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SOCIAL NETWORKS AND ACCESS TO INVESTMENT CAPITAL AMONGST BLACK ENTREPRENEURS

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SOCIAL NETWORKS AND ACCESS TO INVESTMENT CAPITAL AMONGST BLACK ENTREPRENEURS

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A research report submitted to the Faculty of Commerce, Law and Management, University of Witwatersrand, in partial fulfillment of the requirements for the degree of Master of Business Administration

Johannesburg, 2005

Abstract

An analysis of the types of social networks amongst black entrepreneurs revealed the existence of both strategic networks of business associates and politics and organic networks of sport and family. However, social networks involving political connections and business associates were found to be dominant. The entrepreneurs cited the two main reasons for belonging to a social network as access to knowledge and information.

The research investigated the nature of the relationship between social networks and access to investment capital amongst black entrepreneurs. This specifically related to whether social networks increase knowledge about sources of funding, whether they facilitated the flow of capital to black entrepreneurs and what were the implications of social networks for black entrepreneurs. Whilst all social networks played a role in referring black entrepreneurs to their funders, only the strategic networks of business associates and political actively influenced the last deals of black entrepreneurs. The role of social networks in influencing deals was found to be prevalent amongst women members of the network.

Whilst the prior knowledge of the funders by the majority of the black entrepreneurs did not reduce the cost of funding, it implies that black entrepreneurs used existing contacts to access capital. This coupled with the finding that optimal length of service for accessing capital was five to ten years, suggests that new measures need to be found to improve access to funding for new black economic empowerment entrants.

Declaration

I Andile Kenneth Luvuyo Fihla declare that this research is my own, unaided work. It is submitted in partial fulfillment of the requirements of the degree of Master of Business Administration in the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

_____

Andile Kenneth Luvuyo **Fihla**

On this 25th day of April 2005

Dedication

In memory of my daughter

Nonzwakazi Fihla

1995 - 1998

Acknowledgement

I wish to express my sincere thanks and gratitude to:

- Professor Fred Ahwireng-Obeng, my supervisor for his time, direction and for allowing me to benefit from his experience.

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1. Introduction

The advent of democracy in 1994 brought political equality in South Africa. However, some political commentators and practitioners see this achievement as fragile unless equality can also be achieved on the economic front (Business Africa, 2002; Dlamini, 2001; EIU Country Report, 2001; Marais, 2001 and Simon, 2000).

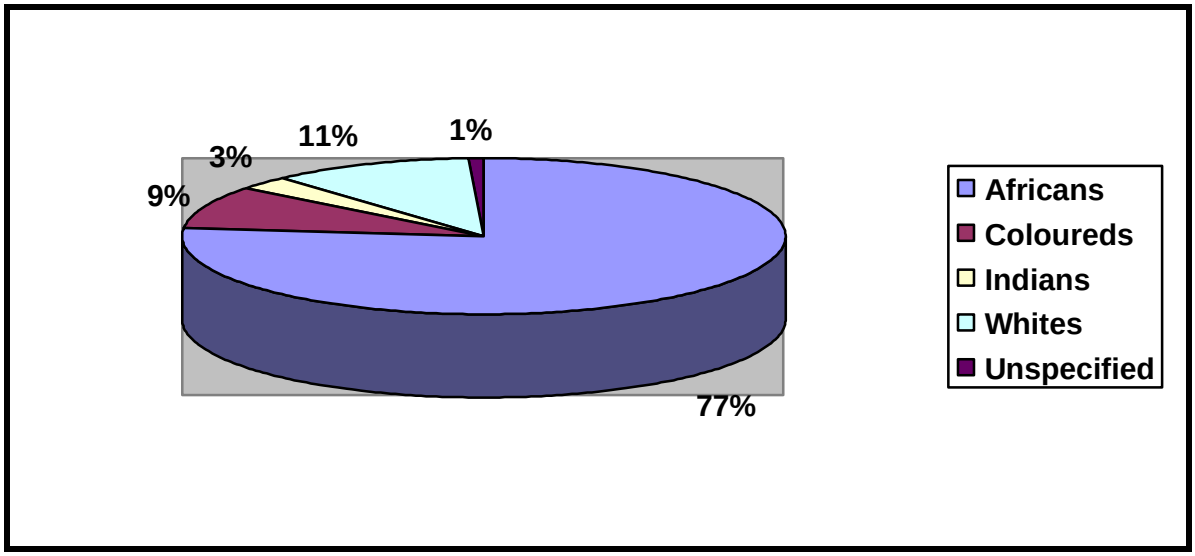
Marais (2001) asserts that the economic inequalities in South Africa have their origin in the colonisation of the country by Europeans. He argues that the rate of accumulation of wealth by whites accelerated as the result of the onset of diamond and gold mining in the later half of the nineteenth century. The systematic erosion of the economic independence of the Africans accompanied the accumulation. Marais (2001:15) suggests that this was done through," …a barrage of administrative and punitive measures which transformed this surplus-producing peasantry into a pool of labour for the mines and emergent capitalist agriculture".

A study by the Bureau for Market Research (2002) showed that in the year 2000 the distribution of national income in South Africa was still disproportionately skewed in favour of white South Africans. Furthermore, even though white South Africans constituted only 11% of the population their share of national income was 43.4% of the total compared to a share of national income of 43% of black South Africans. Unemployment increased from 21% in 1970 to 46% in 2001 and an analysis of the richest tenth of the population, the Economist (2001) found that blacks account for only 25% of this segment.

Terreblanche (2003) studied economic inequalities in post 1994 South Africa and argues that the status of the poor has not changed. He states that based on the 1996 prices, the mean annual income of the poorest 40% of the South African population has declined from R 5 200 in 1994 to R 2 249 in 2003. He assets further that only the top 20% of Africans who constitute 77% of the population has experienced an increase in its mean annual income.

Figure 1 shows the population census results for 2001 in terms of race.

Figure 1: Population Census Results for 2001



Source: Statistics South Africa (2003)

In his address to the annual conference of the Black Management Forum President Mbeki (1999:1), agreed that the economic position of blacks might have worsened because of the absence of "economic liberation". He states that, "…five years after the arrival of the democratic order, we have not made much progress, and may very well

be marching backward with regard to the objective of the deracialisation of the ownership of productive property".

Godsell (2000) offers an explanation for economic disparities amongst races in South African. She asserts that racial oppression enforced political and economic inequalities. The discrimination ensured that the upward mobility of blacks within management echelons of firms was limited and that the entrepreneurial activity of blacks was restricted to specific geographic areas. This restriction curtailed the growth of black entrepreneurs whilst white entrepreneurs could undertake free economic activity.

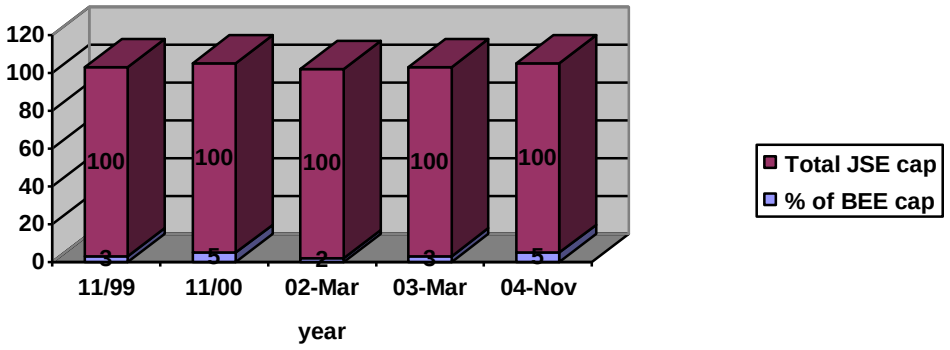
The need to deracialise the economy has been recognised by different role players in South Africa in the Financial Services Charter and the Mining Charter (Banking Council of South Africa, 2003 and Chamber of Mines of South Africa, 2003). The Financial Services Charter (Banking Council of South Africa, 2003) states that the slow pace of economic transformation is unjust and further that racially based economic inequalities, inhibit the country from realising its full economic potential.

1.1. Context to the problem

The BusinessMap (2003) states that in November 2002 the percentage of BEE capitalisation on the Johannesburg Securities Exchange (JSE) was three percent. The figures for 2004 provided by the Financial Mail (2005) show the BEE capitalisation on the JSE as five percent. This five percent level for 2004 is the same as that for 2000 as shown in Figure 2.

BusinessMap (2003) defines a BEE firm as any enterprise with a 10% black shareholding or more and has 20% black or women non-executive directors.

Figure 2: JSE BEE Market Capitalisation



Source: BusinessMap Foundation (2003) & Financial Mail (2005)

However, the Finance Week (2002) states that the number of black firms on the JSE dropped from 26 in June 2001 to 22 in June 2002. The difference in the findings of BusinessMap (2003) and the Finance Week (2002) appears to be related to the measurement of BEE on the JSE. BusinessMap (2003) uses as its measurement the percentage capitalisation whilst the Finance Week (2002) relies on the number of listed BEE companies. Despite the differences in the measurement, both reports support the view that progress on BEE is slow.

The Economist (1999) reports that 130 investments worth R 21 billion involving black empowerment took place in 1998. In 2004 BEE deals increased to R 52,9 billion in value, representing an increase of 326,6 % compared to the R 12,4 billion of 2002 (Financial Mail, 2005). Critics though have argued that BEE in its current form has shortcomings and this is more clearly stated in the Economist (1999:66) that, “no

amount of financial engineering can deal with the fundamental flaw of black empowerment, South African-style: that the emphasis has been almost entirely on taking over chunks of existing enterprises, rather that creating new ones". Citing Phinda Madi, the Economist (1999:66) argues that the money spent on "paper – shuffling empowerment deals" has reduced the amount of money available to finance real black entrepreneurs.

Tom (2002) agrees with the Economist (1999) and states that BEE initiatives to date have involved the enrichment of a select few without any sign of the broadening of the base of blacks benefiting from empowerment. This view is supported by Terreblanche (2003) when he states that BEE does not foster entrepreneurship. The arguments against the current strategies on BEE are based on possible displacement of funds from productive economic uses to the enrichment of few individuals, thus destroying economic value and failing to create jobs (Economist, 1999; Tom, 2002 and Terreblanche, 2003).

An additional dimension to BEE is introduced in an article by Business Africa (1996) when it notes that whilst BEE deals were taking place faster, the empowerment of black employees was lagging behind. It asserts that for BEE to be sustainable the corporate culture of firms must promote empowerment. Thus, the empowerment of black employees is considered to be a related factor to black ownership as the corporate white culture is seen as posing a threat to sustained BEE. This argument suggests an extension of the definition of BEE to include management control. The view of Business Africa (1996) appears to have been incorporated in the "Strategy of Broad-Based Black Economic Empowerment" (Republic of South Africa, 2003).

In the “Strategy for Broad-Based Black Economic Empowerment” (Republic of South Africa, 2003) the government seems to have adopted a balanced approach. It states that progress has been made in introducing legislation and increasing the profile of BEE but also notes that there have been constraints.

The successes of the implementation of BEE to date are stated as the development of policies addressing BEE, increased awareness by the private sector for the need for BEE and the conclusion of high profile BEE deals in the 1990s. On the other hand the weaknesses are list listed as low capital endowment of the black business community resulting in financing that is highly geared and reliant on problematic corporate structures that left blacks highly indebted, blacks were removed from management and operations of the enterprises that they had acquired stakes in, BEE meant different things to different people and the definition of who was black posed a problem and business was fragmented and therefore unable to provide leadership on BEE.

Despite the disagreement on progress made on BEE, there appears to be agreement that more still needs to be done by government and the private sector to fast track economic growth and redistribution (Simon, 2000; Dlamini, 2001; Marais, 2001; Business Africa, 2002; and Republic of South Africa, 2003).

The objectives of the BEE (Republic of South Africa, 2003:12) are stated as:

- increasing the number of black people who have ownership and control of existing firms;

- increasing the number of black people who have ownership and control of firms in the priority sectors identified by government;
- increasing the number of black firms;
- increasing the number of black people in executive and senior management positions;
- increasing the ownership vested in non-governmental and community based organisations;
- increasing the ownership of land and other productive assets;
- increasing the pace of shared economic growth; and
- increasing income levels of black persons and reducing racial inequalities in income levels.

A draft BEE Code of Practice for Broad-Based Economic Empowerment (Republic of South Africa, 2004) was published for comment in December 2004. The Code aims to improve the definition of BEE, provide guidelines on how BEE deals should be structured and clarify how BEE companies would be rated. The objectives of the draft Code of Practice (Republic of South Africa, 2004:5) are specifically stated as:

- to define broad-based BEE;
- to state the fundamental principles underpinning broad-based BEE;
- to specify some of the key principles for the implementation, recognition, measurement and reporting of BEE;
- to outline the key components and elements of broad-based BEE;
- to provide a summary of the balanced BEE scorecard;
- to provide a guideline for the application of the balanced BEE scorecard.

In addition, the draft Code of Practice (Republic of South Africa, 2004) details the beneficiaries of broad-based BEE and specifies them as black workers, black youth, black people with disability, black people in rural areas and black women. This definition of beneficiaries excludes white women and contradicts the definition of beneficiaries in the Strategy for Broad-Based Economic Empowerment (Republic of South Africa, 2003).

However, the Strategy for Broad-Based Economic Empowerment (Republic of South Africa, 2003) and the BEE Code of Practice (Republic of South Africa, 2004) do not appear to address the sourcing of funding for BEE. The relationship between social networks and access to capital also does not appear to be have been explored in the strategy.

1.2. Purpose of the study

The purpose of the study is to investigate whether social networks facilitate access to investment capital by black entrepreneurs and to understand the implications of social networks on BEE. Theoretical models of social networks are considered with the aim of exploring the relationship between social networks and access to capital by black entrepreneurs.

1.3. Statement of the problem

The research topic is “social networks and access to investment capital amongst black entrepreneurs”. Although it appears that the concepts of black economic empowerment (BEE), objectives and how it could be implemented had been explored (Finance Week, 2002; Republic of South Africa, 2003; Chamber of Mines of South

Africa, 2003 and Banking Council of South Africa, 2003), the effects of social networks on access to capital by black entrepreneurs does not appear to have been investigated.

1.3.1. Sub-problems

The research problem is broken up into three constituent parts as per Leedy & Ormond (2001).

- Does membership of social networks increase knowledge about sources of capital for black entrepreneurs in medium to large firms?
- Does membership of social networks facilitate the flow of capital to black entrepreneurs in medium to large firms?
- What are the implications of social networks for the promotion of BEE?

1.4. Significance of the study

The findings of the study could be used to inform government on additional strategies to be considered when implementing BEE.

Black entrepreneurs could also benefit from the study by identifying the ways in which social networks influence access to capital. This understanding can be used to analyse different social networks and the extent to which these networks can facilitate access to investment funds.

1.5. Delimitations and limitations

The scope of the study is limited to black entrepreneurs in medium to large black enterprises in Gauteng. State-owned enterprises and non-governmental organisations have been excluded from the study because ownership in these types of organisations is not vested in individuals.

The population data was sourced from the BusinessMap Foundation, a private sector initiative that tracks progress on black economic empowerment. However, the data was not tested to exclude black business people fronting for white firms because of the difficulty of establishing fronting. The Preferential Procurement Act of 2000 (Republic of South Africa, 2000) defines fronting as the misrepresentation of the company's ownership structure to reflect black shareholding when that is not the case. In addition the ownership information provided by BusinessMap was taken at face value.

Furthermore, black entrepreneurs who were interviewed were asked to indicate who their funders were. The information obtained from the interviews about the funders was used to confirm the data provided by the respondents regarding prior knowledge of the funders. Whilst the research considers different theoretical models for evaluating investments and the benefits and shortcomings of social networks, the analysis is limited to the function of social networks in enhancing access to capital amongst black entrepreneurs in medium to large firms.

1.6. Definition of terms

In the debates about the racial composition of the South African economy, the term black appears not to be uniformly defined. For the Bureau for Market Research (2002)

and the Economist (2001) the term corresponds to reference to Africans in the population census (Statistics South Africa, 2003). In this research the term black refers to Africans, Coloureds and Indians. This definition is consistent with that used in the Strategy for Broad-Based Black Economic Empowerment (Republic of South, 2003).

Investment capital refers to debt whether long-term or short term and to equity acquired through the issuing of shares.

BEE is described as an integrated socioeconomic process that seeks to increase the number of black people who own, control and manage the economy (Republic of South Africa, 2003).

A **black enterprise** is a company that is 50.1% black owned and has a substantial management control (Republic of South Africa, 2003).

A **black empowered enterprise** is a firm that is 25.1% owned by blacks and has a substantial black management control (Republic of South Africa, 2003).

A **black influenced enterprise** is a firm that is between 5% and 25% owned by blacks and has black management control (Republic of South Africa, 2003).

A **medium to large firm** refers to a firm with a net asset value of R 60 million or more.

A **black firm** refers to a black enterprise, black empowered enterprise and a black influenced enterprise.

A **stokvel** is voluntary group of members who all contribute a set amount of money to each member of the group on a rotational basis at set intervals usually a week or a month.

In this research, the exploration of the nature of the relationship between social network and access to capital by black entrepreneurs is preceded by the review of international and South African literature in section 2. The literature review reveals different types of social networks and their relationship to different exchanges that take place in those networks. The different theoretical models of social networks are discussed in this section. These are used to formulate the model for the investigation of the relationship between social networks and access to capital amongst black entrepreneurs. The methodology of the investigation is contained in Section 3. This section describes the population, method used for the selection of the sample, data collection, description of the questionnaire and the procedure used in the analysis of data.

The analysis of the data is done by following the structure of the questionnaire. The analysis and interpretation of the results is done in section 4. The interpretation is done in accordance with the research questions and contains both qualitative and quantitative analysis. Section 5 contains the summary and recommendations that are made.

2. Literature review

2.1. The nature of social networks

Citing Knoke and Kuklinski, Halcro & Lynch (date unknown) describe networking as a "casual" relationship between persons for the exchange of information and ideas for their mutual benefit. The benefits of social networks are described by Mitchel & Jesselyn Co (2003:3) in the statement, "An entrepreneur's personal ties can expand the boundaries of rationality by creating and allowing access to knowledge and information."

Anderson & Jack (2002) agree with the benefits that are defined by Mitchel & Jesselyn Co (2003) and state that social networks can be used for personal networking, opening entrepreneurial possibilities and providing access to exclusive information. They further argue that networks act as the medium of exchange. Nahapiet & Ghoshal (1998) broaden the view of social networks by describing them as increasing the efficiency of action and facilitating intellectual capital. They describe intellectual capital as representing, "a valuable resource and capability for action based in knowledge and knowing", Nahapiet & Ghoshal (1998:6).

The nature of social networks is summarised by Nahapiet & Ghoshal (1998) when they state that for a network to happen, an opportunity to exchange must exist, there must be value creation to the members of the network and members must be motivated to participate in the exchange. The three conditions of Nahapiet & Ghoshal (1998) appear to apply irrespective of the nature of the social network.

2.2. Social Networks and Social Capital

In their research on the nature of social capital in entrepreneurial networks, Anderson & Jack (2002) found that the structure of networks was influenced by social capital, that is, the bond holding networks together and the degree of business interaction. Using the analogy of the bridge, Anderson & Jack (2002:207) state that, " … building a social capital bridge is simply a linking of individuals but the strength of the bridge's construction serves as an indicator of the amount of traffic-carrying capability. So, a robust social bridge will allow better access to a richer range of resources and information."

The research found that whilst the respondents who were interviewed did not state specific benefits of networking, all noted the importance of developing contacts. Anderson & Jack (2002) summarise the benefits as the process of getting information sources, building resources and an instrument of acquiring business potential.

Young Jr (1999) describes social capital as the ability to secure benefits through belonging to networks. He considers capital broadly as consisting of cultural, human, structural and financial elements. Agreeing with this definition, Nahapiet & Ghoshal (1998:3) state social capital as, "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationship possessed by an individual or social unit".

A similar definition is provided by Florin, Lubatkin & Schulze (2003). They describe social capital as consisting of human and social resources. Human resources are seen as incorporating skills and knowledge reflected in the experience about the industry,

experience in start up and the extent of venture capitalist directorship. Social resources reflect the richness of the network. The richness relates to business networks, personal networks and underwriters.

Batjargal (2000) describes social capital as networks of relationships and assets located within social networks. Carroll & Stanfield (2003) include institutionalisation in the definition of social capital, where social capital is considered to be social networks and the institutionalised behavior that results from them.

The six definitions (Nahapiet & Ghoshal, 1998; Young, 1999; Batjargal, 2000; Anderson & Jack, 2002; Florin, Lubatkin & Schulze, 2003 and Carroll & Stanfield, 2003) therefore relate social capital to its role of binding networks and facilitating their functioning in a manner that benefits those belonging to the network. The explanations of social networks and social capital from the six definitions appear to overlap. A different explanation is offered by Senjem & Reed (2002) who view social capital as the strategy for sustaining the structure of existing relationships. This definition appears to be broad as strategy could encompass a wide range of actions.

2.3. Social networks and access to investment capital

Private investment decisions in a capitalist economy are premised on the assumption that returns on the investment to be made exceed the cost thereof (Curry & Weiss, 1993 and Francis, 1993). Jones & Lumby (1999:5) make the point more succinctly by stating that, "……..not only should company management make financial decisions so as to benefit the shareholders but they should also strive to maximize that benefit."

This assertion by Jones & Lumby (1999) applies irrespective of whether the firm is the lender or the borrower of funds.

2.3.1. Factors influencing investment decisions

Finzi (1992) asserts that firms undertake financial valuation to assess whether the investment would generate adequate returns to reward risks of investing in the project or firm than elsewhere. The Discounted Cash Flow model (DCF) is suggested by Jones & Lumby (1999) as the modern way of assessing whether an investment has returns that exceed the cost of capital.

Mathematically the model is presented as: $NPV = \sum A_t/(1+K_c)^t$ where NPV is the present value of future cash flows; A_t, the cash flow at time t; and K_c, the cost of capital. In this model the decision rule for an investment to be made is an NPV ≥ 0 (Curry & Weiss, 1993; Francis, 1993; Jones & Lumby, 1999 and Ross, Westerfield, Jordan & Firer, 2001). The cost of capital is described as consisting of the cost of debt and the cost of equity, $K_c = k_d/V + k_e/V$ where k_d is the cost of debt and k_e is the cost of equity. Francis (1993) proposes that the cost of debt is made up of the inflation component, i and the nominal interest rate, r. It is the combination of these two that gives the real interest rate $k_d = (1+r/1+i) – 1$. It is the r component of the cost of capital that Harris & Coakley (1995) argue banks adjust upward in order to accommodate risk.

The cost of equity is derived by adding to the risk free rate, R_f which is usually linked to long-term government bond, a risk premium $R_m\beta$ to give $k_e = R_f + R_m\beta$ where R_m is market risk premium and β is the correlation of the individual stock to movements in

the market (Curry & Weiss, 1993; Francis, 1993; Jones & Lumby, 1999; and Ross *et al*, 2001).

The discounted cash flow model (Curry & Weiss, 1993; Francis, 1993; Jones & Lumby, 1999 and Ross *et al*, 2001) adds a premium for the risk associated with debt and equity to the interest rate and the cost of equity. Investment theory therefore, proposes that capital comes at a cost and that the cost is proportional to the risk associated with the investment (Jones & Lumby, 1999; Curry & Weiss, 1993; Francis, 1993 and Ross *et al*, 2001).

The traditional criteria used by South African banks when assessing loan applications include strength of the collateral, character of the applicant, capital amount required, capability of the firm to generate profits and conditions in the economy (Ross *et al*, 2001). These criteria overlap with that identified by Fry (1978) in his study of seven Asian countries. Fry (1978) found that the allocation of investable funds was typically influenced by the quality of collateral, political pressures, name of the individual applicant, loan size and covert benefits to the approving loan official.

Whilst the loan criteria of collateral, capital amount required, capability and economic conditions can be objectively assessed, it appears that the criterion relating to character of the applicant is dependent on subjective factors. In his study, Fry (1978) suggests that the subjective factors that influence the assessment of the character of the applicant are political connections, name of the applicant and previous knowledge of the applicant. These relate to information about the applicant.

Stiglitz (1985) argues that the traditional capitalist mechanisms of control of the flow of capital have disappeared because of the increase in the number of shareholders within firms and because of the asymmetry of information. He regards the asymmetry of information as affecting the assessment of loan application and resulting in banks having greater control on credit and terms of lending.

Harris & Coakley (1995) support this view but state that the asymmetry of information affects both the bank and the borrower, the borrower being disadvantaged by insufficient information. When dealing with the asymmetry of information, Harris & Coakley (1995:13) assert that, “Banks respond to the moral hazard problem in a variety of ways. One is to restrict their net lending to substantially less than the borrowers net worth so that the borrower has an incentive to maintain his or her net worth. Another way to overcome moral hazard and monitor enterprise is to take control over them in some way”.

The extent of symmetry of information affects the equity markets as well and is seen as determining the efficiency of these markets (Drake, 1986; Singh, 1992 and Ross *et al*, 2001). Table 1 represents the different forms of efficiency in the equity market. In the weak form of efficiency, the market can be beaten by using publicly available information. The market in the semi-strong form of efficiency can be outperformed through the use of insider information. In the strong form of efficiency the market has full information about the firm and therefore no information can be used to outperform the market. The levels of access to information are tabulated in table 1.

Table 1: Efficient Market Hypothesis

Market Form	Use of Information to beat the Market		
	Historical data	Public information	Insider information
Weak Form Efficiency	X	√	√
Semi Strong Form Efficiency	X	X	√
Strong Form Efficiency	X	X	X

Source: Adapted from Francis (1993) and Ross *et al* (2001)

Therefore, given the subjective criteria of banks for the approval of loans and the efficient market hypothesis, it seems that the membership of social networks can create greater access to investment capital for network members by improving access to information for both the lenders and the borrowers.

2.3.2. Negative effects of social networks

Carroll & Stanfield (2003) argue that even though social networks have benefits to their members, networks have long-term negative consequences. The negative consequences are linked to selfish interests of members of the network that could undermine the broader interest of society. Further, Carroll & Standfield (2003) believe that networks create access to resources for its members that cannot be accessed by those falling outside of the network.

In support of the view of exclusion Anderson & Jack (2002:206) cite Chell & Baines (2000) and state that, “Networks may, for example provide a mechanism for the

development of trust and legitimacy; but networks may also serve to exclude". Those outside of the network do not have access to information and the exchange that takes place within the network. They argue that networks might act as barriers to those outside of them. Nahapiet & Ghoshal (1998) also agree with this view and assert that social capital can be useless or even harmful to those outside of it.

Whilst it appears that not enough research has been done on the negative effects of social networks, the work of Carroll & Stanfield (2003), Anderson & Jack (2002) and Nahapiet & Ghoshal (1998) suggest that social networks can be detrimental to those who are excluded.

Within the South African context, the criticism of BEE by Tom (2000) and Terreblanche (2003) that only a select few are benefiting from it might relate to the danger of exclusion that social networks pose to non-members.

The efficient market hypothesis discussed in section 3.1 also raises the possibility that social networks might impede the availability of information to all market participants. The benefits of social networks as described in the literature (Nahapiet & Ghoshal, 1998; Young, 1999 Batjargal, 2000; Anderson & Jack, 2002 and Carroll & Stanfield, 2003) exclude those outside of the network. The issue of exclusion implies that social networks can also cause the inefficient allocation of economic resources by facilitating the allocation of investment funds to less efficient projects of network members against more efficient projects of non-members.

In a discussion paper on stock markets and economic development, Singh (1992) supports the view that the allocation of funds by banks tends to degenerate into inefficiency. One of the reasons that Singh (1992:255) suggests for this degeneration is, “crony capitalism, which finances schemes for particular individuals and families with political connections, rather than promoting long-term industrial development”. The criteria of character of the applicant, name, political pressures and covert benefits suggest that the allocation of investment funds is over and above the traditional cost benefit analysis influenced by subjective factors that may vary from bank to bank and from individual to individual.

BusinessMap (1999:11) states further that, “black buyers into the corporate establishment are capitalists without capital”. It asserts that BEE distorts the efficiency of the financial markets by allocating the downside risks to funders only whilst providing for the sharing of upside returns. This view by BusinessMap (1999) contradicts the theory (Curry & Weiss, 1993; Francis, 1993; Jones & Lumby, 1999; and Ross *et al*, 2001) of the relationship between risk and the cost of capital.

The view that BEE has imposed economic costs on South Africa is supported by Terreblanche (2003). He argues that there are huge costs associated with BEE. These costs relate to poor decision making by BEE firms that results in wastage, lower economic growth rate, nepotism and corruption. Terreblanche (2003) asserts further that government should take the responsibility of financing BEE to avoid the hidden costs. It is unclear however, whether the shifting of the funding responsibility of BEE to government would eliminate the economic cost.

Access to capital and the financial structure of current empowerment deals have been identified as contributing factors to the low rate of success of BEE (Business Africa, 1999; Economist, 2002 and South African Government, 2003). The Economist (2002) suggests that the problem of access to capital relates to who pays for empowerment. The Financial Services Charter (Banking Council of South Africa, 2003) that was endorsed by government and financial institutions estimates that R 75 billion is required to fund BEE. The afore-mentioned arguments about investment financing and access to capital raise questions about the funding of BEE. Yet according to government, black business and BEE practitioners equity ownership in large firms by blacks is one of the key indicators of the success of BEE. It appears therefore that the role of social networks in creating access to capital cannot be ignored.

2.3.3. Social networks: The South African experience

Giliomee (2003) argues that the Afrikaners were faced with a similar economic exclusion to that faced by black South Africans. He states that as part of the strategy of empowering the Afrikaners, the Afrikaners Broerderbond (broerderbond) was created in 1918 to provide a networking forum. The broerderbond actively strived for the economic progression of the Afrikaners. Amongst the strategies developed were the creation of a culture of entrepreneurship within the Afrikaners, the creation of state enterprises to provide jobs and business opportunities to the Afrikaners and the founding of financial institutions to provide investment capital for the Afrikaners. Citing a prominent broerderbond member, L.J. du Plessis, Giliomee (2003) states that the Afrikaners were in the 1920s too economically weak to rise individually within a capitalist society.

It seems therefore, that the broerderbond provided a formal social network for the Afrikaners. The circumstances of its establishment, its character and membership appear to reflect the two dimensions of social networks as described by Godsell (2000).

In the study that was conducted in KwaZulu-Natal, a province in South Africa, Mitchel & Jesselyn Co (2003) analysed the relationship between social networks and entrepreneurship by investigating network activity, network density and network diversity. Networks activity is described as measuring the size of the network, network density as relating to how well network members know each other and network diversity is stated as describing similarities or otherwise of network members.

The study was premised on the assumptions that social networks are useful for entrepreneurs in four dimensions, firstly through group identity and group boundary by providing the capacity that can be relied upon, secondly through matching people with similar interests, thirdly through the availability of diverse resources within the network and fourthly through access to resources outside of the network via weak ties of the network.

The study found that large networks were more beneficial because they were characterised by weak ties. Mitchel & Jesselyn Co (2003) argue that weak ties provide useful information as opposed to redundant and overlapping information that is provided by dense ties.

In a different study of entrepreneurial resources in South Africa, Godsell (2000) found that social networks influenced the performance of entrepreneurs amongst sections of the previously oppressed South Africans. She found that Indian entrepreneurs were more successful than “Black” entrepreneurs, and linked the reason for the difference in economic performance to the nature of social networks within these communities.

Indians were found to have strong familial and religious networks that supported the accumulation of capital by individuals whereas social networks within the Africans communities were broken down by forced removals and extreme forms of repression. The social networks that developed amongst urban Africans were based on the struggle against Apartheid. These networks were underpinned by socialist inclinations and therefore the accumulation of capital was seen as the perpetuation of the exploitative system (Mbeki, 1999 and Godsell, 2000).

The study of Godsell (2000) focused on the relationship between familial and religious networks and entrepreneurial resources and that of Mitchel & Jesselyn Co (2003) investigated social networks and entrepreneurial activity in Kwa-Zulu Natal. This research explores the relationship between various forms of social networks and access to investment capital. Further, the population in this research is limited to black entrepreneurs in medium to large firms as opposed to black entrepreneurs in general as was the case in the study of Godsell (2000). In addition the research would investigate whether the increased attention to BEE by government and industry has influenced the nature of social networks of black entrepreneurs.

2.3.4. Theoretical models of social networks

Anderson & Jack (2002) consider social networks to be difficult to comprehend, as they are dynamic, changing and processual. The boundaries are unclear and can be considered to be a “snapshot” at that point in time. In defining this endless structure, Anderson & Jack (2002) suggest two types of social networks, the natural or organic network and the mechanistic network. The natural network is characterised as providing mutual benefits to its members, altruistic, creative and long-term. Membership is considered to be developed organically without a conscious effort on the part of members. The mechanistic formation is considered to be exploitative, manipulative, limiting and based on short-term benefits (Anderson & Jack, 2002).

Nahapiet & Ghoshal (1998) use a different model to describe social networks. In their model social networks are defined at three levels, structural, relational and cognitive. The structural level is defined by one objective. In this level density, pattern, connectivity and hierarchy play a key role. The elements of this level, diversity and density, were researched by Aldrich, Rosen & Woodward (1987) in a longitudinal study done in North Carolina in February and December 1986. In the study, diversity and density were treated as independent variables and foundings and profitability were treated as dependent variables.

The study tested whether entrepreneurs who start a business have networks with more members, with higher level of activity and with higher density than those who do not start a business. The second hypothesis was whether profitability would be linked to network size, diversity and accessibility. Their study found that developing contacts was significant for business founding but not for profitability.

The relational dimension is based on personal relationship and hence the assertion by Nahapiet & Ghoshal (1998) that this level requires trust, obligation and identity. The cognitive dimension is based on shared representation, that is, network members come together as a result of a conscious act to network for their mutual benefit.

Liao & Welch (2003) agree with the three dimensions of social networks of Nahapiet & Ghoshal (1998) but describe them differently. The structural dimension is considered to affect the capacity of entrepreneurs to access information and resources required for the creation of the venture. The relational dimension however, is described in the same manner as Nahapiet & Ghoshal (1998) and is based on trust and trustfulness. This dimension is developed through the history of interaction. Shared norms amongst network members are regarded as informing the cognitive dimension.

The description of the structural level of Nahapiet & Ghoshal (1998) appears to coincide with most of the description of the mechanistic formation of Anderson & Jack (2002) whilst the relational level appears to coincide with the organic formation. The shared perspective appears to stand on its own. Young Jr (1993) states the shared perspective differently. He argues that the conscious decision to enter a social network can be viewed as strategic and hence describes the form of network formed as both conscious and strategic.

Godsell (2000) agrees with Young Jr (1993) that social networks may be strategic and considers strategic networks as driven by the creation of value. She sees the opposite to the strategic network as organic networks that are dissipating and based on the reuse of existing value. According to Godsell (2000) organic networks evolve over time

and are embedded in familial, cultural and/or religious structure. Reciprocity in this type of network is neither intentional nor immediate. A strategic network, on the other hand, is based on common needs. In this type of a network reciprocity is expected immediately.

She suggests that there must be a degree of compatibility amongst network players. This can arise from behaviour, belief and values. It appears from these three factors that trust forms the basis of the strength of the bond within the network. In the study of the economic performance of “blacks” compared with South Africans of Indian origin, Godsell (2000) found striking differences in their economic performance. She attributes the differences in the economic performance of the groups to the cultural context and to the nature of their social networks in particular.

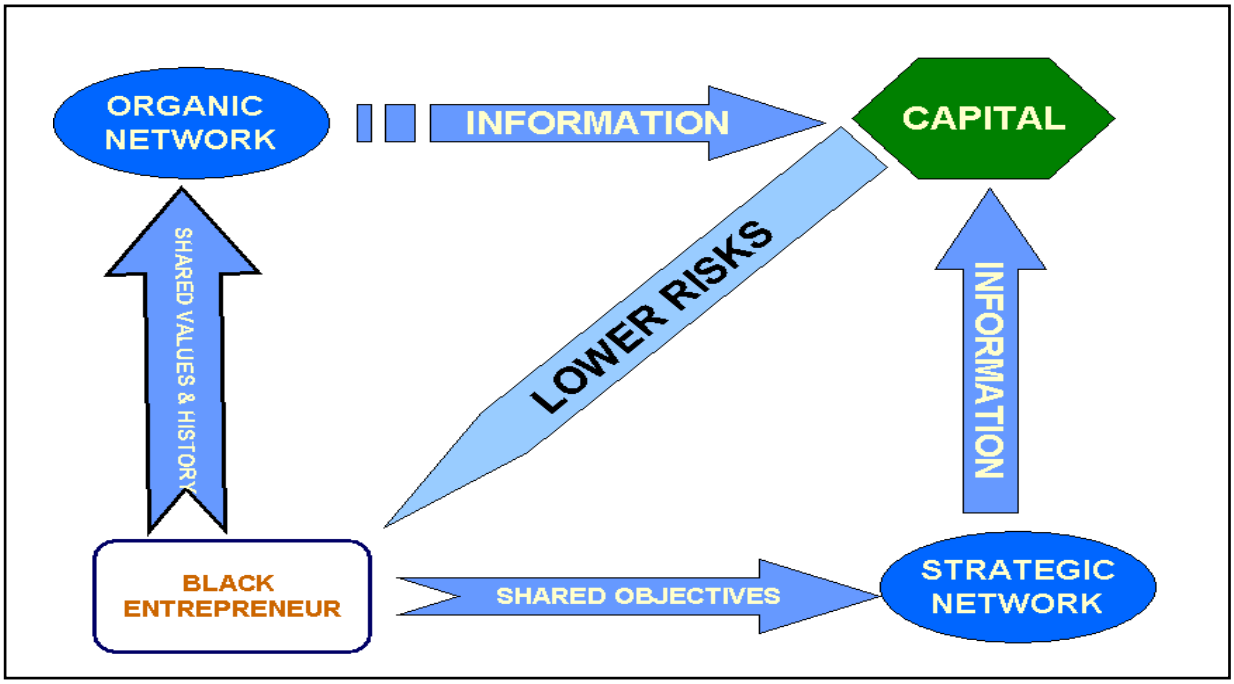
There appears to be overlaps in the international and South African literature on social network models. The mechanical dimension of Anderson & Jack (2002) coincides with the structural level of Nahapiet & Ghoshal (1998) whilst the organic dimension corresponds to the relational level. The additional dimension of shared perspective of Nahapiet & Ghoshal (1998) is similar to the strategic network of Young Jr (1993) and Godsell (2000).

2.4. A model for social networks and access to investment capital

The international literature suggests that organic networks are based on relations and common values and do not necessarily result in mutual benefits to members (Nahapiet & Ghoshal, 1998; Anderson & Jack, 2002). The research of Godsell, 2000 and Mitchel & Jesselyn Co, 2003, support this view.

The model shown in figure 3 incorporates these observations and implies that the black entrepreneur could belong to either a strategic or organic network.

Figure 3: A descriptive Model of Social Networks and Access to Capital



On strategic networks however, the South African experience shows that the shared objectives in a strategic network can be driven by political objectives and aimed at benefiting even those who are outside of the network (Godsell, 2000 and Giliomee, 2003).

In figure 3 it is assumed that strategic networks provide mutual benefits to members of this type of network. Membership of the strategic network increases access to information about sources of capital and further improves the funders' knowledge about the black entrepreneur. This, in turn lowers the perceived risks associated with borrowing for the black entrepreneur. On the contrary, the organic network is based on historic relations usually familial, geographic or religious and is not accompanied by

mutual benefits. This type of network is viewed as not resulting in increased access to capital (Godsell, 2000). Therefore, for black entrepreneurs the strategic network appears to be more beneficial.

The following research questions have been derived from the literature review but are limited to aspects that this research intends to test.

2.5. Research questions

Research question 1: What motivates the entry to social networks by black entrepreneurs?

The literature (Nahapiet & Goshal, 1998; Young Jr, 1999; Godsell, 2000 and Anderson & Jack, 2002) suggests that networks act as the medium for the exchange of information and means of acquiring business potential.

Research question 2: Do existing social networks of black entrepreneurs facilitate access to investment capital for new black entrepreneurs?

The empowerment deals that have taken place are seen as involving the same small group of blacks without any meaningful expansion to new black entrepreneurs (Business Africa, 1996; BusinessMap, 1999; Business Africa, 1999; Economist, 1999; Tom, 2002 and Carrol & Stanfield, 2003). A network is also considered to be excluding those who do not belong to it (Business Africa, 1996; BusinessMap, 1999; Business Africa, 1999; Economist, 1999; Tom, 2002 and Carrol & Stanfield, 2003).

The research sought to establish whether existing social networks are beneficial to emerging blacks entrepreneurs.

Research question 3: Do social networks reduce the perceived risk of providing investment capital to black entrepreneurs and if so how?

Singh (1992) asserts that politically connected individuals received more favourable loans from funding institutions than other applicants. It has further been argued that the structure of BEE funding results in a disproportionate absorption of risks by financial institutions and empowering companies to the benefit of the few connected individuals.

The research sought to establish whether social network resulted in favourable funding conditions of black entrepreneurs who are members of social networks compared to non-members.

Research question 4: Do different types of social networks provide different levels of access to investment capital for black entrepreneurs and if so how?

The international and South African models of social networks suggest that different exchanges take place in different types of networks (Nahapiet & Goshal, 1998; Young Jr, 1999; Godsell, 2000 and Anderson & Jack, 2002).

Godsell (2000) asserts that strategic networks are value creating as opposed to organic networks that dissipate value. It has further been argued that less dense and intense networks are more useful in providing new information and contacts (Halcro & Lynch, date unknown and Mitchel & Jesselyn Co, 2003). An analysis of the networks that black entrepreneurs belonged to and the type of benefits that they provide was done to establish whether different networks provided varying benefits to their members.

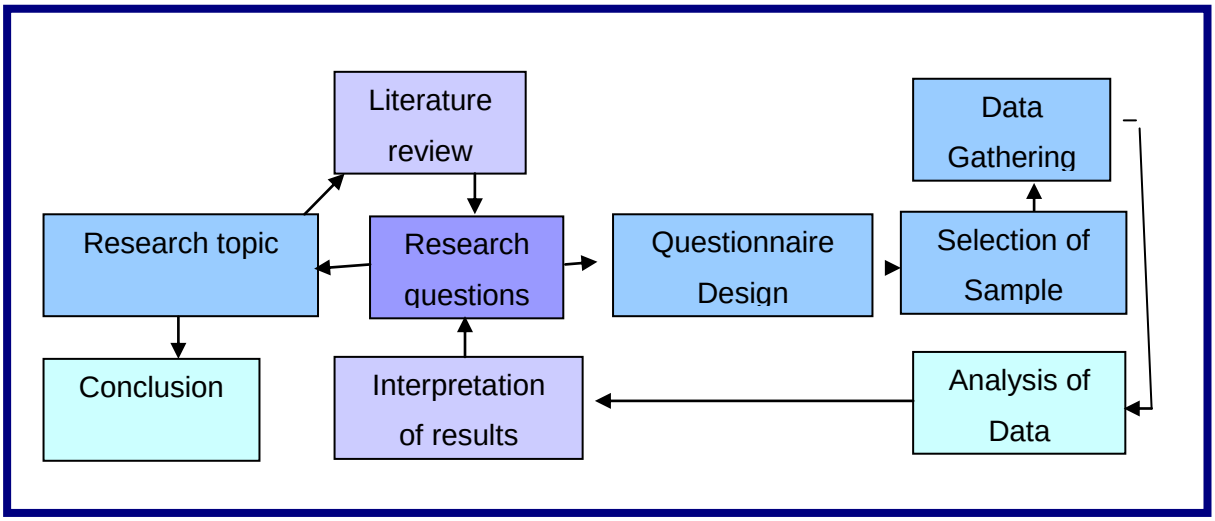
Research question 5: Is there a relationship between access to investment capital and political network of black entrepreneurs and if so what is the relationship?

Singh (1992) argues that politically driven allocation of investment funds results in crony capitalism, a view that is supported by BusinessMap (1999). In enanciating politically driven allocation of investment funds, Singh (1992) explains that this occurs when lending by financial institutions is influenced by the desire to be viewed favourably by government resulting in loan allocations that are biase towards politically connected individuals.

3. Methodology

The research questions involve practical and theoretical issues relating to the research topic of “Social Networks and Access to Investment Capital amongst Black Entrepreneurs”. These issues are amenable to qualitative and quantitative analysis of data gathering and analysis. The research is conducted in six steps. The first step involves the design of the questionnaire.

Figure 4: Research Methodology



3.1. Population

The target population was black entrepreneurs in medium to large enterprises in Gauteng. This geographic restriction to Gauteng was necessary because of the practicalities of collecting data. State owned entities and non-governmental organisations were excluded from this population because of the absence of private equity in these entities.

It was intended that a second population consisting of providers of investment capital to black entrepreneurs was to be included in the research. This population was to be established from the interviews of black entrepreneurs. Entrepreneurs therefore were asked if they were willing to provide information about who the sources of fund for their BEE deals were. Many of the black entrepreneurs interviewed were only willing to provide the name of the institution but not the name of the individuals that they dealt with in those institutions. As a result the final list of funding sources compiled through this phase was inadequate to constitute a credible sample for funders and thus this second population was deleted from the research.

3.2. Sample

The list of black firms in South Africa was sourced from BusinessMap. The names were screened to exclude firms located outside of the population in terms of geographic location and company size. A convenient sample size of 60 was selected from the remaining names in the list. The final sample size that was interviewed was 35.

3.3. Collection of data

A letter was sent to the Chief Executives (CE) of the selected respondents requesting their participation in the research. The letter explained the purpose of the research and the significance of the study and was accompanied by a supporting letter from the University of Witwatersrand. Follow up calls were made to check availability of the respondents and to arrange interviews.

In the event that a CE was not available a request was made for the letter to be referred to another senior executive within the company who was involved in financing initiatives of the firm. The questionnaire was sent to the respondents prior to the interview. A further follow up call was made to the respondents at least two days before the interview to confirm the interview and check if there were any specific concerns about the questionnaire.

3.4. Validity

Internal validity was ensured by the use of the consistency matrix before the questionnaire was designed. This process was repeated throughout the research.

3.5. Reliability

The questionnaire was piloted with a small number of respondents in order to improve the structure, flow, clarity and consistency with the research questions and problem. After each interview the results were sent to the respondents to confirm the accuracy of data.

3.6. Limitations of the research

A convenient sample was chosen for this research. In addition the data from which the sample was chosen was sourced from BusinessMap and the Johannesburg Securities Exchange. The data was taken at face value since it would have been difficult to verify the correctness of the BEE status of firms.

Thus the results of the research cannot be generalised. However, the findings for the sample of this research are regarded as being valid.

3.7. Questionnaire design

The research was qualitative whilst quantitative techniques were used to compare results amongst different types of social networks and across different sectors. Data was collected through personal interviews with the respondents. A questionnaire consisting of open ended and closed questions was used. The questionnaire is attached as appendix one. The questions in the appendix were divided into five parts.

Part one required company information and personal details of the respondents. The information from this section was required to confirm the company background as well the role that the respondents played in the company. Responses to part one were also used in the categorisation of responses received in part one to five.

Part two contained questions that sought clarity on the types of networks that the respondents belonged to, the reasons for belonging to those networks, the source of knowledge about the existence of the network and the role played by current members of the networks in assisting the entry of new members.

Part three solicited responses relating to the role that networks played in the financial deals of black entrepreneurs. The questions sought to establish the role played by the network in accessing information about the sources of funds and the role that networks played in lowering the risks associated with the deal.

Part four facilitated responses that clarified the density of the network, the size of the network and diversity of the network. This part also contains questions that explain the interaction between networks that black entrepreneurs belong to and other networks of competitors.

The last part focused on general views of the respondents on how access to capital by black entrepreneurs could be improved. This section also prompted views on how social networks for BEE could be strengthened.

4. Analysis and interpretation of data

The analysis of data was done using qualitative and quantitative techniques. Qualitative research allows for mechanisms that assist in the explanation of social behavior (Simmons-Mackie & Damico, 2003). The content analysis technique was used to group responses into conceptual categories. The groupings were checked against the consistency matrix to verify that they cover the research questions. The responses were ranked in terms of the number of similar responses across different categories to enable comparison and interpretation. The comparison and interpretation is done in line with the research questions.

4.1. Description of the sample group

The sample consisted of 82.86% males and 17.14% females. Eighty five comma seven percent of the respondents were in executive positions whilst 14.30% were non-executives. Amongst the male respondents, 82.76% were executives and 17.24% were non-executives. Hundred percent of the female respondents were executives. Table 2 shows the composition of the sample in terms of gender and levels within the companies.

Table 2: Composition of the sample

Gender	Level			Total		
	Executives	%	Non-executives	%	Total	%
Male	24	80%	5	100%	29	82.86%
Female	6	20%	0	0%	6	17.14%
Total	**30**	**100%**	**5**	**100%**	**35**	**100%**

4.2. Analysis of sectors

The questionnaire listed six possible economic sectors, namely banking; hospitality; information communication technology (ICT); retail; media and Other. The category of Other was used to classify venture capitalists who were involved in more than one economic sector. Table 3 contains the grouping of the responses across sectors.

Table 3: Distribution of the sample across sectors

	Sectors												Total	
Gender	**Banking**		**Hospitality**		**ICT**		**Retail**		**Other**		**Media**			
Male	7	100.0%	2	50.0%	3	60.0%	1	100.0%	14	87.5%	2	100.0%	29	82.9%
Female	0	0.0%	2	50.0%	2	40.0%	0	0.0%	2	12.5%	0	0.0%	6	17.1%
Sub-total	7	100.0%	4	100.0%	5	100.0%	1	100.0%	16	100.0%	2	100.0%	35	100.0%
%	**20.0%**	**2.9%**	**11.4%**	**2.9%**	**14.3%**	**2.9%**	**2.9%**	**2.9%**	**45.7%**	**2.9%**	**5.7%**	**2.9%**	**100.0%**	

The grouping of the data from the respondents across the six sectors showed that 45.71% of the respondents were in holding companies that participated in empowerment across different sectors. Whilst some of the companies of the 45.71% respondents had the majority of their shareholding in one sector, the respondents preferred not to be classified as being economically active in only the dominant sectors as they were venture capitalists who were actively acquiring shares in different sectors. Twenty percent of the respondents were in the banking sector, 11.43% were in the hospitality industry, 14.29 were in the (ICT), 2.9% were in the retail and 5.71% were in the media sector.

The women respondents were evenly distributed with 33.3% each in the hospitality, ICT and Other sector. Of the male respondents, 24.14% were in banking, 6.9% in the hospitality sector, 10.34% in ICT, 3.45% in the retail, 6.9% in the media and 48.28% in Other.

4.3. Analysis of the duration of the sample with their companies

Further information was requested from the respondents on the duration of time that they have been with their companies. Eight comma six percent have been with their companies for less than one year, 62.86% have been with their companies for greater than one year but less than five years, 22.86% have been involved with the firms for greater than five years but less than 10 years and 5.71% for more than 10 years. The analysis of the length of service against gender is contained in table 4.

Table 4: Length of service against gender

Length of service	Gender				Total	
	Female	%	Male	%	Sub-total	%
<1	0	0%	3	10.34%	3	8.57%
<10	1	16.67%	7	24.14%	8	22.86%
<5	5	83.33%	17	58.62%	22	62.86%
>10	0	0%	2	6.9%	2	5.71%
Total	6	100%	29	100%	35	100%

Of the female respondents 16.67% was with the firm for less than one year whilst 83.33% have been with their companies for greater than one year but less than five years. The distribution of the male respondents showed that 10.34% respondents have been with their companies for less than one year, 24.14% for more than one year but less than five years, 58.62% for greater than five years but less than 10 years and 6.9% have been with their companies for greater than 10 years.

4.4. Distribution of respondents per social networks type

Respondents were asked to give their understanding of social networks. This was done in order to avoid misunderstanding on what the research was about. Although the responses given by the sample members were different, they conformed to the descriptions of social networks found in literature (Nahapiet & Ghoshal, 1998; Godsell, 2000 and Anderson & Jack, 2002).

The responses described networking as getting closer to decision makers, relationships that advance business interests, relationship with associates sharing a common interest, increasing opportunity through people and being a conscious effort to form relationships. These descriptions are similar to the definition of strategic networks provided by Young Jr (1993) and Godsell (2000).

The other descriptions given included the coming together of people with different backgrounds to draw support, creating contacts with the view to broaden the horizon and the exchange of views and opportunity amongst peers. These views describe social networks in terms of the role that social networks play. The role that networks play which the respondents mentioned are consistent with social networks described by Nahapiet & Goshal (1998), Young Jr, (1999), Godsell (2000) and Anderson & Jack (2002).

Six categories of social networks were listed in part 2 of the questionnaire and the respondents were asked to select the one they considered relevant to their last financing deal. The categories listed in the questionnaire were religious, sport, family, political, business and Other.

Table 5: Gender distribution per network type

Gender	Sport	Family	Political	Business Associate	Other	Religious	Total	% spilt
Female	0	2	2	2	0	0	6	17.14%
Male	1	0	3	23	2	0	29	82.86%
Total	1	2	5	25	2	0	35	100%
%	2.86%	5.71%	14.29%	71.42%	5.71%	0%	100%	

Only 2.86% of the respondents belonged to the sport social network. Five comma seven stated family as their social network, 14.29% mentioned political as their network, 71.42% cited business associates, 5.71% stated Other and zero percent chose the religious category. Of the female respondents 33.33% each cited family, political and business associates as their social networks. Amongst the male respondents 2.86% chose the sport social network, zero percent mentioned family, 10.34% cited political network, 79.31% stated business associates, 6.7% mentioned Other and zero percent chose religious as their network.

4.5. Analysis of exchanges taking place in social networks

The respondents identified access to knowledge and access to information as the two main types of exchanges that took place in their networks. Access to knowledge was described by the respondents as the sharing of ideas and experiences on how to make their businesses successful whereas, access to information was described as the passing of specific information on sources of funding and possible empowerment deals.

Thirty seven percent of the respondents stated that access to knowledge is the main activity that takes place in their social networks. Twenty three percent of these were female and 76.92% were male. Fifty one percent regarded access to information as the main activity and of these 11.11% were female and 88.89% were males. Eleven comma four percent of the respondents stated that their social networks provided neither information nor knowledge about BEE deals. Of these 25% were females and 75% were males. Table 5 lists the percentage split of the respondents across access to knowledge, access to information and none.

Table 6: Types of exchanges in social networks of black entrepreneurs

Exchange in the Social Network	Females		Males		Total	Percentage per exchange
Access to knowledge	3	23.08%	10	76%	13	37.1%
Access to information	2	11.11%	16	88.89%	18	51.4%
None	1	25%	3	75%	4	11.4%
Total	**6**	**100%**	**29**	**100%**	**35**	**100%**

4.6. Description of the role of social networks

The respondents were asked to indicate whether they were referred to the funders by members of their social network and whether their social network played any role in influencing access to the funding deal. Table 7 shows the results of the sample regarding the role played by the social network against the gender of the respondents.

Table 7: The role of social networks between females and males

Role	Gender				Total	
	Female		Male			
None	1	16.67%	15	51.72%	16	45.71%
Referral	4	66.69%	8	27.59%	12	34.29%
Influenced the deal	1	16.67%	6	20.69%	7	20%
Total	**6**	**100%**	**29**	**100%**	**35**	**100%**

Forty five comma seven percent of the respondents stated that their social network did not play a role in their last financing deals. Of these 6.25% were female and 93.75 were males. Thirty four comma three percent of the respondents were referred to the funders by members of their social networks and of these 33.33% were female and 66.67% were males. The remaining 20% of the respondents indicated that members of their networks influenced their funding deals. Of these , 14.29% were female and 85.71% were males.

4.7. Analysis of membership of the funders in social networks

The respondents were asked if the funders were part of their social networks. Sixty five comma seven percent of the sample stated that their funders were not part of their social networks. These were divided into 17.39% females and 82.61% males. Thirty four comma twenty nine percent mentioned that the funders were part of their social networks. Of these, 16.67% were females and 83.33% were males.

The results of cross tabulation of gender and membership of social network by the funders are shown in table 8.

Table 8: Funders' membership of social networks

	Gender				Total	
	Female		Male			
Yes	2	33.33%	10	34.48%	12	34.29%
No	4	66.67%	19	65.52%	23	65.71%
Total	**6**	**100%**	**29**	**100%**	**35**	**100%**

4.8. Analysis of prior knowledge of the funders

The respondents were further asked if there was any prior knowledge of their funders. Seventy four percent of the respondents indicated that they had a prior knowledge of the funders. Only 27.71% of the respondents stated that they did not know their funders prior to the funding deal. Of the 74.24% who knew the funders prior to the funding deal, 11.54% were females and 88.46% were male. Fifty percent of the females and 20.69% males did not know their funders prior to the funding deal. Table 9 summarises the results on prior knowledge of the funders against gender.

Table 9: Prior knowledge of the funders against gender

Funder relationship	Gender				Total	
	Female		Male			
Yes	3	50%	23	79.31%	26	74.29%
No	3	50%	6	20.69%	9	25.71%
Total	**6**	**100%**	**29**	**100%**	**35**	**100%**

4.9. Analysis of social networks and the cost of capital

Whilst some members of the sample indicated that their social networks played a role in linking them to the funders and assisted in facilitating the funding deal, the interviewees were asked if the involvement of network members influenced the cost of finance relating to their deals. Fifty one comma four percent thought that the involvement of members of their social networks did not influence the cost of finance in their deals.

Ninety four comma four of these were males and only 5.6% were female. Forty eight comma six of the respondents stated that there was influence exerted by the social network on the cost of investment capital for their deals. Of this group 29.41% were females and 70.59% were males. Table 10 contains a split of gender against influence on the cost of capital.

Table 10: Gender split on the influence on the cost of capital

	Gender				Total	
	Female		Male			
No	1	16.67%	17	58.62%	18	51.43%
Yes	5	83.33%	12	41.38%	17	48.57%
Total	6	100%	29	100%	35	100%

4.10. Factors motivating entry into social networks

The data was further cross tabulated using the six categories of social networks that were listed in the questionnaire against the exchange that takes place in those networks. The results are shown in table 11.

Table 11: Exchanges that take place in the different networks

Exchange in the Social Network		Count	% Count	Total Count per Network type	Percentage per Social network
Sport	Access to knowledge	1	100.00%	1	2.86%
Family	Access to information	2	100.00%	2	5.71%
Political	Access to knowledge	2	40.00%	5	14.29%
	Access to	2	40.00%		
	None	1	20.00%		
Business Associate	Access to knowledge	10	40.00%	25	71%
	Access to	12	48.00%		
	None	3	12.00%		
Religious	None	0	0.00%	0	0
Other	Access to information	2	100.00%	2	5.71%
Total		35		35	1

Eighty five percent of the respondents indicated that access to knowledge and/or information were the exchange taking place in their social networks. Hundred percent of those who chose sport as the main social network stated that access to knowledge was the main exchange that took place in that social network. The 5.7% of the respondents who chose the family network thought that access to information was an important exchange that took place in that network. Amongst the 14.7% who chose the political network, 40%% stated that access to information was the main exchange, another 40% regarded access to knowledge as the main exchange whilst 20% thought no exchange took place in that network.

The business associate network showed a similar pattern with 40% of the respondents stating that access to knowledge is the main exchange in that network, 48% indicated that access to information was the key exchange in that network and 12% thought that no exchange took place in that network. Hundred percent of the Other category mentioned access to information as the main exchange that happened.

These results show two main features. First, that 71 % of the respondents saw business association as a social network relevant for their business dealings. Second, that in business associates and political networks, access to knowledge and information were the common exchanges that took place. These results contrast with the finding of Godsell (2000). Godsell (2000) found that organic networks were dominant amongst black entrepreneurs. She asserted that these organic networks were not providing economic value to members. In contrast with the finding of Godsell (2000) the results of this research show the emergence of a strategic network amongst black entrepreneurs.

4.11. Role played by social networks in BEE deals

It has also been argued that the implementation of BEE so far has only benefited a small group of black entrepreneurs (Business Africa, 1996; BusinessMap, 1999; Business Africa, 1999; Economist, 1999 and Tom, 2002). Tom (2002) asserts that this group has become self-perpetuating and is not broadening access to new black entrants into the mainstream economy.

An analysis was done comparing the role played by the different types of social networks in creating access to capital by black entrepreneurs. These results are shown in table 12.

Table 12: Role of Social Networks in facilitating access to capital

Role in facilitating access to capital	Sport	Family	Political	Business Associate	Other	Religious	Total	% spilt
None	0	0	0	16	0	0	16	45.70%
%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	100.00%	
Referral	1	2	4	3	2	0	12	34.30%
%	8.33%	16.67%	33.33%	25.00%	16.67%	0.00%	100.00%	
Influenced deal	0	0	1	6	0		7	20%
%	0.00%	0.00%	14.29%	85.71%	0.00%	0.00%	100.00%	

Hundred percent of the respondents in the sport, family and Other stated that their social networks referred them to the funders. In the political network, 50% of the respondents stated that their network members referred them to the funders whilst 20% indicated that network members influenced the deals. The result of the business associate network shows that in 64% of the cases, the network members played no role, in 12% of the cases the network members referred black entrepreneurs to the funders and in 24% of the respondents, the network members influenced the deal.

Further analysis using the chi-square test of independence was done to determine the dependence of the role played by social networks in facilitating access to capital to the type of social network. The data on the business associates was kept on its own whilst the all the other networks were combined into a single category. The grouping of the networks types into two categories was done in order to allow for the chi-square test to be performed.

The null hypothesis, H_o is, the role of social networks is independent of the type of social network and the alternative hypothesis, H_1 is, the role of social networks is not independent of the type of social network. A significant level of 0.05 is chosen for the test. The result of the chi-square test shows a p-value of 0.000 (see appendix 3) which is less than the Alpha of 0.05. Therefore, we reject the null hypothesis and accept the alternative hypothesis.

The qualitative analysis of the data suggests that the black entrepreneurs in large firms enter into strategic networks with the view of deriving benefits. These networks are defined by previous business interactions and are based on the exchange of information and the opportunity to network for other business opportunities. The chi-square test shows that the role of social network is not independent on the type of social network. From this it can be deduced that the role played by a social network differ depending on the type of that social network. This finding is line with the theoretical models of social networks(Nahapiet & Ghoshal, 1998; Godsell, 2000 and Anderson & Jack, 2002).

4.12. Cost of capital and social networks

The respondents were further asked to indicate whether their social networks had played any role in influencing the cost of capital. The results for this question are listed in table 13.

Table 13: Social Networks and the influence on the cost of capital

Influence on cost of capital	Sport	Family	Political	Business Associate	Other	Religious	Total	% spilt
Yes	1	2	4	10	0	0	17	48.6%
No	0	0	1	15	2	0	18	51.4%

The results show that 48.6 % of those interviewed felt that social networks influenced the cost of capital whilst 51.4% stated that social networks did not have influence on the cost of capital associated with their deals. The difference between those who felt that the cost has been influenced and those who thought that it has not been influenced is small. A chi-square test was performed using the grouped categories of types of social networks of business associates and the Rest. The details of this analysis are shown in appendix 3.

The null hypothesis, H_o is, the cost of capital is independent of the type of social network and the alternative hypothesis, H_1 is cost of capital is not independent of the type of social network. A significant level of 0.05 is chosen for the test. The result of the chi-square test shows a p-value of 0.002 which is less than the Alpha of 0.05. Therefore, we reject the null hypothesis and accept the alternative hypothesis.

The second chi-square test of the independence of funder relationship to the cost of capital was done. The null hypothesis H_o is, the cost of capital is independent of funder relationship and the alternative hypothesis H_1 is, the cost of capital is not independent of funder relationship. A significant level of 0.05 is chosen for the test. The result of the chi-square test shows a p-value of 0.12 which is greater than the Alpha of 0.05. Therefore, we cannot reject the null hypothesis.

The two chi-square tests reveal different results. The test of independence between social network type and the cost of capital shows that the cost of capital is not independent of the type of social network. On the test of independence between prior knowledge of the funder and the cost of capital, the results show that the cost of capital is independent of prior knowledge of the funder.

4.13. Amount of time spent in the social network and access to capital

The responses of the sample on the amount of time spent in social networks was analysed against whether the network members have had influence on the cost of capital. The results of the cross tabulation are listed table 14.

Table 14: Time spent in social network and influence on cost of capital

Time spent in social network	Influence on cost of capital			
	Yes	No	Count	% split
Up to2 hrs	6	9	15	42.9%
Up to 4 hrs	8	3	11	31.4%
Up to 6hrs	0	2	2	5.7%
8 hrs and above	3	4	7	20%
Total	**17**	**18**	**35**	**100%**

Just under 43% of the respondents spent less than two hours per month with their social network members, 31.4 % spent up to four hours, 5.7 % indicated that they spent up to six hours and 20 % stated that they were with members of their social networks for eight or more hours per month.

Of those who spent up to four hours per month with their social networks, 72% stated that the network members had influenced the cost of capital. It was only in this time band where the results were more positive on the influence of social network members on the cost of capital. Although the results of the other three categories were more negative, the difference in the numbers is not large. This is borne out by the total numbers of those who thought social networks influenced the cost being 52% and those who thought that social networks did not influence the cost being 48%.

A chi-square test of independence of the time spent in social networks and influence on the cost of capital was done (see appendix 3). The null hypothesis Ho is, the role played by social network is independent of time spent in social network and the alternative hypothesis H_1 is, the role played by social network is not independent of time spent in social network. A significant level of 0.05 is chosen for this test. The test result shows a p-value of 0.333 which is greater than the alpha of 0.05. Therefore we cannot reject the null hypothesis. On the basis of the results of the chi-square test, it can be concluded that the cost of capital is independent of the amount of time spent in the network.

4.13.1. Length of time in a company and access to capital

The length of time with the company was cross-tabulated against access to capital to determine whether the duration of service with the company had any relationship with access to capital. Table 15 shows the results of the cross tabulation.

Table 15: Duration with the company and influence on cost of capital

Duration with company	Influence on cost of capital				Total
	No		Yes		
< 1 year	3	16.67%	0	0%	3
1 < > 5 years	12	66.67%	10	58.82%	22
5 < > 10years	2	11.11%	6	35.29%	8
> 10 years	1	5.56%	1	5.89%	2
Total	**18**	**100%**	**17**	**100%**	**35**

Of the 52% members who said that members of their social networks had no influence on the cost of capital, 5.5% had more ten years service with the company, 11.1% had more than five years but less than 10 years, 66.67% were between one and five years and 16.67% had less than a year service. The respondents who stated that their social networks influenced the cost were split into 5.89% with more than 10 years, 35.25% with more than five years but less than 10 years and 58.8% with more than one year but less than five years.

The mode for both those who stated that their social networks influenced the cost of capital and those who said it did not was in the category of between one to five years. The category with less than one year showed a zero percent influence on the cost of capital.

These results might suggest a link between length of service with the company and the cost of capital. The results show that an optimum length of service against cost of capital of between five and ten years. Before this period the results appear to be less optimal and after this period benefits appear to reduce.

4.14. Nature of competition between network members

The sample members were asked to describe the nature of the competition that takes place between members of their network and other network members. This was done through the use of an open-ended question that sought to obtain views of the black entrepreneurs than to disapprove particular propositions.

The respondents expressed varying views and these have not been ranked but have been summarised to reflect the perceptions of the entrepreneurs. Nine percent of black entrepreneurs stated that there were many BEE deals taking place at the time that competition is not a factor in their networks. Rather these entrepreneurs thought that more cooperation through the establishment of consortiums was needed to strengthen the cause of BEE.

Ninety one percent of the sample who stated that competition amongst black entrepreneurs was mainly linked to the way they marketed themselves expressed a different view. This group of entrepreneurs thought that the competition was about which black company had the best credentials. This type of competition was regarded as posing a danger of leading to perceptions that those entrepreneurs who could not market themselves well were less credible.

The second competitive factor that was cited by the black entrepreneurs related to the financial structuring of empowerment deals. The entrepreneurs stated that most large empowerment deals were at-least part financed by the companies from which the entrepreneurs were acquiring equity and because of this, companies would also seek partners who provided the best financial structuring.

5. Summary and recommendations

The findings of this research are consistent with the literature review on the nature of social networks but are different to the findings of Godsell (2000) on the type of networks found amongst black entrepreneurs. In the study by Godsell (2000), the prevailing types of networks amongst African entrepreneurs were found to be the organic networks of family and community organisations.

In this research the strategic networks of business and political were found to be dominant. Whilst both the organic and strategic networks referred black entrepreneurs to their funders, strategic networks were found to have also played a part in influencing the last deals. The main influence was found to have been on the cost of capital.

Prior knowledge of the funders was found to be prevalent across all network types. This knowledge however, did not reduce the cost of funding but rather points to the reuse of existing contacts by black entrepreneurs. The research also explored whether the amount of time spent in the social network had any bearing on the cost of capital. The role cost of capital was found to be independent of the amount of time spent in the network. This finding, taken together with the fact that the social networks of business associates and political provided the most benefits implies that the quality of the interaction amongst network members is more beneficial than the quantity of that interaction.

The relationship between access to funding and duration of black entrepreneurs with their companies was also investigated. The period of between five and ten years was

found to be the most optimum to access capital. This result shows that a lead time of about five years is required to be well established in the BEE market.

The importance of strategic networks was also confirmed in the suggestions made by the respondents on how BEE and access to capital can be strengthened. The first suggestion relates to steps that should be taken by individual entrepreneurs to become better networks members. The second suggestion confirms the need to foster a conscious effort to form strategic networks amongst black entrepreneurs and the third proposes the adoption of approaches that promote the entry of new members to existing networks.

5.1. Views on how social networks can be strengthened

The respondents suggested ways through which social networks can be strengthened. Some of the responses given coincided with the responses provided on how access to capital can be improved. The respondents stated that existing organisations of business like the Black Management Forum (BMF) and Business Unity South Africa (BUSA) should proactively promote linkages between black entrepreneurs and providers of capital.

The respondents further suggested that special forums should be established that would only serve to provide networking opportunities for black entrepreneurs. These respondents regarded focused conferences and seminars as examples of forums that could be used to facilitate linkages and promote knowledge of who the players are in the different sectors of the economy. The responsibility for co-ordinating such forum

could be performed by organisations such as the BMF and BUSA or special committees set up for this purpose.

The other suggestions related to the use of social events to promote awareness about BEE and encourage linkages amongst black entrepreneurs. The respondents cited stokvels, golf and other forms of sport as providing opportunities for black entrepreneurs to strengthen their relationship. These networks were seen as easily accessible to new BEE entrants and also have established black entrepreneurs as members. The suggestions made relate to the need to be involved in both the organic and strategic networks.

5.2. Views on how access to capital can be improved

Information about BEE deals and sources of funding came out in all the interviews as one of the obstacles to empowerment. This response by the sample provides a further reason for the slow pace of BEE. The respondents were asked to suggest ways through which the problem of access to information and other problems delaying BEE could be addressed. Three steps were proposed to overcome the problems.

5.2.1. Steps for individual entrepreneurs

The first category of responses relates to steps that the individual black entrepreneurs need to take. It was suggested that entrepreneurs should find out more about the industries that they want to be economically active in. This includes developing an understanding of who the players were and proactively seeking to enter the social networks of key industry players.

5.2.2. Steps for a group of black entrepreneurs

The second category relates to steps that should be taken by a group of black entrepreneurs. The respondents suggested that black entrepreneurs should pursue the establishment of strategic networks whose main aim is to promote access to empowerment deals and to investment capital. This suggestion appears to advocate the establishment of a similar body to the “broerderbond” except that it would be above board and its membership would be open to all black entrepreneurs.

5.2.3. Approach by black entrepreneurs

The third category suggested an approach that should be taken by black entrepreneurs when making deals. Some of the respondents stated that there is no need for black entrepreneurs to compete for BEE deals, as the sizes of the deals were larger than the capacity of most black firms. The respondents suggested that black entrepreneurs should co-operate amongst themselves more and proactively bring into their consortiums new black entrepreneurs. This proposal places the responsibility for broadening BEE on existing black firms as well.

5.3. Recommendations for further research

It has been suggested that the current form of BEE results in economic inefficiencies and distortion of the financial markets (Economist, 1999 and BusinessMap, 1999). A research on the distortion effects of BEE if any could highlight the possible long-term economic effects of BEE and provide information on the mechanism of that distortion. The outcome of that research could be useful in informing new government policies and strategies of BEE. The business sector and other role players would also benefit from the knowledge of economic effects of BEE.

This research also was limited to the relationship between social networks and access to capital by black entrepreneurs in medium to large firms. The financing mechanisms of BEE were not investigated. Funding mechanisms of BEE deals have come under criticism from the opponents of BEE (Tom, 2002 and Giolomee, 2003). An investigation of the ways through which BEE deals have been financed would provide insights on the possible shortcomings of these deals. Such insights would help with the development of alternative funding instruments by both government and the private sector.

The challenge of financing empowerment deals could also be related to the emergence of a strategic network based on business associates amongst black entrepreneurs. The business network came up as the social network mode amongst black entrepreneurs in the research. Further research on this type of network to determine the size, modus operandi and values that sustain it might provide guidance on interventions that are required to strengthen networks amongst black entrepreneurs and provide linkages to providers of funding.

The views of the providers of funding were also not canvassed in this research. A more comprehensive understanding of the relationship between social networks and access to capital amongst black entrepreneurs would be developed by researching the social networks that funders belong to and the interaction of these with black entrepreneurs in medium to large firms.

5.4. Conclusion

The purpose of the study was to investigate the effects of social networks on access to investment capital by black entrepreneurs. The review of literature showed that social networks help to facilitate the flow of information and business transactions amongst members. This study found that black entrepreneurs regarded access to knowledge and information as the main exchanges that took place in social networks. However, the results of the chi-square test of the independence between the social networks and the role played by the network shows that different types of networks play different roles. The finding therefore, confirms that dissimilar networks provide different benefits to their members.

Two main types of social networks emerged from the literature and these are organic networks that are based on relations and common values without necessary resulting in immediate reciprocal benefits to members, and strategic networks whose members enter with the explicit aim of deriving short term benefits. The analysis and interpretation of the data obtain from the black entrepreneurs show that amongst black entrepreneurs in medium to large firms, the strategic networks of business and political were dominant. These networks are defined by previous business interactions and are based on the exchange of information and the opportunity to enter into other business deals.

On prior knowledge of the funders, the research found that only 20% of the males did not have prior knowledge of their funders as opposed to 50% amongst the females. The results suggest that past connections play a part in the choice of the funder amongst male black entrepreneurs. This might have negative implications for emerging black entrepreneurs who do not have prior knowledge of the funders. The

finding on prior knowledge especially amongst males coincides with the views of Tom (2002) and Carrol & Stanfield (2003) on the possible excluding nature of social networks.

The result of the analysis on social networks and the cost of capital showed that social networks have different effects on the cost of capital whilst prior knowledge of the funders did not lower the cost of capital. The amount of time spent with the network members was found to have no effect on the cost of capital. However the length of service with the BEE firm was found to have a relationship with the role played by the social network in facilitating access to capital. The results show that entrepreneurs who have been with their companies for a period of between five and ten years were more likely to enter into favourable funding deals.

The conclusions drawn from these findings are that firstly, the dominants of the business associates and political networks may become an obstacle to broad-based black economic empowerment. Secondly, the optimum period of five to ten years with a black firm for accessing funding implies that new BEE entrants would find it difficult to access funding.

Specific measures should be considered by government to improve access to funding by black entrepreneurs across the board. In particular, this should focus on improving access to information about sources of funding and reducing the perceived funding risks associated with new BEE entrants.

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Appendix 1: Questionnaire for Black Entrepreneurs

Part 1	**Company and personal information**							
Name of company								
Industry type	Banking	ITC	Hospitality	Mining	Retail	Media	Manufacturing	Other
Location	JHB	Tshwane	Sedibeng	Ekurhuleni	West Rand	Motsweding		
Designation	Non-executive director	Senior Executive	Management					
Length of time with company	< 1 year	1 – 5 years	>5 yrs < 10 yrs	> 10 years				
Race	African	Coloured	Indian					
Gender	Male	Female						
Part 2	**Network types**							
What is your understanding of networking?								
When was your last empowerment deal made?	Date:							
Which institution/s funded the deal?	Name of institution: Contact person:							
What was the value of the funding?	Rand value:							
Did you know the funders prior to the deal?	Yes	No						
In what circumstances did you know them?	Family	Friend	Religious	Political	Business Associate	Other		
Were you referred to the funders by anyone else?	Yes	No						
If yes, in what category did the person who referred you fall into?	Family	Friends	Religious	Political	Business Associate	Other		

Part 3	**Access to capital**			
What role did social associates play in the deal?	Explain in brief:			
Did the prior association with the funders lower the cost of finance?		Yes	No	
	If so how?			
What other exchange takes place amongst your social associates?				
Part 4	**Characteristics of the network**			
How much social time do you spend with the funders ?	<2 hrs pm	2 <>4 hrs pm	4<>6 hrs pm	> 6 hrs pm
Do your associates have similar background?	Eg. Education, hobbies, etc	Yes	No	
	If so please explain			
How do you and your associates compete for BEE deals?				
How do members of your network compete with members from other networks for BEE deals?				
Part 5	**General**			
How do you think access to capital for BEE can be improved by networking?				
How do you think BEE can improve their networking?				

Appendix 2: Consistency Matrix

Social Networks and Access to Capital amongst Black Entrepreneurs in Medium to Large Firms				
Sub-problems	Research questions	Literature	Appendix 1 Questions	Appendix 2 Questions
Does membership of social networks increase knowledge about sources of capital for black entrepreneurs in medium to large firms?	1, 2,5	Anderson A.R. & Jack S. L. (2002), Business Africa (2002), Business Africa (1999), Carroll M.C. and Stanfield J.R. (2003), Curry S. and Weiss J. (1993), Dlamini, F. (2001), Drake, P.J. (1986); Economist (2001); Nahapiet, J. & Ghoshal, S. (1998); Young, Jr. Alfred A. (1999)	1, 2 & 3	1, 2 & 3
Does membership of social networks facilitate the flow of capital to black entrepreneurs in medium to large firms?	3,4	Anderson Alistair R. & Jack Sarah L. (2002), Carroll M.C. and Stanfield J.R. (2003), Drake P.J. (1986), Curry, S. and Weiss, J. (1993); Economist (1999); Economist (2001); EIU Country Report (2001); Finance Week (2002); Finzi, U. (1992); Francis, J. C. (1993); Fry, M. (1978); Harris, L. and Coakley, J. (1995); Jones, C. and Lumby, S. (1999); Marais, H. (2001); Nahapiet, J. & Ghoshal, S. (1998); Ross, S., Westerfield, R.W., Jordan, B.D. and Firer, C. (2001); Simon, E. (2000); Singh, A. (1992); Stiglitz, J.E. (1985); Tom, N. (2002); Young, Jr. Alfred A. (1999)	2 & 3	2 & 3

What implications do social networks have for BEE?	1,2,3,4,5	Anderson Alistair R. & Jack Sarah L. (2002), Carroll M.C. and Stanfield J.R. (2003), Drake P.J. (1986), Curry, S. and Weiss, J. (1993); Economist (1999); Economist (2001); EIU Country Report (2001); Finance Week (2002); Finzi, U. (1992); Francis, J. C. (1993); Fry, M. (1978); Harris, L. and Coakley, J. (1995); Jones, C. and Lumby, S. (1999); Marais, H. (2001); Nahapiet, J. & Ghoshal, S. (1998); Ross, S., Westerfield, R.W., Jordan, B.D. and Firer, C. (2001); Simon, E. (2000); Singh, A. (1992); Stiglitz, J.E. (1985); Tom, N. (2002); Young, Jr. Alfred A. (1999)	1, 2, 3, 4 & 5	1, 2, 3, 4 & 5

Appendix 3: Chi-square test results

1 **Membership of social network and influence on cost of capital**

Observed Freq

		Funder part of social network		
		Yes	No	Σ
Influence on cost of capital	Yes	8	4	12
	No	9	14	23
	Σ	17	18	35

Expected Freq

		Funder part of social network		
		Yes	No	Σ
Influence on cost of capital	Yes	5.83	6.17	12
	No	11.17	11.83	23
	Σ	17	18	35

Ho: Cost of capital is independent of membership of social network by the funder
H1: Cost of capital is not independent of membership of social network by the funder

Alpha	0.05
p-value	0.12

The p-value is 0.12 which is greater than the Alpha of 0.05. Therefore we cannot reject the Ho.

2 **Type of social network and role played by social network**

Observed Freq

		Type of social network		
		Bus. Ass	Rest	Σ
Role of social network	Yes	9	10	19
	No	16	0	16
	Σ	25	10	35

Expected Freq

		Type of social network		
		Bus. Ass	Rest	Σ
Role of social network	Yes	9.23	9.77	19
	No	7.77	8.23	16
	Σ	17	18	35

Alpha	0.05
p-value	0.000

Ho: Role of social network is independent of the type of social network
H1: Role of social network is not independent of the type of social network
The p-value is 0.00 which is less than the Alpha of 0.05. Therefore we reject the Ho and accept the H1

3 **Type of social network and influence on cost**

Observed Freq

		Type of social network		
		Bus. Ass	Rest	Σ
Influence on cost	Yes	10	7	17
	No	15	3	18
	Σ	25	10	35

Expected Freq

		Type of social network		
		Bus. Ass	Rest	Σ
Influence on cost	Yes	8.26	8.74	17
	No	8.74	9.26	18
	Σ	17	18	35

Alpha	0.05
p-value	0.0021

Ho: Cost of capital for BEE is independent of the type of social network

H1: Cost of capital for BEE is not independent of the type of social network

The p-value is 0.002 which is less than the Alpha of 0.05. Therefore we reject the Ho and accept the H1

4 Time spent on social network and role played by social network

Observed Freq

		Time spent in social network			
		2hrs or less	2-4hrs	>6 hrs	Σ
Role played by social network	Yes	9	4	6	19
	No	6	7	3	16
	Σ	15	11	9	35

Expected Freq

		Time spent in social network			
		2hrs or less	2-4hrs	>6 hrs	Σ
Influence on cost	Yes	8	6	5	19
	No	7	5	4	16
	Σ	15	11	26	52

Alpha	0.05
p-value	0.3367

Ho: Role played by social network is independent of time spent in social network

H1: Role played in social network is not independent of time spent in social network

The p-value is 0.3367 which is greater than the Alpha of 0.05. Therefore we cannot reject the Ho