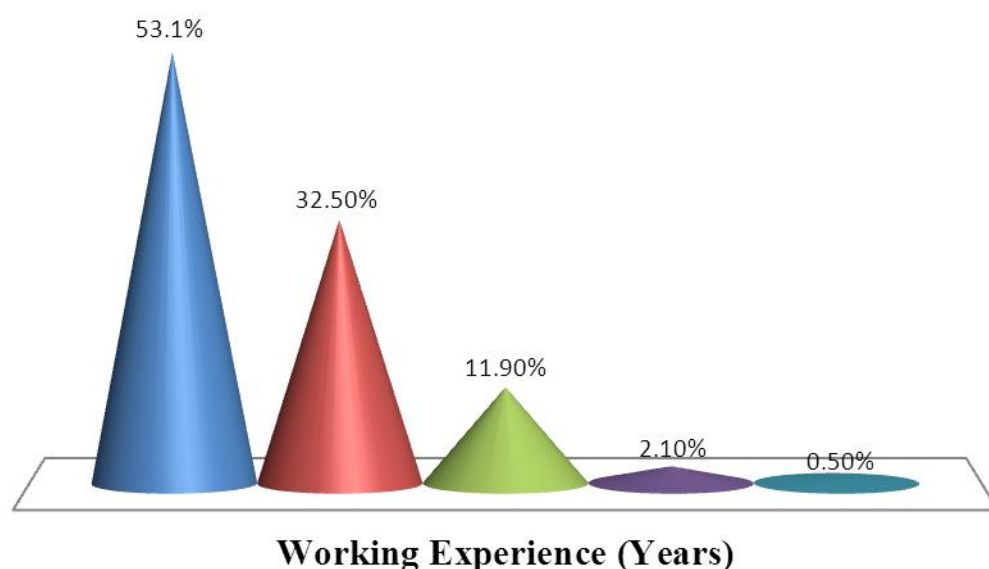
**Figure 4.4: Hours Work in Business enterprise**

**Source:** Researcher's Survey Data, 2014.

From the study, the majority 65.5% (127) of the respondents worked for more than 9 hours in a week in their business enterprise, with 21.1% working for between 5 and 9 hours a week, while 9.8% of them worked for between 3 and 5 hours and the least 3.6% worked for less than three hours in a week. The findings showed that most 86.6 (168) of the respondents worked for more than 5 hours in a week in the business enterprise. The number of hours committed to business owner was important because the study indicated that entrepreneurs were tied to other economic activities and family chores.

#### 4.1.7 Working Experience

Regarding years of working experience business owners possessed before starting their current business, the results showed that majority 53.1% (n=103) of the respondents had up to 5 years of working experience, while 32.5% had between 5 and 10 years of working experience as shown in Figure 4.5.



**Figure 4.5: Years of Working Experience before Starting the Current Business**

**Source:** Researcher's Survey Data, 2014.

From the study, 11.9% of the respondents had between 10 and 15 years' experience and 2.6% had above 15 years of working experience. The findings show that small enterprises 97.5% (189) was dominated by business owners who had below 15 years of working experience compared to those above 15 years of experience. From these findings it is clear that the business owners who have been in business for more than 15 years, participated in networking and linked their ties much more than those active in business for less than 15 years.

The findings showed that most small enterprises was dominated by business owners who had below 15 years of working experience compared to those above 15 years of experience. This agrees with Sengaloun and Takahashi, (2010) that that emphasized that level of experience of the business owner has positive impact on the performance of the enterprises.

## **4.2 Business Characteristics**

The study considered business characteristics as control variable which comprises of firm size and firm age. This was established using the number of outlets of the enterprise. Education level of employees, number of employees and age bracket of the enterprise.

### **4.2.1 Firm Size**

The firm size was established by identifying whether the respondents had other business outlets, the number of business outlets, and appropriate number of employees with their education levels as summarized in Table 4.3. From the study, majority of the respondents 72.2% (140) had no other business outlets, with 27.8%

having more than one business outlet. The findings showed that 21.6% of the respondents had less than five outlets, with 4.1% having between six and 10 outlets and 1.5% had between 11 and 15 outlets. This implied that majority 25.7% (50) of the respondents had less than 10 business outlets. The findings showed that Micro and Small enterprises remained smaller hence their networks were not enhanced.

**Table 4.3: Firm Size**

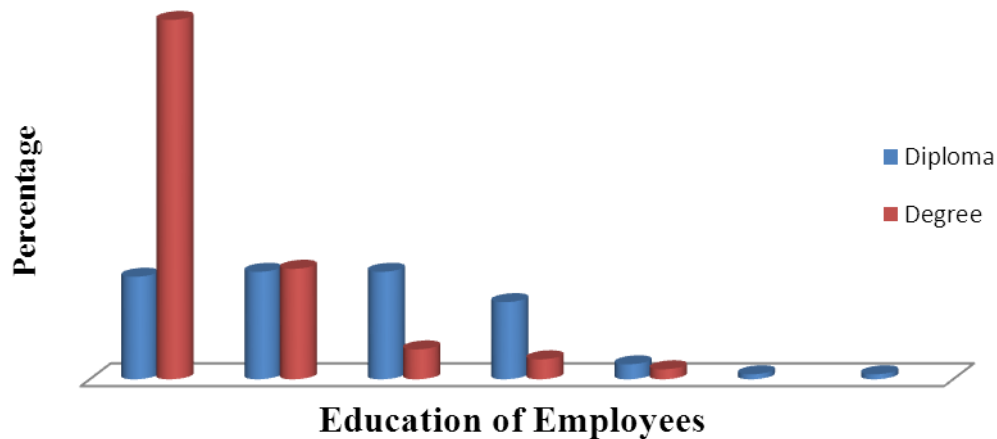
<b>Firm size</b>	<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Have other business outlets	Yes	54	27.8
	No	140	72.2
	<b>Total</b>	<b>194</b>	<b>100.0</b>
Number of business outlets	0 – 5	42	21.6
	6 – 10	8	4.1
	11 – 15	3	1.5
	16 – 20	1	.5
	<b>Total</b>	<b>54</b>	<b>27.8</b>

**Source:** Researcher's Survey Data, 2014.

The findings agrees with Dass, (2000) who emphasized that firm size is posited to allow bigger firms accessibility to information compared to smaller firms. The likelihood of bigger firms to access critical information such as business ideas and market information is high.

#### 4.2.2 Employees level of Education

Majority of the respondents 72.2% (140) identified that less than five employees in their firm had degree certificate, while, 20.6% (40) had between 6 and 10 employees-- as shown in Figure 4.6.



*Figure 4.6: Employees Education Qualification*

**Source:** Researcher's Survey Data, 2014.

This showed that most of the business firms had less than 10 number of employees with degree certificates. Most of the respondents 39.7% (77) identified that less than five employees in the business firm had college certificates, while 22.2% (43) and 21.6% having between 6 and 10 and 11 to 15 employees respectively. This showed that most of the business enterprises had less than 20 numbers of employees with college certificates.

The level of education of employees has a substantial impact on the business networks. King and Mccrath (2002) in their study suggested that those with more education performed in MSE's sector (King and Mccrath 2002) noted that entrepreneurs with who attain college education succeed in their business compared to those with no college education because they networked more than those who have



lower education level. The level of education of respondents was sought in order to establish the level of awareness due to formal education. This means that complex selection methods would not be readily applicable in the MSE's.

#### 4.2.3 Number of Employees

From the study the appropriate number of employees was varied among the respondents as 42.8% (83) had below five employees, with 35.6% having between six and 10 employees and 8.8% having between 11 and 15 employees as shown in Table 4.4.

**Table 4.4: Number of Employees**

<b>Employees</b>	<b>Frequency</b>	<b>Percent</b>
0 – 5	83	42.8
6 – 10	69	35.6
11 – 15	17	8.8
16 – 20	7	3.6
21 – 25	6	3.1
26 – 30	5	2.6
31 – 50	7	3.6
<b>Total</b>	<b>194</b>	<b>100.0</b>

**Source:** Researcher's Survey Data, 2014.

This showed that majority of the business firms 87.2% (169) had appropriate number of employees below 15. This shows that the number of employees in business firms were less to enhance the productivity of the business firm.

#### 4.2.4 Age Bracket of the Enterprise

The other business characteristic used in the study was the firm age as summarized in Table 4.5. The findings show that majority of the respondents 45.9% (89) have been in operation for between 4 and 7 years, while, 23.2% had been in operation for the last three years and 19.1% for between 8 and 11 years. This shows that 88.2% (171) of the business enterprise had been active for less than 11 years. This also indicates that the older the firm, the higher the channels of networking.

**Table 4.5: Age Bracket of the Enterprise**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
0- 3	45	23.2
4 – 7	89	45.9
8 – 11	37	19.1
12 – 15	4	2.1
16 – 19	3	1.5
20-23	4	2.1
24 - 27	12	6.2
<b>Total</b>	<b>194</b>	<b>100.0</b>

**Source:** Researcher's Survey Data 2014

The findings show that most of the businesses have been active for less than 11 years. The findings agree with (Rosa, 1996) which indicate that while older firms seem to be larger in terms of sales turn over, number of employees, and capital assets. In addition, old enterprises have advantages as they benefit from external networks compared to young enterprises. Enterprise age is measured by the number of years

since the enterprise was formed. Enterprise age was determined by its strength and experience in its industry which is said may lead to success.

These findings agree with (Watson, 2002) that young firms seem to have lower sales and consequently lower profits. While older firms seems to be larger in terms of sales turn over, number or employees, and capital assets and more so more external networks (Rosa 1996).

#### **4.3 Entrepreneurial Networks**

Most of the respondents 83% (161) agreed that there are other factors which contributed to the business, with 10.8% undecided and 6.2% disagree on other factors contributing to business success and also supported by a higher mean of 5.53. Majority of the respondents 77.8% (151) agreed that they have an opportunity to interact with their stake holders, with 13.9% undecided and 8.2% disagree on having an opportunity to interact with their stake holders and also supported by a higher mean of 5.38.

From the study majority of the respondents 76.3% (148) agreed that enterprise encourages innovation through networking among the “chamas” groups, with 14.9% disagreeing and 8.8% undecided on enterprise encouraging innovation through networking among the “chamas” groups. This was supported by a highest mean of 5.25. Most of the respondents 73.2% (142) agreed that they get ideas from networking with friends, with 15.5% undecided and 11.3% disagree on getting ideas from networking with friends, and supported by a higher mean of 5.23. Most of the respondents 68% (132) agreed that they are able to interact with their family members

freely, with 12.9% undecided and 19.1% disagree on being able to interact with my family members freely and supported by a higher mean of 5.13.

From the study, it showed that 72.2% of the respondents agree that institutions adopt participatory networks in their operations; with 15.5% disagreeing and 12.4% were undecided on institution adopting participatory networks in its operations. However, 59.3% (115) of the respondents agreed that they had positive relationship with their competitors, with 24.7% disagree and 16% undecided on relationship with their competitors. On interacting with the proprietors frequently, 64.4% of the respondents agree, with 24.7% disagreeing and only 10/8% was undecided.

Overall from the study, it showed that all the indicators used in measuring entrepreneurial networks each had a mean of above 4.7, indicating that the respondents rated them to be positive with identification of other factors may contribute to the growth of their business rated highly with a mean of 5.53.

**Table 4.6: Entrepreneurial Networks**

Entrepreneurial networks	Disagree		Neutral		Agree		Mean	Std. Dev.
	Freq	%	Freq	%	Freq	%		
I have positive relationship with my competitors.	48	24.7	31	16.0	115	59.3	4.72	1.80
I have an opportunity to interact with my stake holders.	16	8.2	27	13.9	151	77.8	5.38	1.29
I use various networks to reach my customers	21	10.8	10	5.2	163	84.0	5.38	1.31
I get ideas from	22	11.3	30	15.5	142	73.2	5.23	1.31

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networking with friends.								
I interact with the proprietors frequently.	48	24.7	21	10.8	125	64.4	4.79	1.54
I am able to interact with my family members freely.	37	19.1	25	12.9	132	68.0	5.13	1.59
My enterprise encourages innovation through networking among the “chamas” groups.	29	14.9	17	8.8	148	76.3	5.25	1.47
My institution adopts participatory networks in its operations	30	15.5	24	12.4	140	72.2	5.08	1.43
There are other factors which contribute to my business	12	6.2	21	10.8	161	83.0	5.53	1.21

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**Source:** Researcher’s Survey Data, 2014.

#### **4.3.1 Relationship between Entrepreneurial Networks and Indicators of Entrepreneurial Success**

From the study, it is clear that, there was no relationship between engagement in entrepreneurial networks and profits to sales ratio, sales revenues, enterprises’ reputation, employee and expenses,  $p > .05$ ], indicating that a change in any of the variables will lead to no change in any of the indicators of entrepreneurial success. There was a strong negative relationship between the engagement in entrepreneurial networks and sales growth indicator [ $r = -.151$ ,  $n = 174$ ,  $p < .05$ ], (Table 4.7), indicating a negative correlation between engagement in entrepreneurial networks and sales

growth. The lesser the engagement in entrepreneurial networks the lower the sales growth attained.

**Table 4.7: Entrepreneurial Networks and Entrepreneurial Success**

Spearman's rho		Profits to sales ratio	Sales revenues	Sales growth	Firms reputation	Employee expenses	Networking
Profits to sales ratio	Correlation Coefficient	1.000					
	Sig. (2-tailed)	.000					
Sales revenues	Correlation Coefficient	.668*	1.000				
	Sig. (2-tailed)	.000	.000				
Sales growth	Correlation Coefficient	.613*	.720**	1.000			
	Sig. (2-tailed)	.000	.000	.000			
Firms reputation	Correlation Coefficient	.570*	.631**	.655**	1.000		
	Sig. (2-tailed)	.000	.000	.000	.000		
Employee expenses	Correlation Coefficient	.299*	.321**	.404**	.544**	1.000	

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	Coefficient	*						
	Sig. (2-tailed)	.000	.000	.000	.000	.		
Expenses	Correlation	.214*	.328**	.296**	.340**	.448**	1.000	
	Coefficient	*						
	Sig. (2-tailed)	.003	.000	.000	.000	.000	.	
Networking	Correlation	.014	-.067	-.151*	.016	-.005	-.075	1.000
	Coefficient							
	Sig. (2-tailed)	.843	.350	.036	.826	.946	.297	.

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\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N = 194

### 4.3.2 Overall Relationship between Entrepreneurial Networks and Entrepreneurial Success

The Spearman rank-correlation was used to establish the Relationship between t in entrepreneurial networks and Entrepreneurial Success. There was a positive relationship between the engagement in entrepreneurial networks and enterprise success [r= .683, n=174, p<.05], (Table 4.8), indicating a positive correlation between engagement in entrepreneurial networks and Entrepreneurial Success. The more the entrepreneurial networking the higher enterprise success.

**Table 4.8: Overall Relationship between Entrepreneurial Networks and Entrepreneurial Success**

	Spearman's rho	Success	Network
Success	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
Network	Correlation Coefficient	.683**	1.000
	Sig. (2-tailed)	.000	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N = 194

Source, Researcher's Survey Data, 2014

The findings agree with Perry (1999), who suggested that, small firm networks are constructed around social networks developed through associations formed by family, friends and acquaintances. The linkages of family and ethnics are based on the utilization of personal and family contacts that are usually embedded in close-knit communities (Fadahunsi, 2000). This implies that family members play a crucial role in linking business ties.

The findings agree with Ellis and Pecotich (2001) who argued that network relationships have long been recognized to be indispensable for MSEs to achieve international growth. Scholars have recently emphasized that informal social networks or networks of social relationship serve as the initial basis from which formal networks of business linkages are developed in new territories (Chen, 1998:2003), and through which exporting relationships are formed (Ellis and Pecotich, 2001).



In particular, empirical findings support that social networks are vital to the identification of new opportunities to those who are connected by exclusive or non-redundant personal ties, irrespective of whether the nature of the social relations is strong or weak (Burt, 1992, 1997).

Specifically, empirical research indicates that new venture founders with more social ties are able to obtain information necessary to identify and exploit opportunities (Ozgen and Baron, 2007). Similarly, social effectiveness is proposed to new venture founders, develop stronger and more productive relationships with other individuals such as stakeholders (Baron and Markman, 2003). Such stronger relationships were expected to help socially effective new venture founders create more successful firms than founders who are not as socially effective.

Joining a strategic network or alliance has been acknowledged as a valuable path for MSEs striving to gain a sustainable competitive advantage within their business environments: lower transaction costs, social capital creation, entering foreign markets and achieving economies of scale have all been reported as positive outcomes of establishing ties with other firms in the markets (Cruickshank and Rolland, 2006). Building on this new social network perspective, the entrepreneurship literature has emphasized the importance of networks to small firms, particularly as a means of obtaining resources which would otherwise be unavailable to them (Aldrich and Zimmer, 1986; Starr and MacMillan, 1990).

#### **4.4 Entrepreneurial Ties**

The second objective of the study was to establish the relationship between entrepreneurial ties on entrepreneurial success. This was achieved through obtaining responses from the questionnaire issued to MSEs as summarized in Table 4.9. The scores were derived from seven point scale with 'disagree' refers to the score 1, 2 or 3 (Strongly Disagree, Disagree and Somewhat Disagree), 'Neutral' refers to scores 4 and 'agree' refers to scores 5, 6 and 7 (Somewhat Agree, agree and strongly agree). The frequency distribution, percentages as well as mean and standard deviation used to explain proportions, while inferential statistics such as chi square and correlation used to explain relationship. From the study majority of the respondents 90.7% (176) agreed that their customers are like their friends, with 4.6% disagreeing and undecided that customers were like their friends. Most of the respondents 87.1% (169) agreed that entrepreneurialties enhanced business effectiveness, with 9.3% undecided and 3.6% disagree that entrepreneurialties enhanced business effectiveness.

**Table 4.9: Entrepreneurial Ties**

Entrepreneurial Ties	Disagree		Neutral		Agree		Mean	Std. Dev.
	Freq	%	Freq	%	Freq	%		
Entrepreneurial ties have contributed to the business success	30	15.5	18	9.3	146	75.3	5.30	1.57
Customers and friends have contributed to social ties	17	8.8	12	6.2	165	85.1	5.54	1.21
Entrepreneurial ties encourages us to be in business	23	11.9	28	14.4	143	73.7	5.28	1.38
Social Family ties links us to the business world	44	22.7	21	10.8	129	66.5	4.91	1.66
Customers are like our friends	9	4.6	9	4.6	176	90.7	5.96	1.11
Entrepreneurialties enhances business effectiveness	7	3.6	18	9.3	169	87.1	5.75	1.08

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**Source:** Researcher's Survey Data 2014

From the study majority of the respondents 85.1% (165) agreed that customers and friends had contributed to social ties, with 8.8% disagreeing and 6.2% undecided that customers and friends had contributed to social ties. Most of the respondents 75.3% (146) agreed that entrepreneurial ties have contributed to the business success, with 9.3% undecided and 15.5% disagree that entrepreneurial ties have contributed to the business success. From the study results indicated that majority of the respondents 73.7% (143) agreed that entrepreneurial ties encouraged them to do business, with 11.9% disagreeing and 14.4% undecided that entrepreneurial ties encouraged them to do business. Most of the respondents 66.5% (129) agreed that social family ties linked the business world, with 10.8% undecided and 22.7% disagree that social family ties linked the business world. Overall, from the study the findings showed that the mean of the statements were all above 4.9, with the respondents rating customers as their friends had a mean of 5.96. This showed that the entrepreneurial ties among the business firms were good.

#### **4.4.1 Influence between Social Ties and Enterprise Success**

The Spearman rank-correlation was used to determine whether there is a significant influence between two variables. The relationship between independent variables (social ties) and dependent variable (entrepreneurial Success) were investigated using Spearman rank-correlation coefficient.

#### **4.4.2 Influence of Social Ties and Indicators on Entrepreneurial Success**

From the study there was no influence between social ties and profits to sales ratio, sales revenues, sales growth, firms reputation, and employee,  $p > .05$ ], indicating that a change in the variable will lead to no change in any of the indicators of

entrepreneurial success. There was a strong negative relationship between the social ties and expenses indicator [ $r = -.151$ ,  $n = 174$ ,  $p < .05$ ], (Table 4.10), indicating a negative correlation between social ties and enterprise expenses. The fewer the entrepreneurial social ties the smaller the enterprise expenses.

**Table 4.10: Influence of Social Ties on Indicators of Entrepreneurial Success**

	Spearman's rho	Profits to sales ratio	Sales revenues	Sales growth	Firms reputation	Employee Expenses	Ties
Profits to sales ratio	Correlation Coefficient	1.000					
	Sig. (2-tailed)	.					
Sales revenues	Correlation Coefficient	.668**	1.000				
	Sig. (2-tailed)	.000	.				
Sales growth	Correlation Coefficient	.613**	.720**	1.000			
	Sig. (2-tailed)	.000	.000	.			
Firms reputation	Correlation Coefficient	.570**	.631**	.655**	1.000		
	Sig. (2-tailed)	.000	.000	.000	.		
Employee Expenses	Correlation Coefficient	.299**	.321**	.404**	.544**	1.000	
	Sig. (2-tailed)	.000	.000	.000	.000	.	
Expenses	Correlation Coefficient	.214**	.328**	.296**	.340**	.448**	1.000

	Coefficient							
	Sig. (2-tailed)	.003	.000	.000	.000	.000	.	
Ties	Correlation	.082	.062	-.063	.024	.001	-.151*	1.000
	Coefficient							
	Sig. (2-tailed)	.257	.390	.380	.741	.990	.035	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N = 194

**Source:** Researcher's Survey Data, 2014

#### 4.4.3 Overall influence of Social Ties and Enterprise Success

The Spearman Rank-Correlation was used to establish the influence between ties and enterprise success. There was a positive relationship between the social ties and enterprise success [ $r = .560$ ,  $n = 174$ ,  $p < .05$ ], (Table 4.11), indicating a positive correlation between social ties and enterprise success. The more the social ties the higher enterprise success. The findings agree with Apitzchet al., (2006) that pooling resources within kinship networks is concerned this is more likely to come from men (Apitzch et al., 2006). Where women entrepreneurs are able to use ethnic ties these are primarily with co-ethnic women. In certain cases 'the community' acts as an obstacle to women in certain cases 'the community' acts as an obstacle to women. Networks can range from weak ties of acquaintances that can move between groups carrying both ideas and information, to the strong ties of families where in-group solidarity may actually militate against multiple identities and co-operation with outsiders (Granovetter, 2007).

**Table 4.11: Overall Influence of Social Ties and Enterprise Success**

Variable	Spearman's rho	Success	Network
Success	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
Ties	Correlation Coefficient	.559**	1.000
	Sig. (2-tailed)	.000	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. List wise N = 194

**Source:** Researchers Survey Data, 2014

#### 4.5 Entrepreneurial Trust

The third objective of the study was to establish the influence of entrepreneurial trusts on entrepreneurial successes. This was achieved through obtaining responses from the questionnaire issued to MSEs as summarized in Table 4.12. The frequency distribution, percentages as well as mean and standard deviation used to explain proportions, while inferential statistics such as correlation and multiple regressions to explain relationship. From the study majority of the respondents 77.3% (150) agreed that building trust was the key objective of group links, with 15.5% undecided and 7.2% disagreed on the objective of group links. Most of the respondents 76.3% (148) agreed that they were satisfied with the business ideas obtained from their group interactions, with 17% disagree and 6.7% undecided that they were satisfied with the business ideas from group interactions. These findings imply that building trust was the key objective of group links and business ideas obtained from their group interactions. Overall, the mean of the entrepreneurial trust were found to be high and above 5.2 on satisfaction with business ideas and building of trust, but was low below

4.4 on social status contributing to business success. This showed that social status did not contribute to entrepreneurial success.

**Table 4.12: Entrepreneurial Trust**

Trust	Disagree		Neutral		Agree		Mea n	Std. Dev.
	Freq	%	Freq	%	Freq	%		
My social status contribute to my business success	59	30.4	47	24.2	88	45.4	4.35	1.81
I am satisfied with the business ideas I get from my group interactions.	33	17.0	13	6.7	148	76.3	5.18	1.47
Building Trust is the key objective of group links.	14	7.2	30	15.5	150	77.3	5.32	1.21

**Source:** Researcher's Survey Data, 2014

#### 4.5.1 Influence of Trust on Enterprise Success

The Spearman rank-correlation was used to determine whether there is a significant relationship between two variables. The influence between independent variables (trust) and dependent variable (entrepreneurial Success) were investigated using Spearman rank-correlation coefficient.



#### 4.5.2 Influence of Trust and Indicators of Entrepreneurial Success

From the study there was no influence between trust and profits to sales ratio, sales revenues, firms reputation, employee and expenses,  $p > .05$ ], indicating that a change in the variable will lead to no change in any of the indicators of entrepreneurial success. There was a strong negative relationship between the trust and sales growth indicator [ $r = -.219$ ,  $n = 174$ ,  $p < .005$ ], (Table 4.13), indicating a negative correlation between social trust and enterprise sales growth. The fewer the entrepreneurial social trust the smaller the enterprise sales growth.

**Table 4.13: Relationship between Trust and Indicators of Entrepreneurial Success**

Spearman's rho		Profits to sales ratio	Sales revenues	Sales growth	Firms reputation	Employee expenses	Trust
Profits to sales ratio	Correlation Coefficient	1.000					
	Sig. (2-tailed)	.000					
Sales revenues	Correlation Coefficient	.668*	1.000				
	Sig. (2-tailed)	.000					
Sales growth	Correlation Coefficient	.613*	.720**	1.000			

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growth	Coefficient	*						
	Sig. (2-	.000	.000	.				
	tailed)							
Firms	Correlation	.570*	.631**	.655**	1.000			
reputation	Coefficient	*						
	Sig. (2-	.000	.000	.000	.			
	tailed)							
Employee	Correlation	.299*	.321**	.404**	.544**	1.000		
	Coefficient	*						
	Sig. (2-	.000	.000	.000	.000	.		
	tailed)							
Expenses	Correlation	.214*	.328**	.296**	.340**	.448**	1.000	
	Coefficient	*						
	Sig. (2-	.003	.000	.000	.000	.000	.	
	tailed)							
Trust	Correlation	-.121	-.139	-	-.049	.063	-.103	1.00
	Coefficient			.219**				0
	Sig. (2-	.094	.054	.002	.496	.386	.153	.
	tailed)							

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\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N = 194

**Source:** Researcher's Survey Data, 2014

### 4.5.3 Overall Influence of Trust on Enterprise Success

The Spearman rank-correlation was used to establish the influence of trust and overall enterprise success. There was a positive relationship between the I trust and enterprise success [ $r = .907$ ,  $n = 174$ ,  $p < .05$ ], (Table 4.14), indicating a positive correlation between social trust and enterprise success. The more the social trust among entrepreneurs the higher enterprise success.

**Table 4.14: Overall Influence of Trust on Enterprise Success**

Variable	Spearman's rho	Success	Network
Success	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
Trust	Correlation Coefficient	.907**	1.000
	Sig. (2-tailed)	.000	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N = 194

**Source:** Researcher's Survey Data, 2014

The findings agree with Granovetter, (1985) that interpersonal trust is vital in all market transactions when those involved are unwilling to rely on institutional arrangements or cultural norms alone. It is based on a perception of the probability that other agents will behave in a way that is expected (Gambetta, 1988). Individuals will weigh up the perceived risk and act according to their perceptions. They will draw on information based on the reputations of other network members and also evaluate the extent to which sanctions can be applied. The sanctions may be peer pressure, exclusion from future benefit, or recourse to authority. Where people do not

live near each other, they were found to be looking for commonalities or shared values such a same religion or church, shared membership of a professional or social group, or common ethnic group.

#### **4.6 Entrepreneurial Goodwill**

The fourth objective of the study was to establish the influence of entrepreneurial goodwill on entrepreneurial success. This was achieved through obtaining responses from the questionnaire issued to SMEs as summarized in Table 4.15. The frequency distribution, percentages as well as mean and standard deviation used to explain proportions, while inferential statistics such as correlation and multiple regressions to explain relationship.

From the study majority of the respondents 90.7% (176) agreed that group interactions had contributed to business success, with 5.7% disagreed and 3.6% undecided that group interactions had contributed to business success. Most of the respondents 80.4% (156) agreed that they had other social interactions since starting their business, with 13.9% disagree and 5.7% undecided that they had other social interactions. Also, 79.9% of the respondents agree that their business performance was in line with their future expectations and 13.4% disagreed on their business performance being in line with their future expectations. Most of the respondents 64.9% (126) agreed that profits coincide with their level of interactions, with 23.2% disagree and 11.9% undecided that their profits coincided with the level of interactions.

**Table 4.15: Entrepreneurial Goodwill**

Good will	Disagree		Neutral		Agree		Mea n	Std. Dev.
	Freq	%	Freq	%	Freq	%		
Group interactions have contributed to business success.	11	5.7	7	3.6	176	90.7	5.47	1.12
My profits coincide with my level of interactions.	45	23.2	23	11.9	126	64.9	4.87	1.47
My business performance is in line with my future expectations	26	13.4	13	6.7	155	79.9	5.19	1.44
I have had other social interactions since I started my business.	27	13.9	11	5.7	156	80.4	5.17	1.38

**Source:** Researcher's Survey Data 2014

From the study the mean of goodwill statement was all above 4.9, with the highest being 5.5 on group interactions having contributed to business success.

#### **4.6.1 Influence of Good will on Enterprise Success**

The Spearman rank-correlation was used to determine whether there is a significant influence between two variables. The relationship between independent variables

(goodwill) and dependent variable (entrepreneurial Success) were investigated using Spearman rank-correlation coefficient.

#### 4.6.2 Influence of Goodwill and Indicators of Entrepreneurial Success

From the study there was no influence between goodwill and, sales growth, sales revenues, firms reputation, and expenses,  $p > .05$ ], indicating that a change in the variable will lead to no change in any of the indicators of entrepreneurial success. There was a strong positive relationship between the goodwill and profits to sales ratio indicator [ $r = .148$ ,  $n = 174$ ,  $p < .005$ ], and employees [ $r = .218$ ,  $n = 174$ ,  $p < .001$ ] (Table 4.16), indicating a positive correlation between profits to sales ratio and employees. The higher the goodwill the more the enterprise profits to sales ratio and employees.

**Table 4.16: Influence Goodwill and indicators on Entrepreneurial Success**

	Spearman's Rho	Profits to sales ratio	Sales revenues	Sales growth	Firms reputation	Employee Expenses	Goodwill
Profits to sales ratio	Correlation Coefficient	1.000					
	Sig. (2-tailed)	.					
Sales revenues	Correlation Coefficient	.668**	1.000				
	Sig. (2-tailed)	.000	.				
Sales growth	Correlation Coefficient	.613**	.720**	1.000			
	Sig. (2-tailed)	.000	.000	.			

	tailed)							
Firms	Correlation	.570**	.631**	.655**	1.000			
reputation	Coefficient							
	Sig. (2-	.000	.000	.000	.			
	tailed)							
Employee	Correlation	.299**	.321**	.404**	.544**	1.000		
	Coefficient							
	Sig. (2-	.000	.000	.000	.000	.		
	tailed)							
Expenses	Correlation	.214**	.328**	.296**	.340**	.448**	1.000	
	Coefficient							
	Sig. (2-	.003	.000	.000	.000	.000	.	
	tailed)							
Goodwill	Correlation	.148*	.102	-.036	.101	.218**	-.089	1.000
	Coefficient							
	Sig. (2-	.039	.159	.618	.160	.002	.217	.
	tailed)							

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N = 194

Source: **Researcher's Survey Data, 2014**

#### 4.6.3 Overall Influence of Good will on Enterprise Success

The findings of the influence of Goodwill on enterprise success shows that there was a positive relationship between the goodwill and enterprise success [ $r = .833$ ,  $n = 174$ ,  $p < .05$ ], (Table 4.17), indicating a positive correlation between goodwill and enterprise success. The more the entrepreneur's goodwill is in the business the higher the small enterprise success.

**Table 4.17: Overall Influence of Goodwill on Enterprise Success**

Variable	Spearman's rho	Success	Network
Success	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
Goodwill	Correlation Coefficient	.833**	1.000
	Sig. (2-tailed)	.000	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N = 194

**Source:** Researcher's Survey Data, 2014

The findings agree with Haman and Jubb, (2008) that the U.S., U.K., Australia and the European countries provide evidence that managers have the tendency to recognize goodwill impairment loss while they were experiencing a decline in profitability. Past studies report that, businesses in Malaysia, being part of the Asia, are highly concentrated (Claessens, 2000) and largely influenced by the government (Ball, 2003) and families (Claessens, 2000). The effect of goodwill is highly concentrated on ownership structure, family controlled firms and government controlled firm leading to performance of Micro and small Enterprises.

#### **4.7 Entrepreneurial Success over the Past Three Years**

The dependent variable of the study is entrepreneurial success measured in terms of growth, sales turn over, volume in sales indicated by level of earnings of the business unit annually. During the study the respondents were requested to rate their firm's entrepreneurial success over the past three years and their findings was varied as summarized in Table 4.18. From the study, it showed that profits to sales ratio was



rated by 23.2% respondents to be between 51 and 61 percent, with 21.1% rating it to range between 51 and 60% and 18.6% range between 31% and 40%. On sales revenue 24.7% of the respondents rated it to be between 41 and 50 percent, however, 22.7% had a range of 51 and 60%, with 17% having performed between 31 and 40%. The sales growth was rated by 23.7% of respondents to range between 51 and 60% with 19.1% had between 41 and 50 percent performance and 14.4% performed between 31 and 40 as well as between 61 and 70% firm performance in the last three years.

The firm reputation performance was rated to be between 31 and 40 percent by 25.3% of the respondents while, 24.7% performed between 41 and 50 percent in the past three years. The employees in the firms were rated to perform between 41 and 50% by 25.3% of the respondents and 23.7% performed between 31 and 40 years. The expenses of the firms were rated by 30.4% of the respondents to be between 31 and 40 percent.

The overall firm's entrepreneurial success over the past three years was varied among the performance indicators profits, sales ratio, sales revenue, sales growth and firm's reputation was rated to be below 50%. While the employees and expenses were rated by respondents to be below 40%. This finding showed that firm performance was rated below average.

**Table 4.18: Firm's Entrepreneurial Success over the Past Three Years**

Rating Performance	0-10		11-20		21-30		31-40		41-50		51-60		61-70		71-80		81-90		Mean
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
Profits to sales ratio	15	7.7	11	5.7	11	5.7	36	18.6	41	21.1	45	23.2	21	10.8	9	4.6	5	2.6	5.9
Sales revenues	3	1.5	18	9.3	11	5.7	33	17.0	48	24.7	44	22.7	21	10.8	11	5.7	5	2.6	6.1
Sales growth	10	5.2	8	4.1	19	9.8	28	14.4	37	19.1	46	23.7	28	14.4	9	4.6	9	4.6	6.2
Firms reputation	8	4.1	16	8.2	8	4.1	49	25.3	48	24.7	29	14.9	18	9.3	11	5.7	7	3.6	5.9
Employee	11	5.7	15	7.7	32	16.5	46	23.7	49	25.3	24	12.4	7	3.6	4	2.1	6	3.1	5.5
Expenses	13	6.7	26	13.4	34	17.5	59	30.4	37	19.1	17	8.8	6	3.1	1	.5	1	.5	4.9

**Source:** Researcher's Survey Data, 2014

#### **4.8 Influence of Entrepreneurial Networks on Enterprise Success**

The Spearman Rank-Correlation was used to determine whether there is a significant relationship between entrepreneurial Networks and enterprise success. The relationship between independent variables (entrepreneurial social capital resources) and dependent variable (enterprise success) were investigated using Spearman Rank-Correlation Coefficient.

##### **4.8.1 Influence of Entrepreneurial Networking Indicators on Entrepreneurial Success Indicators**

The influence of entrepreneurial Networks on indicators and enterprise success was sought during the study. This was done so as to establish how entrepreneurial Networking indicators networks, ties, trust and goodwill have on entrepreneurial success. The influence between independent variables (entrepreneurial Networks) and dependent variable (enterprise success) were investigated using Spearman rank-correlation coefficient as summarized in Table 4.19. There was a strong positive relationship between the goodwill and profits to sales ratio [ $r=.148$ ,  $n=194$ ,  $p<.05$ ], this indicated that an increase in goodwill will increase profit to sales ratio, thus improving firm performance. This indicates that the higher small medium enterprises Goodwill the increase in firm profitability is realized. There was also a strong positive influence between the goodwill and employees in the enterprise [ $r=.218$ ,  $n=194$ ,  $p<.05$ ], this indicated that when employees realize Goodwill their productivity increases.

There was a negative influence between social trust and sales growth [ $r = -.219$ ,  $n=194$ ,  $p < .05$ ], this indicated that if there is mistrust amongst the entrepreneurs their sales growth will reduce. There was a negative influence between networking and sales growth [ $r = -.216$ ,  $n=194$ ,  $p < .05$ ], this indicated that the more the entrepreneurial network declines their sales growth reduce. There was a negative relationship between entrepreneurial ties and expenses of the firm [ $r = -.151$ ,  $n=194$ ,  $p < .05$ ], this indicated that the more the ties reduces the enterprise expenses increases. From the study social capital is composed of individual and collective social networks, ties and structures that help the individual get access to information and know-how. The findings agree with Bolino et al., (2002) that individuals work together more effectively and efficiently when they know one another, and trust and identify with one another.

**Table 4.19: Influence of Entrepreneurial Networking Indicators on Entrepreneurial Success Indicators**

Variables	Spearman's rho	Profit sales	Sales revenue	Sales growth	Firms reputation	Employee	Expenses	Trust	Good Will	Ties	Network
Trust	Correlation Coefficient	-.121	-.139	-	-.049	.063	-.103	1.000			
				.219**							

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	Sig. (2-	.094	.054	.002	.496	.386	.153	.
	tailed)							
Good	Correlati	.148*	.102	-.036	.101	.218**	-.089	.619** 1.000
will	on							
	Coeffici							
	ent							
	Sig. (2-	.039	.159	.618	.160	.002	.217	.000 .
	tailed)							
Ties	Correlati	.082	.062	-.063	.024	.001	-.151*	.578** .516** 1.000
on								
	Coeffici							
	ent							
	Sig. (2-	.257	.390	.380	.741	.990	.035	.000 .000 .
	tailed)							
Netwo	Correlati	.020	-.099	-	-.013	.052	-.077	.680** .589** .724** 1.000
rk	on			.216**				
	Coeffici							
	ent							
	Sig. (2-	.783	.169	.002	.857	.473	.283	.000 .000 .000 .
	tailed)							

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\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N = 194

**Source:** Researcher's Survey Data, 2014

#### 4.8.2 Relationship between Entrepreneurial Networking and Enterprise Success

The relationship between the entrepreneurial Networking resources and enterprise success was sought during the study. This was done so as to establish how Networking influence entrepreneurial success. The relationship between independent variables (entrepreneurial networking) and dependent variable (enterprise success) were investigated using Spearman rank-correlation coefficient as summarized in Table 4.20.

**Table 4.20: Spearman Rank-Correlation Coefficient on Enterprise Success**

	Spearman's rho	Success	Trust	Goodwill	Networking	Ties
Success	Correlation Coefficient	1.000				
	Sig. (2-tailed)	.				
Trust	Correlation Coefficient	.907**	1.000			
	Sig. (2-tailed)	.000	.			
Goodwill	Correlation Coefficient	.833**	.619**	1.000		
	Sig. (2-tailed)	.000	.000	.		
Networking	Correlation Coefficient	.683**	.573**	.463**	1.000	
	Sig. (2-tailed)	.000	.000	.000	.	
Ties	Correlation Coefficient	.559**	.500**	.381**	.747**	1.000
	Sig. (2-tailed)	.000	.000	.000	.000	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N = 194

**Source:** Researcher's Survey Data, 2014

There was a strong positive influence between the social trust [ $r=.907$ ], good will [ $r=.833$ ], networking [ $r=.683$ ] and social ties [ $r=.559$ ] on entrepreneurial success. This indicated that an increase in networks, ties, trust and goodwill will lead to higher entrepreneurial success.

Unique social networks, with abundant weak ties and social interaction, provide entrepreneurs with substantial exposure to diverse, unusual, and different ideas, information, and resources. The findings agree with Alvarez & Busenitz (2001) that social interaction within a network allows an entrepreneur to accumulate the necessary and sometimes rare information and resources -also referred to as bootstrapping of resources. It also concurs with Hills, (1997) that due to weak ties, entrepreneurs with extensive networks have much higher chances of obtaining information about a valuable venture opportunity. Thus, the structure and quality of a social network might be determinants of the opportunity discovery and development capabilities of an entrepreneur. Close contacts might not always be able to provide necessary resources or information and therefore it may be necessary to establish new contacts or access contacts that are contacts of already existing contacts (Greve, 1995). However, some information might be very sensitive and will not emerge through interaction with weak ties (Krackhardt, 1992). Sensitive information might only be shared with and acquired through network members that are very close – hence strong ties. Furthermore, emotional support and encouragement mainly emanates from strong ties, whereas weak ties help to bridge social capital and thus carry the start-up process of a new venture further (Davidsson and Honig, 2003).

The findings agree with Wicks and Berman (2004) that trust is a costly governance mechanism, to be deployed only when necessary. They suggest that the greater the degree of interdependence between the parties to the exchange, the greater will be the need for trust. The findings concur with Selnes and Sallis (2003) that trust in inter SMEs relationships increases relationship investments, communication, and performance and reduce costs and opportunistic behaviours. In the absence of trust, conflict between collaborating firms may prevent future investments or even lead to the withdrawal of existing investments (Inkpen and Beamish, 1997). Mutual trust functions as a safeguarding and controlling mechanism that promotes information sharing and reduces collaborating firms' incentives and propensity to engage in opportunistic behaviours (Lane, 1998).

#### **4.8.3 Multiple Regression Analyses**

Multiple regression analyses were used to explore the relationship between one continuous dependent variable and a number of independent variables or predictors. Multiple Regression analysis was carried out using a model, which combines selected independent variables and dependent variables. The entrepreneurial Networking resources (networks, ties, trust and goodwill) represented the independent variables, while enterprise success comprising of profits to sales ratio, sales revenues, and sales growth, firm's reputation, employee and expenses as dependent variable.



#### 4.8.4 Model Summary on Entrepreneurial Success

$R^2$  represents the values of multiple correlation coefficients between the predictors used in the model and entrepreneurial success. All the predictors used in the model represent only a simple correlation between the predictors and factors to be considered for entrepreneurial success. The  $R^2$  represented the measure of variability in performance that is accounted for by the predictors (independent variables). From the model, ( $R^2 = .969$ ) shows that all the predictors account for 96.9% variation for entrepreneurial success (Table 4.21). Therefore, the predictors used in the model have captured the variation in the entrepreneurial success. The adjusted  $R^2$  gave the idea of how well the model generalizes the prediction of entrepreneurial success by the independent variables. The value of adjusted  $R^2$  was .968, showing that the prediction of entrepreneurial success account for approximately 96.8% less variance. The change statistics were used to test whether the change in adjusted  $R^2$  is significant using the F ratio. The model caused adjusted  $R^2$  to change from zero to .969 and this change gave rise to an F ratio of 1467, which is significant at a probability of .05. The findings showed that ties, goodwill, trust and networking as predictors used in the model predict the variation in the entrepreneurial success.

**Table 4.21: Model Summary on Entrepreneurial Success Indicators**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.984 <sup>a</sup>	.969	.968	.13661	.969	1467.14	4	189	.000

a. Predictors: (Constant), Ties, Goodwill, Trust, Networking

b. Dependent: Enterprise success

**Source:** Researcher's Survey Data, 2014

#### 4.8.5 Analysis of Variance

The analysis of variance was used to test whether the model could significantly fit in predicting the outcome than using the mean as shown in (Table 4.22). The F- ratio represents the ratio of improvement in prediction that results from fitting the model, relative to the inaccuracy that exists in the model. The F- ratio was 1467.14 which is likely to happen by chance and was significant ( $P < .05$ ). The model significantly improved the ability to predict the entrepreneurial Success. The model was significant leading to rejection of the null hypothesis that there is no significant relationship between the entrepreneurial networks and enterprise success.

**Table 4.22: ANOVA on Enterprise Success**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	109.513	4	27.378	1467.141	.000 <sup>b</sup>
	Residual	3.527	189	.019		
	Total	113.040	193			

a. Dependent Variable: Success

b. Predictors: (Constant), Ties, Goodwill, Trust, Networking

**Source:** Researcher's Survey Data, 2014

#### 4.8.6 Coefficients of Enterprise Success

The Coefficients of enterprise success shows the estimates of  $\beta$  values and gives an individual contribution of each predictor to the model. The  $\beta$  value explains the relationship between the enterprises successes with each predictor. The positive  $\beta$  values indicate the positive relationship that exists between the predictors and the outcome. The  $\beta$  value for trust, goodwill and networking had a positive coefficient thus positive relationship. The  $\beta$  value for ties had a negative coefficient thus negative relationship as summarized in the model below.

The model was then specified as:

$$\text{Enterprise success} = .200 + .387\text{Tr} + .396\text{GW} + .201\text{Nw} - .026\text{Ti} + \dots \text{Equation 1.0}$$

Where:

- Tr = trust
- Gw = Good will
- NW = Networking
- Ti = Ties

The t test was used as a measure to identify whether the predictors were making a significant contribution to the model. When the t-test associated with b-values is significant and the predictor is making a significant contribution to the model. The smaller the value of significance (the larger the value of t) that is the greater is the contributor of that predictor. From the study findings model the trust ( $t= 30.55, P<.05$ ); goodwill ( $t= 25.31, P<.05$ ); networking ( $t= 10.19, P<.05$ ) and social ties ( $t=-1.16, P<.05$ ) (Table 4.23). The findings showed that social trust and goodwill and networking had a positive significant relationship with enterprise success, while social ties had a negative significant relationship.

**Table 4.23: Coefficients of Enterprise Success**

Model		Unstandardized		Standardized	T	Sig.	Collinearity	
		Coefficients		Coefficients			Statistics	
		B	Std. Error	Beta ( $\beta$ )			Tolerance	VIF
1	(Constant)	.200	.096		2.091	.038		
	Trust	.387	.013	.547	30.554	.000	.516	1.939
	Goodwill	.396	.016	.415	25.305	.000	.613	1.632
	Networking	.201	.020	.200	10.193	.000	.427	2.340
	Ties	-.026	.022	-.021	-1.162	.247	.499	2.006

a. Dependent Variable: Success

**Source:** Researcher's Survey Data, 2014

To test whether there was collinearity, tests were carried out using tolerance and Variance Inflation Factor (VIF) statistics Table 4.23. For this model, VIF values are all below 10 and tolerance statistics are all well above 0.2 and we can conclude that there is no Collinearity within our data (Bowerman & O'Connell, 1990).

The findings showed that trust, goodwill and networking had a positive relationship with enterprise success. This concurs with Greve (1995) that in order to acquire resources the number of contacts (size and density), the background of contacts (diversity), how vigorously entrepreneurs use their networks (time spent on developing and maintaining), and network characteristics (availability of indirect contacts and bridges) play an essential role. Entrepreneurial network research assumes that the people an entrepreneur interacts with affect the entrepreneurial endeavour, as various relationships provide rich yet distinct resources. As such, network research has three advantages, it is a dynamic construct focusing on interaction, it looks into exchange processes, and it takes the environmental context into consideration (O'Donnell, 2001).

Trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. In fact, other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust (Luo, 2002 and Harris, 2005). Trust should be enhanced by network members in response to three main constraints which discourage small firms from establishing long-term collaboration agreements, the risk of opportunism among the entrepreneurs, low commitment from counterparts and the culture of the actors joining an alliance. As anticipated,

by Zaheer and Harris, (2006) who pointed out that trust challenges the above-mentioned constraints by laying the foundation for a common ground, where entrepreneurs can successfully meet their expectations

The findings agree with Nahapiet and Ghoshal, (1998) that if the relationship among members is closer, group members will have a common vision, which can facilitate the exchange and combination of resources. Entrepreneurs need ties as one of the resources to enhance their business networks. Some research suggested that family social ties play a crucial role in building up business empires (Anthrias, 2002). Also it concurs with Mesquita and Lazzarini (2008) that in developing countries – or at least in countries without a supportive environment, due to the weakness of infrastructures and institutions Small and Micro enterprises can achieve greater efficiencies and obtain access to global markets by building vertical and horizontal ties with other small firms.

By developing networks, small firms can obtain support for their activities in the domestic market. Moreover, cooperation among Micro and Small enterprises has also proved to be beneficial for promoting exports by favouring both the start-up of export activities and improving export performance. The findings agree with Lu and Beamish, (2010) that network relationships have long been recognized to be indispensable for MSEs to achieve international growth. However, Ellis and Pecotich (2001) and Harris,(2005) argues that a particular focus on social networks has been limited to date. Scholars have recently emphasized that informal social networks or networks of social relationship serve as the initial basis from which formal networks of business linkages are

developed in new territories (Chen, 2003), and through which exporting relationships are formed (Ellis and Pecotich, 2001).

Social networks are vital to the identification of new opportunities benefits to those who are connected by exclusive or non-redundant personal ties, irrespective of whether the nature of the social relations is strong or weak (Burt, 1992, 1997). It is now widely recognized -related networks are able to reduce transaction costs or increase transaction values through facilitated exchange of resources, information, and knowledge (Standifird and Marshall, 2000).

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Overview**

This chapter presents a summary of the study findings and draws conclusion of the study.

It also makes recommendations to the study and gives suggestions for further research.

#### **5.1 Summary of Findings**

The information of demographic characteristics of the entrepreneurs are; gender, age, level of education, Business owners working experience, business ownership, working hours and, the person active in business. The purpose of examining the demographic characteristics of business owners was to identify if they have any influence on the MSEs success.

##### **5.1.1 Entrepreneurial Networks on Entrepreneurial Success**

The first objective of this study was to determine the influence of entrepreneurial Network on entrepreneurial success. This facilitated in answering whether entrepreneurial Networks had a relationship on Micro and Small enterprise success. The study findings showed that there was a positive relationship between the engagement in entrepreneurial networks and Micro and Small enterprises.(Table 4.6) This findings agrees with (Groen, 2005) who argued that many small firms cooperate beyond their individual scope with other organizations large and small to exploit new technologies in networks and it is considered as entrepreneurial networking.



Entrepreneurs who networked more increased their products, sales, and deliveries hence their enterprises enhanced their success. These findings agree with (Valkokari and Helander, 2007) who argues that success of a company depends on its collaboration and networking with other organizations that influence the creation and delivery of its products or services.

Networks are vital for identification of new opportunities and it benefits to those who are connected by exclusive or non-redundant personal ties, irrespective of whether the nature of the social relations is strong or weak. Joining a strategic network or alliance has been acknowledged as a valuable path for Micro and Small enterprises striving to gain a sustainable competitive advantage within their business environments: lower transaction costs, networking creation, entering foreign markets and achieving economies of scale have all been reported as positive outcomes of establishing ties with other firms in the markets. This agrees with (Apitzschel, 2006; Anthias, 2006) who argues that networks are useful in setting up a successful business.

From the study, majority of the respondents used various networks to reach their customers. (Table 4.6) This is supported by (Ghoshal, 1998) who argues that Small and Micro enterprises striving to gain a sustainable competitive advantage within their business environments, lower transaction costs, social capital creation, entering foreign markets and achieving economies of scale have all been reported as positive outcomes of establishing networks with other firms in the markets. The study findings also reports that

a higher proportion of entrepreneurs have an opportunity to interact with their stake holders and this encourages innovation through networking amongst groups” chamas.”

Similarly, the findings of the study, indicated that, business owners get business ideas from friends and family members to support them establish or run their business This agrees with (Perry, 2000) who postulates that firm networks are constructed around social networks developed through associations formed by family, friends and acquaintances. The linkages of family and ethics are based on the utilization of personal and family contacts that are usually embedded in close knit communities (Fadahuns, 2000; Manev, 2005; Manolova, 2002) who argues that, research in entrepreneurship transition economies shows that networks is an important determinant of resource acquisition and that many of the competitive advantages of transition economies are based on network relationships. Although network relationships have positively supported business owners to get information linkages, entrepreneurs also report that there are other factors which contribute to business success.

### **5.1.2 Relationship of Ties on Enterprise Success**

The second research objective of the study was to examine the relationship between Ties and enterprise success. This is facilitated in answering whether entrepreneurial ties had a relationship on business owners’ firms’ success. This was achieved by obtaining responses from the questionnaires administered to Micro and Small enterprises as summarized in (Table 4.9). Majority of the respondents strongly agreed that their customers are like their friends hence they contributed to building business ties and finally enhanced their business effectiveness. This agrees with past studies in which

Anthrias (2002) emphasized that family and friends' social ties play a crucial role in building up business empires (Anthrias, 2002). The study supports the findings that building ties amongst various firms will enhance the business success. This is supported by Mesquita and Lazzarini (2008), who posited that in developing countries Small and Micro enterprises achieve greater efficiencies and obtain access to global markets by building vertical and horizontal ties with other small firms.

The findings of the study revealed that entrepreneurial ties encouraged the small and micro enterprises to do business. These are ties from family and customers respectively. This is significant by the argument of Anthrias (2006) who posited that, many entrepreneurs rely on ethnic ties to get information and business ideas. This shows that where there is family as well as customers links with the success of business. Granovetter (2007) argues that Networks range from weak ties of acquaintances that can move groups carrying both ideas and information, to the strong ties of families which is beneficial to business owners.

The findings revealed that ties influenced enterprise success (Table 4.1). The higher the ties linkage the higher the performance of small and Micro enterprises. From the study there was no relationship between social ties and profits to sales ratio, sales revenues, sales growth, firms reputation, employee and, ( $p > .05$ ), indicating that a change in the variable will lead to no change in any of the indicators of entrepreneurial success. There was a strong negative relationship between the ties and expenses indicator. This showed that the lesser the entrepreneurial ties the lower the enterprise expenses.

### **5.1.3 Relationship of Trust on Enterprise Success**

The third research objective of this study was to establish the relationship between trust and entrepreneurial success. This was facilitated by answering whether the level of trust had any effect in business success. The appropriate information which enhanced the relationship of the variables included the level of trust from group interactions and enterprise success. The level of trust is entirely based on honesty and trustworthiness. Majority of the respondents strongly agreed that building trust through interactions was the key objective of group links (Table 4.2). These findings agree with (Luo, 2002, and Zaheer and Harris, 2006) who reveals that trust among partners has a significant impact on the respective firms performance by reducing transaction costs and conflicts other benefits are increased sales and greater return of investment. The findings also agree with (Inkpen and Beamish, 1997) who argued that, in the absence of trust, conflict between collaborating firms may prevent future investments or even lead to the withdrawal of existing investments. Therefore business firms should be able to establish those whom they can trust with the information.

From the literature review of the current study, it was found that mutual trust functions as a safeguard and control mechanism that promotes information sharing which influences business success (Lane, 1998). The current study indicated that there was a strong correlation between trust and business success (Table 4.14). This agrees with Cohen and Prusek (2001) who argued that there are many benefits in terms of profits and sales turnovers with organizations with high level of reputation and trust.

Consequently, the study revealed much difference in trust and profits to sales ratio, sales revenues, firms reputation, employee and expenses, ( $p > .05$ ). This indicated that a change in the variable will lead to no change in any of the indicators of entrepreneurial success. From the study there was a positive relationship between trust and enterprise success, indicating a positive correlation between trust and enterprise success. The more the level of trust among entrepreneurs the higher enterprise success.

The findings of the study revealed that there was a positive correlation in profits and sales revenues, sales growth, employees' turnover expenses and trust. This is supported by Fukuyama (1995) who argues that trust is a characteristic of systems; he claims that "a firm's well-being, as well as its ability to compete, is conditioned by a single pervasive cultural characteristic level of trust in the society. The findings also agree with Cohen and Prusek (2001) who argues that there are many benefits in terms of profits and sales turnovers with organizations with high level of reputation and trust. The interpersonal trust is vital in all market transactions when those involved are unwilling to rely on institutional arrangements or cultural norms alone.

#### **5.1.4 Relationship of Goodwill on Enterprise Success**

The fourth research objective of this study was to assess the relationship between Goodwill and enterprise success. Goodwill was obtained from government bodies, friends and customers. The study indicated that there was a strong positive influence of the goodwill on profits to sales ratio and employees. The higher the goodwill the more the enterprise profits to sales ratio and employees. The findings showed that there was a

positive relationship between the goodwill and enterprise success, indicating a positive correlation between goodwill and enterprise success. The higher the entrepreneur's goodwill in business the more enterprise success achieved. The effect of goodwill is highly concentrated on ownership structure, family controlled firms and government controlled firm leading to performance of Micro and small Enterprises. This findings agree with (Claessens, 2000) who posited that Goodwill cannot be felt it is an intangible asset which can be earned through a name or reputation of the organization.

Further findings report that the family controlled firms benefitted from more Goodwill which assisted them to improve on their business performance. This is supported by (Ball, 2003) who argued that, the effect of the family controlled firms has a better knowledge and trust of their business activities which enabled them to detect manipulation of information and friends Goodwill hence better business performance.

From the study there was no relationship between goodwill and, sales growth, sales revenues, firms reputation, and expenses, ( $p > .05$ ), this indicated that there was no effect on the correlation of the variables (Table 4.16).

### **5.1.5 Enterprise Success**

Drawing from past studies on success in the service industry, this study therefore assumed a multidimensional approach for measuring success of Micro and Small enterprises. These measures of success were: the sales revenue, profits to sales ratio, employee turnover, firm's reputation and perceived satisfaction were predictors of

success. This findings agree with (Foley and Green, 1989) who defines success as having different forms, survival, profit and return in investment, number of employees, happiness and reputation. The findings also agree with (Dess and Robinson, 2001) who posited that small firms use success or failure as performance measure in their research policy to give evidence that it is difficult to use objective measures which use restricted performance data like financial data which the business owners are not willing to provide for research.

The study found that for the past three years of the firm the findings varied among the success indicators as summarized in (Table 4.18). Profits to sales ratio. Sales growth and firms reputation was rated to be below 50%. While employees and expenses was rated by respondents to be below 40%. The findings showed that firms success rated below average. Small micro enterprises success depends entirely on the linkages of networking to gather information which can lead them have solutions to their business challenges and to gain competitive advantage. This findings agrees with (Doyle, 2000) who argues that, networks have emerged as the new response to competition, a way for firms to develop joint solutions to common problems.

The overall results of the study indicated that there was a strong positive relationship between the trust [ $r=.907$ ], good will [ $r=.833$ ], networking [ $r=.683$ ] and ties [ $r=.559$ ] on entrepreneurial success. This indicated that an increase in networks, ties, trust and goodwill will lead to higher entrepreneurial success. Trust in Small and Micro enterprises effect increases influence on investments, communication, and performance and reduces

costs and opportunistic behaviours. These findings agree with (Luo, 2002) who argues that trust among partners has a significant impact on the respective firms' performance by reducing transaction costs and conflicts. Other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust.

The findings showed that trust and had a positive significant relationship with enterprise success. From the study Networking is composed of individual and collective networks, ties and structures that help the individual get access to information and the know-how. This findings agrees with (Gulati, 1995a and Hite-Hesterly, 2001) who argues that network relationship are necessary for the survival and business growth. Individuals work together more effectively and efficiently when they know one another, trust and can easily identify with one another.

Trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. There are entities which are usually individuals or organizations that leverage their reputation and abilities by facilitating inter firm relationships within a local cluster or group of firms. Their role is to promote and strengthen relationships among firms, give a clear strategy to the alliance, mediate negotiations among partners and help network members create opportunities for trust, shifting them out of their collaborative inertia.

The current study indicated that there was a strong positive influence of the goodwill on profits to sales ratio and employees. The effect of goodwill is highly concentrated on



ownership structure, family controlled firms and government controlled firm leading to performance of Micro and small Enterprises. Networks are vital for identification of new opportunities and it benefits those who are connected by exclusive or non-redundant personal ties, irrespective of whether the nature of the social relations is strong or weak. This agrees with (Apitzsch, 2006, Anthias, 2006) who argues that networks are useful in setting up a successful business.

The current study adopted a more pragmatic view on the changing composition of entrepreneurial networks and the effect on opportunity development. It not only showed the centrality of networks for the development of an entrepreneurial opportunity but also why and especially how networks are important. Just a posing the development process of the opportunity as well as of the network, the network ties, and their roles for the development process resulted in a networking process of entrepreneurial opportunity development.

It was further confirmed that a mutual enactive dialogue between the entrepreneur and her/his network influences and shapes the development path of an opportunity. Being able to communicate and act on feedback seems to be one of the entrepreneur's major capabilities leading to opportunity discovery and development. The role of networks and the advantages of networking seem to crucially influence the development path of small and medium enterprises. Appreciation of the process thus helps the idea to develop and get more defined.

The findings indicate the necessity for entrepreneurs in the initial idea generation and opportunity development stage to engage actively in networking. Managing a network strategically to enact opportunities is therefore strongly recommended for entrepreneurs. Eventually, action and pursuing an opportunity assertively helps to develop a robust entrepreneurial opportunity. Engaging in interaction is thus essential for the entrepreneurial information.

## **5.2 Conclusions**

In conclusion, the research objectives were to determine the influence of Networking in Micro and Small enterprises in the service industry on enterprise success. Reflecting on the first objective of the study the findings of the study showed that, Networking had a significant influence on enterprise success (Table 4.19).

On the second objective of the study, it was found that there was no influence of ties on enterprise success (Table 4.10).

On the third objective of the study, findings showed that there was a positive correlation of Trust on enterprise success (Table 4.13). The higher the level of trust the greater the enterprise success. Trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. In fact, other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust. In networks composed of MSEs, trust often emerges over time as a result of both frequent interactions between entrepreneurs and the specific activities conducted by third parties acting as 'trust or network facilitators'. Further, the study

reports that statistically, there was no significant influence of Trust on entrepreneurial success.

Reflecting on the fourth objective of the study, the findings showed that there was a positive influence of Goodwill on enterprise success. The outcome of regression analysis revealed that there was no significant influence of Goodwill on entrepreneurial success. This Indicates that a change in a variable will lead to no change in any of the indicators of enterprise success (Table 4.16). Though past studies indicated Goodwill may work well in Malaysia but the findings of this study revealed that it may fairly work well in Kenya.

Therefore the current study and practice within the use of Networking need to consider business networks as key resources in Micro and Small enterprises. The effect of goodwill is highly concentrated on ownership structure, family controlled firms and government controlled firms leading to success of Micro and small Enterprises.

### **5.3 Recommendations**

The recommendations drawn from the study based on the conclusions for the effective enterprise networks is as follows:

- i. The MSEs should be encouraged to use entrepreneurial networks to gather noble business information.
- ii. Business Ties are equally recommended to MSEs, entrepreneurs should keep their Ties linked so as to obtain external and internal business linkages which will help them perform in their businesses.

- iii. Enterprises are also recommended to encourage trustworthy business transactions and to keep customers relations.
- iv. The study is recommended for policy formulation and practice.
- v. The Government of Kenya should regulate the channel of communication so as to obtain external and internal linkages to share business information more often.

### **5.3.1 Recommendations for Further Research**

Researchers should investigate the perceptions of entrepreneurs on the Success of Micro and Small enterprises.

### **5.3.2 Implication of the Research**

The study presents major implications resulting from these findings. Firstly, in terms of Networking, it could be argued that networks play a very important role in enterprise success; therefore enterprises should be recommended to utilize such in order to sharpen their skills. Secondly, the results may help guide policy makers.

### **5.3.3 Recommendation for Extension of Theory**

The researcher in business field should expand on this study in research work so as to contribute to academics field in relation to the theory of networks.

#### **5.3.4 Practical Contribution**

In terms of practical contribution the findings of this study can be used as a guideline by Micro and Small enterprises on the utilization of network information for the improvement and the success of Micro and Small enterprises. The study findings shall help the business owners in improving their business skills in order to achieve the desired success. The findings shall also help the communication institutions in the provision of the appropriate channels of communications for all Micro and Small enterprises.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

**Instructions: This is not a test.** The researcher has identified you as one of the respondents for this study entitled Influence of entrepreneurial Networking on Small enterprise Success in the service industry on entrepreneurial success. Please be honest when answering the questions. Fill or tick where appropriate. Your responses will be treated in strict confidentiality and used only for the purpose of this research. Thank You.

#### Section A

This part contains questions on your background information. Please tick ( ) and indicate your appropriate response in the spaces provided.

1. What is your gender?

- Male
- Female

2. How approximately is your age?

- Less than 20 years
- 21-25 year
- 31-35years
- 36--40 years
- Over 40 years

3. Are you the sole proprietor of the business?

- Yes
- No

No if no who are the other owners?

- spouse
- Sons
- Daughters
- Friends
- Relatives

4. Are you the only person active in business?

- Yes
- No

5. If no specify who also manages the business firm

- spouse
- Daughter
- Son
- Friends
- Employed supervisor/manager
- Relative
- Any other person specify\_\_\_\_\_

6. How many hours in a week do you work in your business firm

- Less than 3
- 3-5
- 5-9
- Over 9 hours

7. Approximately how many years of work experience did you have before starting your current business. **Please indicate by ticking the correct choice given as follows.**

- Less than 5 years = 1  
 Between 5 and 10 years = 2  
 Between 10 and 15 years = 3  
 Between 15 and 20 years = 4  
 Over 20 years = 5

**Section B: Control Variables: Business Characteristics**

**Firm size:** (Please mark the correct item from the given alternatives)

- 1 a) Do you have other business outlets?

Yes                      No

**Use the scale below to answer the questions that follow**

- 1b) If yes how many?

2) How many of your employees have degree certificate? \_\_\_\_\_

3) How many of your employees have college certificate? -----

0 – 5 = 1

6 – 10 = 2

11 – 15 = 3

16 – 20 = 4

21 – 25 = 5

26 – 30 = 6

31 – 50 = 7

Please **circle** the appropriate number of employees in your firm using 7 point likert scale as indicated below.  $\geq 5$  employees- low, 4 medium, while 7 indicates high.

**No of Employees**

0 – 5 = 1

6 – 10 = 2

11 – 15 = 3

16 – 20 = 4

21 – 25 = 5

26 – 30 = 6

31 – 50 = 7

**FIRM AGE**

Please circle the appropriate age bracket of your business firm on the 7-point Likert scale.

**Age**

0- 3 = 1

4 – 7 = 2

8 – 11 = 3

12 – 15 = 4

16 – 19 = 5

20 – 23 = 6

24 - 27 = 7

### SECTION C: Entrepreneurial Networking

**Key:** 1-SD- Strongly Disagree,2- Disagree-3-SWD-Somewhat disagree,4- N- Neutral,5- A- Agree,6- SWA Somewhat Agree, 7-SA- Strongly Agree

This part contains questions on your perception of the general work environment. Please respond as appropriate.

No.	Entrepreneurial networks	SD	D	SWD	N	SWA	A	SA
(i)	I have positive relationship with my competitors.							
(ii)	I have an opportunity to interact with my stake holders.							
(iii)	I use various networks to reach my customers							
(iv)	I get ideas from networking with friends.							
(v)	I interact with the proprietors frequently.							
(vi)	I am able to interact with my family members freely.							
(vii)	My enterprise encourages innovation through networking among the “chamas” groups.							
(viii)	My institution adopts participatory networks in its operations							
(ix)	There are other factors which contribute to my business							

## Part 2: Entrepreneurial Ties

**Key:** 1-SD- Strongly Disagree,2- D- 3-Disagree,4-SWD-Somewhat disagree,5- N- Neutral,6- A- Agree, SWA-Somewhat Agree, 7-SA- Strongly Agree

This part contains questions on your perception of your immediate supervisors in your Institution. Please respond as appropriate

No	Entrepreneurial Ties	SD	D	SWD	N	SWA	A	SA
(i)	Entrepreneurial ties have contributed to the business success							
(ii)	Customers and friends have contributed to social ties							
(iii)	Entrepreneurial ties encourages us to be in business							
(iv)	Social Family ties links us to the business world							
(v)	Customers are like our friends							
(vi)	Entrepreneurial ties enhances business effectiveness							

The following are indicators of entrepreneurial networks. Please tick ( ) in the appropriate box for the relevant rating of your perception.

**Key:** 1-SD- Strongly Disagree,2- D- 3-Disagree,4-SWD-Somewhat disagree,5- N- Neutral,6- A- Agree, SWA-Somewhat Agree, 7-SA- Strongly Agree.

### Part 3: Goodwill and Trust.

This part contains questions on your perception to the social class, family ties, and friend's status that affect entrepreneurs.

No.	'Chamas' Goodwill and Trust.	SD	D	SWD	N	A	SWA	SA
(i)	My social status contribute to my business success							
(ii)	Group interactions have contributed to business success.							
(iii)	I am satisfied with the business ideas I get from my group interactions.							
(iv)	Building Trust is the key objective of group links.							
(v)	My profits coincide with my level of interactions.							
(vi)	My business performance is in line with my future expectations							
(vii)	I have had other social interactions since I started my business.							



**Section D: Your Firm’s Entrepreneurial Success over the Past Three Years**

State whether you started the business you are currently running or you purchased .Please rate the change in performance as indicated above by circling the item that best describes your firm’s performance. (1) (2) (3) (4) (5) (6) (8) (9) (10) (11) (12) (13)

<b>Performance</b>	Below 0%	%	%	%	%	%	%	%	%	%	%
Rate		0- 10	11- 20	21- 30	31- 40	41- 50	51- 60	61- 70	71- 80	81- 90	91- 100
Profits to sales ratio											
Sales revenues											
Sales growth											
Firms reputation											
Employee											
Expenses											

**Any other comments please** -----  
 -----  
 -----

I sincerely appreciate your time and cooperation. Please check to make sure that you have not skipped any questions by mistake.

Thank you!

**APPENDIX II: INTERVIEW SCHEDULE**

Please indicate your sex-----

**A: Entrepreneurial Network**

1. How has been your relationship with other Stakeholders?

.....  
 .....

2. How your choice of network has affected the performance of your business?

.....  
 .....

**B: Entrepreneurial ties.**

1. Could you please describe how Entrepreneurial ties has/has not contributed to your business success. Level of education and work experience. ....

.....  
 .....

**C. Goodwill and Trust**

1. Could you please describe the effect of trust and goodwill in your firm performance? What other factors has effect in your firm’s performance.

.....  
 .....

1. Is building Trust the key objective of group links?

.....  
 .....

2. Do you get satisfaction with business ideas you get from group “chamas” interactions?

.....  
.....

**D. Entrepreneurial Success.**

State the performance of your business since inception.....

.....  
.....

**E. Firm Performance over the Last Three Years**

1. Could you describe your firm’s performance over the last three years?

.....  
.....

2. How have been the profits to sale ration of your business.

.....  
.....

### APPENDIX III: LETTER OF INTRODUCTION



**MOI UNIVERSITY**  
**SCHOOL OF HUMAN RESOURCE DEVELOPMENT**  
**DEANS OFFICE**

P.O. Box 3900  
 ELDORET  
 KENYA.

Fax 254-053-43153/43620 Ext.434

REF: MU/SHRD/PG/77

29<sup>th</sup> September, 2011

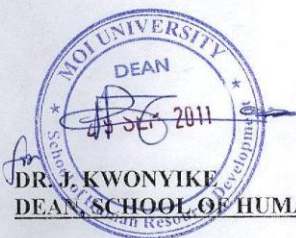
**TO WHOM IT MAY CONCERN**

RE: EMMAH CHEPCHUMBA SEREM - SHRD/PGE/11/09

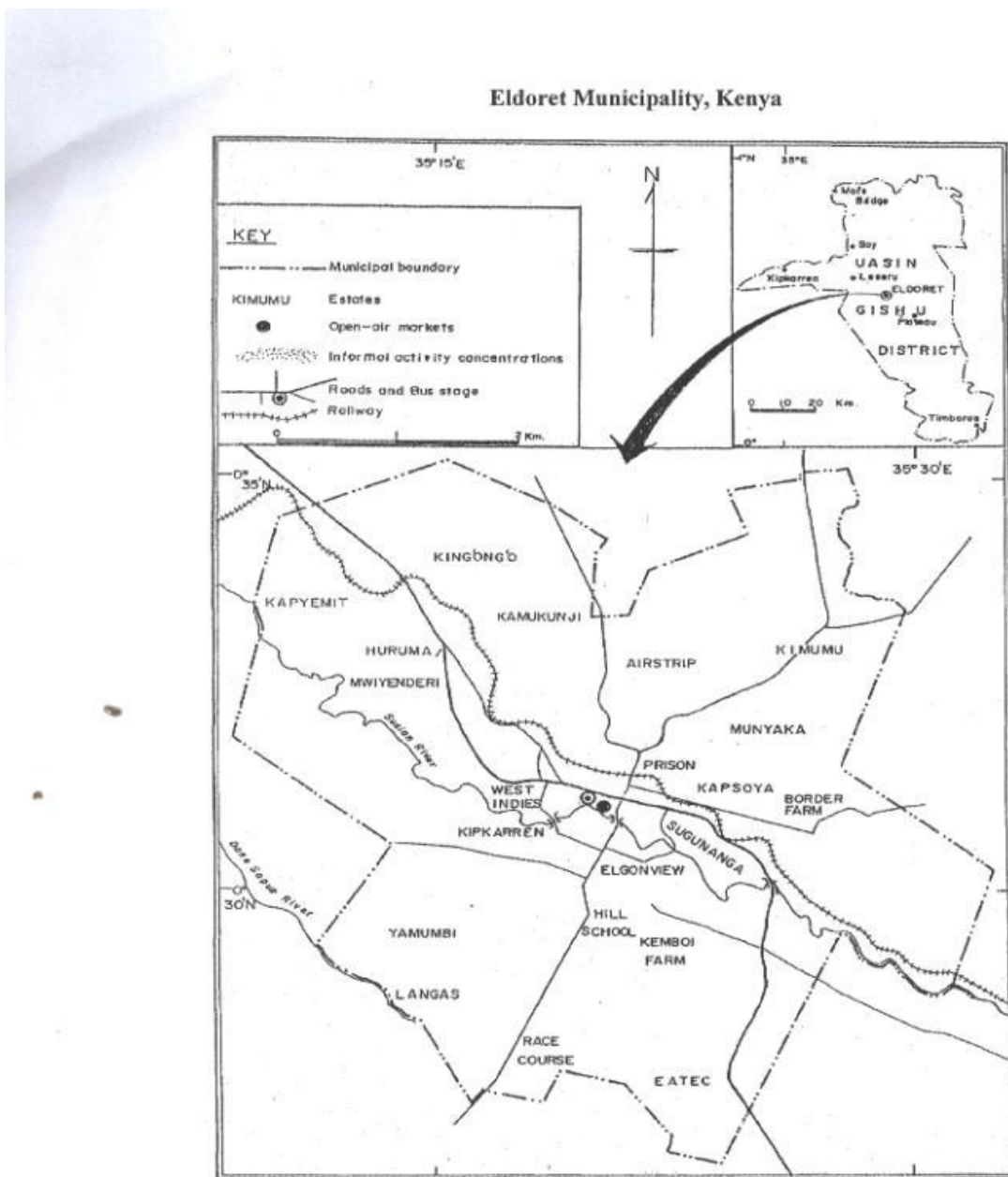
The above named is an M.Phil student at Moi University, School of Human Resource Development, Department of Quantitative Skills pursuing Entrepreneurship Studies. She has completed her coursework and successfully defended her proposal titled "**The Influence of Ethics in Business: A Case Study of Hotel and Hospitality Industry In Eldoret Municipality**".

It is a requirement of her M.Phil Studies that she conducts research and produces a Thesis. Having defended her proposal successfully, Emmah has been cleared by my School to proceed to the field and collect data.

Any assistance accorded to her will be highly appreciated.

  
 DR. J. KWONYIKE  
 DEAN, SCHOOL OF HUMAN RESOURCE DEVELOPMENT

APPENDIX IV: MAP OF UASIN GISHU COUNTY



## APPENDIX V: MAP OF KENYA SHOWING UASIN GISHU COUNTY

