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# The influence of networking on Small Medium Enterprise Performance in Gauteng, South Africa

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**A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management specialising in Entrepreneurship and New Venture Creation**

**Johannesburg,**

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# ABSTRACT

SMEs are inherently more adventurous than big business. In South Africa, SMEs are very important as they have the potential to address the unemployment and poverty the country is experiencing.

It is thus critical to study ways which can enhance the performance of SMEs. This study investigated the influence of networking on SME performance in Gauteng province, South Africa. The study mainly focused on three forms of networking, which are business networking, social networking and managerial networking. Networking has been recognised as a vital element for enhancing competitiveness among SMEs.

Data was collected from SME owners in Gauteng province, South Africa, using a self-administered questionnaire and a total response of 304 was attained. In analysing the data, factor analysis was used to reduce several variables and the variables converged into two networking forms, which are business networking - importance and managerial networking - management and a regression analysis was performed on the variables.

From the findings of the study, it was established that there are two factors responsible to motivate, influence or initiate networking activities in SMES. The factors were business networking- importance and managerial networking-management which have an influence on business performance. Consequently, no findings were available to make conclusions on social networking as it was not a valid factor. The study recommended that SMEs should network more on business networking to gain access to information, resources and contact sharing as this will improve the performance of their SMEs.

**Key words:** Social networks, Business networks, Managerial networks, SME Performance

# DECLARATION

I, Semukele Hellen Mlotshwa, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signed at …….

On the ……..day of …….2019

# DEDICATION

I dedicate this research report to the Lord, God Almighty. You have been my source of strength, wisdom and understanding. In you, I live, move and have my being.

To my love. I could never thank you enough for your practical and emotional support as I undertook to work and study. Thank you for walking this journey with me - you are the best.

To my child, Natasha. This work is for you, and because of you, and all the generations to come. May you be inspired to make your own unique contribution to our world.

**I love you**

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I would also like to extend my gratitude to the following institution for lending a hand to the all-important task of data collection, Acts Christian church (business excellence) SMEs. Thank you.

To my friends who took up the challenge of encouraging and following up with entrepreneurs to complete the survey and also capturing the data; I could never thank you enough. Through your efforts in data collection, we now have a better understanding of networking and how networks can influence the small medium enterprises and how supportive they are.

I offer my gratitude and appreciation to my supervisor, Dr Jabulile Galawe. Your love for research is truly inspiring. Your guidance and encouragement was most constructive and invaluable throughout this work.

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# CHAPTER 1: INTRODUCTION

## 1.1 Background

In the tough trading South African environment, multinationals and large enterprises are looking for cost effective and efficient ways of improving overall business performance. These initiatives sometimes mean that companies must cut costs to improve performances, which might mean the shedding of jobs. However, Small and Medium Enterprises (SMEs) have been touted as a key propeller to reduce unemployment. Researchers have estimated that, in South Africa, small and medium sized enterprises make up 91% of formalised businesses, providing employment to about 60% of the labour force and total economic output of roughly 34% of GDP (Abor & Quartey, 2010). In developing countries, SMEs have become vital as they have the potential to improve income distribution, create new employment, reduce poverty and facilitate export growth. As such, SMEs are seen as fostering development of entrepreneurship, industry and the rural economy (Love & Roper, 2013).

It is certain that SMEs need the support and resources from the external parties who are not directly employed in the firm, such as other firms' supporting institutes, relatives and friends (Baird, Lyles & Orris, 1993). If an organisation can network with its suppliers, buyers and competitors, it will become a crucial ingredient to avoid competition and achieve advantage (Johnson & Scholes, 2005). Through networks and relationships, companies can identify their opportunities and try avoiding competition among them (Stokes, 2003; Berry, 1997).

Luo (2003) notes that networks are regarded as a means of providing diversity of knowledge, accessing resources and complementary assets for SMEs. In addition, firms that emphasise building business networks increase flexibility and efficiency. According to Lorenzoni and Baden-Fuller (1995), access to network resources at minimal transaction cost and further, operating under reduced business risk, lead eventually to high performance (Dyer & Nabeoka, 2000).

In a developing economy context such as South Africa, with one of its primary goals being firm growth, firms can effectively use network relationships to gain competitive advantage (Urban & Sefalafala, 2015).

Empirical studies on social capital and entrepreneurship (Hoing, 1998; Lake, 2004; Kwon & Arenius, 2008; Schoonjas, Van Cauwenberge & Bauwhede, 2013) point out the benefits of networks on firm entrepreneurial performance and success. Firm entrepreneurial performance can be measured using financial indicators, such as growth of sales, market share and profit. Furthermore, scholars such as Schoonjans et al. (2013), showed that firms with networks comprising membership in professional associations and in industry, are likely to show growth in the abovementioned performance indicators.

Networks consider constructs relating to the relational and structural dimensions of social capital. The dimensions look at the nature and quality of relationships, the strength of network ties, and how the position of the firm within the network structure creates advantage for the firm within the network structure thereby creating advantage for the firm (Granovetter, 1983; Westlund & Bolton, 2003; Kwon & Arenius, 2008; Stam, 2014). The usefulness of any interfirm relationship is formed by the culture and social context within which the firm operates (Urban, 2011).

## 1.2 Context of the study

South Africa faces challenges of high unemployment, a predominantly unskilled labour force, and poverty. It is estimated that the South African SME sector has approximately 1.5 million adults earning an income from SMEs (Finscope, 2017). The ability of these entrepreneurs to use financial products to enhance operations and business transactions that result in business growth, employing more people, is a direct contribution to the real economy (Finscope, 2017). According to the World Bank (2006), 97% of all private companies participating in the South African economy are small enterprises, and a further 1% of active private businesses are medium enterprises. SMEs in South Africa are estimated to contribute 52 - 57% of the country's Gross Domestic Product and 60% of employment (Gono, Harindranath,

& Ozcan, 2016). It is evident in the above statistics that SMEs are a significant contributor to the South African economy. Further, development of the SME sector is expected to contribute towards economic growth and assist in reducing poverty and unemployment levels (Schoonjans, 2013).

Small enterprises have great potential to make a significant contribution to economic growth and job creation (Moghavvemi, Salleh, & Standing, 2016; Burke & Jarratt, 2004). As they run their businesses, entrepreneurs endeavour to increase efficiencies (Manish & Sutter, 2016; Tajeddini, Elg, & Trueman, 2013; Reji, 2013), maximise profits and grow their businesses (Neneh, 2014; Choto, Tengeh, & Iwu, 2014). However, small enterprises in South Africa are struggling to make a significant impact on poverty alleviation as approximately 80% fail in their early years of existence (Ramukumba, 2014; Nemaezhe, 2010). Those that survive, battle to achieve sustainable growth due to various challenges. Some of the challenges identified include poor monitoring and control, limited experience in finance and marketing, income constraints and cash control (Nemaezhe, 2010).

In 2017, Seed Academy found that lack of business support (including financial), poor planning, lack of access to markets, lack of operational experience and poor financial management were the main contributors to business failure among South African small enterprises. Further to this, small enterprises are challenged by limited access to resources and information that could lead to identification of new opportunities or access to new markets (Grobbelaar, Gwynne-Evans, & Brent, 2016; Reji, 2013; Fatoki & Asah, 2011).

One prominent factor that can enhance the probability of an SME and thus lead to high performance and survival, is networking (Small Business Project, 2009). Networking is defined as an enterprise, or its employees and owners, linking with other individuals or enterprises, sharing contacts, information and exchanging resources with those enterprises which are not under their direct control in a cost-effective way (Sawyer, McGee & Peterson, 2003).

Empirical literature on the impact of networking on the performance of SMEs has produced mixed results. Thrikawala (2011) finds a significant positive relationship

between an SME's engagement in various networks and the performance of the SME. Similarly, Watson (2007) also finds that SMEs that are involved in networking will have higher performance and survive longer. On the other hand, Rowley, Behrens and Krackhardt (2000) find a negative association between networking and performance.

The growth of SMEs depends on a number of reasons, one of which is their ability to network with other businesses which in turn, influences the creation and delivery of their product or services. The growth of SMEs depends on the networking practices they create and interact with (Cova, Mazet & Salle, 1994; Hill, McGowan & Drummond, 1999; Machirori, 2012). Networking has been looked at as a driver or a tool that can be utilised by SMEs to improve their performance.

Networking contributes to the growth of businesses by providing new ideas, practical assistance, and emotional support. Thrikawala (2015) established a positive relationship between small business networking and performance. Coulthard and Loos (2007) elaborate on networking in SMEs as an activity in which small businesses build and manage personal relationships with different individuals in their environment. Watson (2007) add that the networks SMEs form with other businesses not only have the ability to influence their delivery and production of products or services, but also help these small firms achieve economies of scale.

Networking allows small firms to obtain the necessary support from key stakeholders which are important tools for the firm's growth (Ngoc & Nguyen, 2009); Watson (2012) describes the importance of networks in assisting entrepreneurs to develop and access valuable ideas, resources and opportunities that are otherwise unavailable or difficult to obtain. It is through networking that SMEs can utilise their full potential to improve their performance (Premaratne, 2002; Valkokari & Helander, 2007). It is important for entrepreneurs to actively participate in networks, as it will help them to improve their growth, success and performance.

In South Africa, it has been noted that SMEs contribute to the economy, but SMEs in South Africa do not grow (Fatoki & Garwe, 2013), but rather assume a survivalist position (Smit & Watkins, 2012). Also, studies by Fatoki and Garwe (2013) and

Kesper (2001) observed that small businesses in South Africa are mostly dominated by firms that only achieve a survival position and grow in number but not size. Fatoki and Garwe (2010) add that in South Africa, the predominance of newly established SMEs do not advance from the initial stage of growth to other stages like survival, success, take off and maturity. Fatoki and Garwe (2010) observed that approximately 75% of new SMEs in South Africa do not grow and develop into established businesses.

## 1.3 Problem statement

In South Africa, Fatoki and Garwe (2013) argue that without sustainability and growth of SMEs in South Africa, the country risks economic stagnation. Thus, encouraging the creation, growth and sustainability of SMEs becomes vital to the economic prosperity of South Africa. According to Tesfom (2006) and Foss (2010), access to resources is a key challenge facing entrepreneurs, especially during early venture development. Entrepreneurs need to network in order to access information, capital, skills and labour to start business activities. Entrepreneur's networks serve as a principle means of identifying and acquiring needed resources.

Networks are becoming popular among the SMEs due to the competitive advantage and ability to share resources and capabilities with other firms. This is achieved by gaining economies of scale through joint ventures, joint market activities, joint product development, reduced lead time to deliver and built joint information systems (Tehseen & Sajilan, 2016).

Social capital theory suggests that better connected individuals and organisations tend to perform better (Bourdieu, 1986; Adler & Kwon, 2002; Granovetter, 1985; Dyer & Singh, 1998; Burt, 2004;). Hite and Hesterly (2001) argued that networking influences firm entrepreneurial performance. Similarly, Tengh (2013) proposed that entrepreneurship activities of the firm related to resource acquisition may benefit significantly from inter-firm co-operative arrangements or strategic alliances.

The evidence supporting the importance of social capital to firm entrepreneurial performance research on networking remains scarce (Parker, 2008). Previous

studies by scholars such as Dyer and Nobeoka (2000) and Partanen and Moller (2012) have investigated the antecedents and the impact of the cognitive, relational, and structural dimensions of social capital on performance measures. These studies have mainly concentrated on stable business environments, such as the automotive industry, neglecting SMEs in different industries (Murimbika, 2011). Where attempts have been made to cover dynamic contexts, it seems the focus has largely been on first world countries, such as the United States of America and Germany, with very little emphasis on developing countries, such as South Africa (Barriera, 2004; Venter, 2014; Maurer, Bartsch & Ebers, 2011; Urban, 2011; Schoonjans et al., 2013).

As a result, research on the influence of networking on SME performance in a developing country context, such as South Africa, has not received much attention. It also seems that there is very little known about the impact of the relational and structural dimensions of social capital or the effects of weak and strong inter-firm ties on firm entrepreneurial performance. In light of this problem statement, the following sub-problems arise:

### *1.3.1 Main problem*

To investigate the influence networking has on the performance of SMEs in Gauteng

The research problem is further subdivided into three:

### *1.3.2 Sub-problems*

***Sub problem 1:*** *To investigate the influence of social networking on performance.*

***Sub problem 2****: To investigate the influence of business networking on performance.*

***Sub problem 3:*** *To investigate the influence of managerial networking on performance.*

## 1.4 Significance of the study

This study contributes to the literature relating to social capital, looking specifically at networking of SMEs in South Africa, Gauteng Province. In so doing, a better understanding of the nature and quality of relationships based on the benefits SMEs derive from networking will be developed (Stam *et al*., 2014).

Although, most empirical studies have been conducted in developed countries, only a few engagements have been carried out in developing countries, which are significantly low in South Africa (Fatoki & Garwe 2013). The focus of this study is on three forms of networking which are social, business, managerial network and their effect on the performance of SMEs.

The research findings provide guidance to entrepreneurs regarding networking and its benefits. Moreover, they assist SMEs to contribute positively to the challenges South Africa is facing, such as, unemployment, income inequality and weak economic growth. Therefore, the result of this study provides evidence on whether SMEs that are involved in networking will improve their performance and subsequently reduce the failure rate of SMEs in South Africa.

## 1.5 Delimitations of the study

Delimitation refers to the deliberate and justifiable study beyond which generalisation of the results is not intended (Muringani, 2015). The study focused on the social networks, business networks and managerial networks of SMEs, for the purpose of conducting their business. The author acknowledges that SME owner-managers may interact with anyone in their personal as well as in their business capacity. Interactions of a personal nature by the owner-manager are out of scope for this study; only their interactions with the other SMEs in their business capacity were taken into account.

Furthermore, the research study only sought to understand the influence of social, business and managerial networks on SME performance.

## 1.6 Definition of terms

In this section, definitions are offered for key terms that are used throughout the report.

**Business networking**: is the process of establishing a mutually beneficial relationship with other business people and potential clients and customers. The primary purpose of business networking is to tell others about your business and hopefully turn them into your customers (Tehseen & Sajilan, 2016).

**Entrepreneur**: An individual who identifies an opportunity, takes calculated risks and co-ordinates scarce resources in order to exploit the opportunity to create value and generate profit (Venter & Urban, 2015).

**Managerial networks**: Panda (2014) describes managerial networks as the structure in which top managers of firms connect with others who are directly or indirectly connected with the organisations.

**Small and medium-sized enterprise (SME):** An enterprise that employs fewer than 200 employees, generates an annual turnover less than R64 million or has capital assets that are worth less than R10 million (Banking Association of South Africa, 2017).

**SME owner-manager:** An entrepreneur who establishes and manages a business with the main purpose of furthering personal goals (Halabi, Barret, & Dyt, 2010).

**Social capital**: refers to relationships between individuals or groups and the resulting ability to secure or obtain resources, knowledge and information.( Coleman, 1994 **)**

**Social networks**: refer to social ties that are created by business owners through social interactions with other people, such as ties with family, relatives, friends, as well as ties with social associations and clubs. (Portes, 1998)

**Performance:** Performance is a measure of how well a business achieves its purpose (Tarute & Gatautis, 2014).

**Growth:** The net change in a specific variable within a specific time period, given a certain context (Cooper & Nakanishi, 2010). For this research, growth in market share, assets, net revenue and number of employees is used as an indicator of performance.

**Networking:** Chipika and Wilson (2006) defined networking as a set of sustained relationships which entail cooperation and collaboration and are mutually beneficial to all the parties involved in the network.

## 1.7 Assumptions

The following assumptions were made for the study:

- The survey respondents would easily understand the items in the research instrument
- The respondents provided relevant data to estimate the proposed hypothesis of the research study.
- The respondents would share their networks and their network practices.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

This section provides a theoretical review of networking and furthermore elaborates on the types of networking understudy, social networking, business networking and managerial networking. In addition , factors that are of relevance to the topic are discussed ,ending in the development of the hypothesis and identification of variables to be measured .

The long-standing idea that belonging to a network is beneficial for firms has been the main focus of a boundless bulk of literature in the entrepreneurial field. There are several channels through which networking can sustain performance. Networking reduces transaction costs (Lin & Lin, 2016), can supply firms with resources in a flexible manner at a reduced cost (Li, 2005), can facilitate knowledge flows and technological improvements (Vanhaverbeke , Wimand Gilsing, Victor and Beerkens, Bonnie and Duysters, Geert 2009*),* as well as stimulate innovation and new product development (Mazzola ,Bruccoleri and Perrone 2012). However, despite a strong convergence on the positive effects of networks on performance in the theoretical literature, the empirical results still remain weak, even if a general consensus on the existence of some general positive benefits has been substantially reached, mainly for SMEs (Schoonjas , 2013).

The inability of SMEs' owners in establishing good relationships with relevant parties results in a lack of access to financial resources, as well as required knowledge and information (Kheng & Minai, 2016), leading to poor performance. It has been acknowledged that SMEs in developing countries are far behind in terms of gross domestic product (GDP) and export contribution, as compared to SMEs in advanced countries, such as the United States and the United Kingdom (Chuen , 2018; Hassan , 2014; Hassim , 2011; Kheng & Minai, 2016).

The lack of access to essential resources may be one of the reasons for the poor contribution of Malaysian firms (Razali*,* 2018). Hence, researchers believe that

developing network competence could assist entrepreneurs in obtaining access to these critical resources held by others to achieve superior firms' performance (Canning & Szmigin, 2016).

From the literature, it is evident that the performance of the SME sector is crucial to the economic growth (Kumar, Srikrishna, Govindaluri, Muharrami, & Tarhini, 2017). This chapter shows that when addressing the growth of the SMEs, the concept of networking remains relevant. This is due to the fact that "no business operates in an island" (Hankansson & Snehota, 2017 p.1); this means that businesses should not exist in isolation. It is important for entrepreneurs to understand the wider set of relationships in which businesses operate.

## 2.2 Background discussion

Networking is defined as a set of stable and firm links and relationships established amongst the network members founded on formal and informal links with mutual goals for the purpose of cost-effective economic transactions (Scalera & Zazzaro, 2009).

Networking involves collaboration and co-operation which is mutually beneficial to all the parties involved. Nieman and Nieuwenhuizen (2009) elaborate networking as patterned, valuable associations formed between individuals, groups or businesses that are used to access critical economic resources needed to start and manage a business.

Machirori (2013) suggests that networking is comprised of information and resources sharing, reduction of transaction costs and social interactions that exist between individuals, which is in line with networking theories such as the transaction cost theory by Coase (1937), which was further advanced by Williamson (1985), social network theory (Moreno, 1937), resource dependency theory by Pfeffer and Salancik (1978), and network closure theory (Coleman, 1988). The different theories on networking explain how SME owners use their abilities and skills to acquire resources in a cost-effective way (Watson, 2012). These theories of networking

differentiate and are divided into general networks, official networks, managerial networks and social networks (Machirori, 2012; Ngoc & Nguyen, 2009).

Small enterprises have great potential to make a significant contribution to economic growth and job creation (Moghavvemi, Salleh, & Standing, 2016; Burke & Jaratt, 2004). As they run their businesses, entrepreneurs endeavour to increase efficiencies (Manish & Sutter, 2016; Tajeddini, Elg, & Trueman, 2014; Reji, 2013) maximise profits and grow their businesses (Neneh, 2014; Choto, Tengeh, & Iwu, 2014). However, small enterprises in South Africa face significant challenges that hamper their growth, including lack of business support, poor planning, lack of access to markets, lack of operational experience and poor financial management (Seed Academy, 2018).

Networking is an important tool by which SMEs can overcome challenges and grow their business. SMEs, in most cases, are not able to achieve economies of scale in the purchase of inputs, such as raw materials (Uden, 2007). By creating networks, SMEs can integrate with each other on the basis of the industry they are in.

The networks formed help SMEs take advantage of economies of scale that would have been impossible for them to achieve if they were to operate individually. For example, SMEs can buy raw materials in bulk and distribute these amongst each other in order to achieve economies of scale in production or deliver orders that are beyond their normal output. Therefore, networking helps SMEs use market opportunities that require large input and output quantities.

Networks also serves as a source of information for SMEs. The rapid pace of change in the business environment has increased the importance of information for the successful operation of a business. As a result, business owners now have to stay up-to-date with their current market conditions. By participating in networks, SMEs can have easy access to substantial information. Therefore, networks help SMEs gain knowledge on the ever-changing market conditions. Information such as profitable market segments, as well as information on how to improve product quality can be found in networks (Chittithaworn, 2011). Gulati and Higgins (2003) add that networks help business access information in a timely and economical manner.

## 2.3 Networking overview

Network, as a term, has been defined differently by different scholars and researchers. According to Aarakit and Kimbugwe (2015), it is an activity in which the entrepreneurially oriented SME owners builds and manages personal relationships with particular individuals in their surroundings. Mano (2014) defines networking as a process through which formal collaborations are formed, creating channels through which information about other individuals and groups can easily be retrieved, tested, and verified for the benefit of an organisation.

The importance of networks and networking for small and medium sized enterprises (SMEs) has been noted by a number of authors, with networking contributing to the business performance of SMEs. According to Stam, Arzlanian and Elfring (2014), the resources bundled up in an entrepreneur's network play an important role in the performance of that organisation. Networking, if well utilised, will improve the financial performance and increase in market share of an organisation through identification of new business opportunities, ensure skills transfer and gain good ratings in the sector.

Networking plays a key role in providing information thereby reducing the level of uncertainty surrounding the operation of firms (Sungur, 2015), by allowing SMEs to access resources that would have been difficult to access on their own (Partanen, Möller, Westerlund, Rajala, & Rajala, 2008). Thus, in today's economy, the importance of networking and SME performance is gaining prominence in developed countries and developing countries (Soininen, Martikainen, Puumalainen, & Kyläheiko, 2012). This has been further asserted by Tendai (2013) who argues that networking is important to business at all stages of business. According to Nyangarika (2016), networking enables SMEs to have trusted relationships which, when tapped into, can help the SMEs harvest from suppliers, customers, friends for the benefit of the business.

## 2.4 Networks and networking

Network refers to a set of elements or members that are connected to each other. Casson and Giusta (2007), Seibert, Kraimer and Liden (2001) define network as “the pattern of ties linking a defined set of persons or social actors”. Connections or ties are the fundamental features of all networks (Casson & Giusta 2007). The connections are the results of relationships between the members. In addition, all members in a network are either directly or indirectly linked to each other (Casson & Giusta 2007). Thus, networks consist of a set of elements or members that are connected to each other as a result of the relationships of the members.

Networks can also be broadly described as interactive relationships that individuals, businesses or any other entities have with others. Networking, on the other hand, refers to the process of building and engaging in networks. Hubert Osterle, Elgar Fleisch, & Rainer (2001) further explain that networking is a socio-economic business activity by which business people and entrepreneurs meets to form business relationships and to recognise, create, or act upon business opportunities, share information and seek potential partners for ventures.

There are different criteria that can be used to differentiate networks into various types.

### *2.4.1 Social networking*

According Chen and He (2011) and El Bouk,Vedder, and Poel (2013), social networks is a web of persons who interact with each other on a regular basis. Social networks consist of strong ties and weak ties. The strength of the tie determines which type of resources can be exchanged and under what conditions. Strong ties consist of high-trust relations between people who are willing to exchange resources out of feelings of solidarity.

Family and friends are characterised as strong ties. These are persons with whom the entrepreneurs shared a close emotional relationship. Weak ties are characterised as low-trust relations. Weak ties do not have the intimacy or the

emotionality of strong ties. Social networks, in this study, include relationships which an individual has with family members, relatives, friends, as well as ties with social associations and clubs. The contribution which social networks have for businesses are amongst the most important discoveries in business research (Light & Gold, (2000). Social networks are assumed as vital structures in which economic transactions are embedded. Social networks influence the initial self-employment choice (Allen, 2000).

### *2.4.2 Business networking*

Stephen (2012) focuses only on business networks. The members of a business network include local government representatives, members of local government bodies, accountants, business consultants, academics, bank managers and members of the local Chamber of Commerce. Machirori and Fatoki (2013) point out that networking includes official, business and social networking.

According to Huang, Li and Ferreira (2003), business networks are linkages, whether formal or informal, which facilitate the exchange of resources. Besser, Miller and Perkins (2006) define business networks as formal relationships that are created by business owners or managers to help to facilitate the success of their business. In the context of this research, business networks refer to networks which SMEs have with governmental or non-governmental organisations that provide assistance for small businesses and also the networks which SMEs have with business consultant firms.

Business networks can have an impact on the performance of a business. This understanding is supported by Chittithaworn, Islam, Keawchana and Yusf (2011) who pointed out that business networks play an important role in helping business gain organisational legitimacy and in helping them build a good reputation. The relationships formed in business networks create an opportunity where business can access information about industry trends and future business opportunities (Cooney & Flynn, 2008). In emerging economies, the market is highly affected by a

government led redistributive mechanism, implying that officials have an influence over business practices (Li & Zhang, 2007; Nguyen, Weinstein & Meyer, 2005).

Networks among business entities are achieving momentum in many industries. Current management literature posits that this organisational form can best meet the requirements of the 'new economy', such as customer-orientation, tailored solutions and minimised costs and time (Fleisch, 2001).

James and Marland (2013) highlighted that being a part of a successful business network is a definite advantage for a start-up small-scale business as they are able to utilise the collaborative benefits derived from the network. Strategic development networks help the firms in upgrading their resources and capabilities products, technology, quality, skill, production efficiency, information, etc. (Ahlstrom-Soderling, 2003).

What drives a successful business network has been researched by many scholars. (Farinda, Kamarulzaman, Abdullah, Ahmad, 2009; Prenkert & Hallen, 2006; Wincent, 2006), most have looked at competition, and they refer to competition as very important within the network, among the participating firms. However, competition must be meticulously dealt with as adverse competition can hinder the prosperity of the network. Tension between firms and competition are naturally evident but must be dealt with as the firms are partners in the network and work towards common objectives and future (Wincent, 2006).

A business "necessity' is due to voluntary reasons or mandatory requirements (Oliver, 2015). A business necessity may be a business purpose as dictated by the governing bodies in which the network is based (Farinda, et al., 2009). Actors in network contribute valued resources expecting valued outcomes in the future from the networks, denoting the concept of 'Reciprocity' which has been a motivational mechanism driving actors in networks. Floren and Tell (2004) said stability is called for to overcome uncertainties.

Firms in a network obtain stability by joining with other firms and corporates for resource sharing. Legitimacy is brought about by the pressure environment exert on

the SME to be compliant with regulations, norms, customs, rules, beliefs or expectations and to overcome pressure and to achieve this legitimate status, SMES are motivated to set up business networks (Oliver, 1990). In business networking, literature corresponds to the recognition a member draws by being part of a network (Human & Provan, 2000). Provan and Kenis (2007) elaborate on legitimacy as crucial for preserving the status and viability of networks; they further distinguished legitimacy as being gained by being in the business networks and legitimacy of the business network itself.

Efficiency is concerned with minimising costs and improving operational margins; Ahlstrom (2003) highlighted that by participating in networks, SMEs increased their efficiency significantly through means such as improvement in productivity, profits, customer satisfaction and sales.

### *2.4.3 Managerial networking*

Panda (2014) describes managerial networks as the "structure in which top managers of firms connect with others who are directly or indirectly connected with the organisations". Ngoc and Nguyen (2009) emphasise that managerial networks are relations with suppliers, customers and other businesses that enhance legitimacy of the business. According to Li (2005), managerial networks require a tie between the managers of a business and other managers of a business. Also, managerial networks help business owners learn appropriate business behaviour (Heshmati, 2013).

Managerial networks also improve the business's strategic position, help them focus on its core business, learn new skills and helps them adapt to the rapid technological changes (Chittithaworm *et al.,* 2011). The networks which a manager engages in have a vital role in predicting the types of resources the business can access. Cote (2011) also elaborates that the business owner's ability to create ties with other individuals who have a prestige position in the market has a direct influence on the business's ability to access information and opportunities that are vital for business

growth hence managers have to cultivate and maintain the right networks for their business.

The knowledge management strategies have the positive impact on firms' performances and on the performance of firms' networks (Centobelli, Cerchione, Esposito,2018; Bhatt, 2000). This is because current and updated knowledge is critical for the success of any business. Thus, firms keep on striving for developing close relationships with other parties to minimise the uncertainties by mutually joining and increasing their resources' levels including knowledge resources as well (Salamzadeh , 2015).

## 2.5 Social network theory

Social network theory( SNT) contrasts with the type of sociological theory that defines society as built up of individuals. It starts instead from the relations between individuals, and models society as constituted of networks made up of sets of the relations or ties between the nodes. Wasserman and Faust (1999) identify four additional fundamental principles of models built using social network theory: independence of actors; relations or ties consisting in the flow or transfer of resources; the constraining and/or enabling of individual actors by networks; and the generation of long-lasting ties and networks by social structures.

Echoing social network theory, Coleman identified social capital as something inherent in the structure of relations between actors. Social capital is considered as a contract between individuals unconstrained by underlying economic arrangements. Actors are free to choose whether to build networks to further their self-interests. The key component in building network and, hence, creating social capital is a trust that the others will reciprocate their actions and will feel some obligations to do (Coleman, 1994].

Research suggests that networks are a crucial aspect of entrepreneur success. Studies indicate that networking allows entrepreneurs to enrich their knowledge of opportunities; gain access to critical resources, and deal with business obstacles

(McFarlin, Coster & Mogale 1999). Networking is also referred to as entrepreneurs' social capital base and social capital is crucial to entrepreneurs and is critical for business growth (Low & MacMillan 1988). In order to be a successful entrepreneur, is it what you know or who you know? (Seed Academy, 2018).

The premise behind the notion of social capital is rather simple and straight forward - investment in social relations with expected returns. This definition is consistent with various scholars (Bourdieu, 1980; Burt, 1992; Coleman, 1990; Lin, 1995; Portes, 1998). Entrepreneurs engage in interactions and networking in order to produce profits.

Social capital is the ability of entrepreneurs to extract and utilise resources from relations to achieve outcomes (Adler & Kwon, 2002). Authors such as Scott, (2012) and Stam, (2014) argue that social capital is a critical element of entrepreneurial success, and social capital research has not kept pace with entrepreneurial practice. Increasingly, entrepreneurs manage business through relationships (Fisher & Reuber, 2011).

Social capital is considered to be the foundational theoretical perspective in entrepreneurship (Murphy, 2011). It is a key outcome of networking, an important micro foundation of entrepreneurial action (Adler & Kwon, 2002). Social capital helps entrepreneurs, especially on capitalising on market opportunities, identifying, collecting and allocating scarce resources, gathering information, influence and sponsorship, improving outcomes in turbulent times, providing legitimacy, preventing failure and strengthening the innovative flexibility and competitiveness of SMEs, (Gedajlovic , 2013), the key insight from the literature is that social capital is a central determinant of entrepreneurial outcomes.

Focusing on the relationships, it is inherent in networks by defining social capital as the goodwill created through social relations that can be used to attain needed resources. Conversely, Gedajlovic, (2013) suggest that actual resources such as information, assistance or money, are what constitute social capital, in their view relations are the means of proving resources.

The social relationship that exist amongst the actors is the main area of focus in the study of the social network theory. Social network approach explains relationships by narrowing them down to the basic individuals (Krause, Croft & James, 2007).

The social network theory argues that individuals interact in different social interactions which eventually result in the formation of networks. Networks are created as a result of these interactions. The ties or relationships amongst actors (Hazzard- Robinson, 2012) can result from conversation, affection, friendship, kinship, economic exchange, information exchange, or other forms of social interaction (Jaafar, Abdul-Aziz & Sahari, 2009). Furthermore, the social network theory argues that the value individuals receive when they are involved in a network that is highly fragmented is very low. Therefore, individual actors seek to increase the value they receive by creating a more integrated network, as networks help the actors exchange beneficial information and resources (Machirori & Fatoki, 2013).

As explained by Premaratne (2002), the logic of understanding the social network approach, with regard to SMEs, begins at the point where the business owner interacts with other individuals to establish a transaction or a relation. Business owners are in constant social interaction with individuals and other businesses. The interactions end up creating a relationship which is very important for business owners (Steier & Greenwood, 2000). Hence, the theory of social network is very important for understanding the influence which the social relations of business have on the outcome of the business (Jones, Hesterly & Borgatti, 1997).

Additionally, by participating in networks, SME owners can receive critical advice and moral support. The benefits which business owners receive from networks can increase their aspiration to grow their business (Amoros & Bosma, 2014). Networks serve as a signal of reputation, they spread knowledge about business, which facilitates their access to external financing (Ngoc & Nguyen, 2009).

The social network approach, as compared to transaction cost approach and resource dependency approach, focuses on the interactions among actors. It takes in social relations which businesses owners come across in running their

businesses, as well as the potential which such interactions have for the formation of networks.

Social capital is considered to affect an individual's economic choices, such as the decision to become an entrepreneur (Giannetti & Simonov, 2004; Kim & Kang, 2014), as well as the survival and growth potential of a business. Social capital is thought to influence entrepreneurial decisions by returning important business information. For example, entrepreneurs who are partakers of social capital benefit from the available information (Giannetti & Simonov, 2004).

The readily available information entrepreneurs get through their social capital reduces uncertainties and thereby makes individuals more assured to become entrepreneurs. Social capital SMEs with networks that facilitate the discovery of opportunities along with identification, collection and allocation of scarce resources, provides resources and support required for entrepreneurship, reduces transaction costs by allowing the co-ordination of activities and also collective decision-making.

Social capital is considered the main determinant to the initial start as well as the growth of a business. This study examined the networking aspect of social capital. The study looked at the role or influences which networking have on the performance of SMEs.

## 2.6 Networking and SME performance

In the networking theories discussed previously in this study, there is evidence that an enterprise engaged in networks will gain advantages that will improve the performance of the enterprise. Thrikalawa (2013) states that the idea of networking proposes that mutual support by SMEs, collaboration with larger enterprises and assistance from institutions such as Chambers of Commerce, will lead to better performance. However, there are few studies that compare the value provided by social and management networks in improving the performance of an enterprise.

Florin, Lubatkin and Schulze (2003) suggest that social networks can provide value to members by allowing them access to the social resources embedded within a

network. The resources embedded in social networks will reduce the amount of time and investment required to gather information and improve responses to the operating environment (Zhang , Cavusgil, and Roath, 2003, cited in Chen & Chao, 2006). Burton, Wu and Prybutok (2010) posit that the resources exchanged through social networks have substantial value, including work-related resources of task advice and strategic formation.

Uzzi and Gillespie (2002) argue that social ties among individuals in business enterprises will shape economic action by creating unique opportunities and access to those opportunities. Enterprises with individuals who have larger and more diverse sets of contacts are thus more productive. Therefore, it is beneficial for enterprises to accumulate their social capital as it promotes their business size, market share and performance (Chen, Tzeng, Ou, Chiang, 2007).

According to Burt (1992); Coleman (1988); Kadushin (2004), social ties or networks also enhance trust between individuals. Social capital thus involves the mutual sense of reciprocity and trust which enables individuals to work together successfully and will restrict individuals from engaging in opportunistic behaviour. This allows individuals to internalise any positive externalities to their enterprises because of social pressures or mutual monitoring (Bandiera, Barankay & Rasul, 2008). The collective norms of trust, reciprocity and understanding in social ties allow social networks to serve as an essential tool for business performance (Lippert & Spagnolo, 2010). Furthermore, trust and commitment in social ties are essential in the formation and performance of business networks (Moeller, 2010).

According to Hakansson and Ford (2002), the role of formal business networks on business performance has also been researched by many authors with studies indicating that business networks do impact on business performance. Soh (2003) suggests that reciprocal relationships with direct partners will increase access to information because partners are more willing and able to share information. These business networks will enable an enterprise to gain more clients, shareholders, business associates, suppliers, and technical and market knowledge (Farinda, Kamarulzaman, Abdullah, Ahmad 2009). Therefore, the capacity of an enterprise to

manage the balance between strong and open inter-enterprise network linkages is a key source of sustainable performance (Eisingerich & Bell, 2008).

However, Weerawardena and Mort (2006) argue that much of the existing literature on networking has only focused on the positive effects. In addition, Kenny (2009) posits that weak ties in networks are negatively associated with the performance of firms. Similarly, Chen, Tzeng and Chiang (2007) disclose that when the social network of a firm's owner or manager becomes too high, the performance of the firm will decrease. Watson (2007) also found that networking, beyond some level, starts having a negative impact on firm performance. This is because as the firm increases the level of networking, so too is the increase in administration and emotional costs which will start impacting negatively on the performance of the SME. Kenny (2009) suggests that for small firms, over-networking may be negative for the SME. This is because firms may become over-embedded with existing network partners thus failing to identify potential business opportunities beyond the predefined network.

## 2.7 SME Performance

A survey of the literature yielded a prolific amount of research pertaining to performance measurements. Articles covering the human resource concept of performance management have been excluded, only articles covering business performance or firm performance are included in the review. The construct of firm performance has captured the interest of scholars over the past decades. The concept of organisation performance has been studied, in depth, in strategic management research, with great focus being placed on determining the right measure of firm performance (Steigenberger, 2014).

For this research, sales level, sales growth rate, cash flow, return on shareholder equity, gross profit margin , net profit from operations, profit to sale ration, return on investment and ability to fund business growth from profits were used as an indicator of performance, which are subjective indicators. (Cooper & Nakanishi, 2010). .

### *2.7.1 Measure of SME performance*

SME performance may be measured using objective, subjective, or operational measure as stated by Schayek (2011). Richard, Devinney, Yip and Johnson (2008) suggest the goal approach as a composite measure of SME performance.

Santos and Brito (2012) emphasise that the different dimensions of performance cannot be used interchangeably as they represent different aspects of firm performance.

**Financial (objective) measures**

Financial measures of performance can be referred to as the results of a firm's operations in monetary terms (Business Directory 2011). According to Kellen (2003), financial measures of performance are derived from the accounts of a firm or can be found in the firm's profit and loss statement or the balance sheet. The financial measures are also referred to as objective measures because they can be individually measured and verified.

**Profitability growth:** This refers to the growth in the profits of a firm. It can also refer to the continuous increase in the financial profit or gain after all expenses have been paid over a given period of time (Business Dictionary, 2011). An increase in the profitability of an enterprise is an objective measure of performance as it shows that the firm is continuously improving.

**Sales growth:** This refers to an increase in sales over a specific period of time, usually, but not always, annually (Investor Words, 2011). Delmar, Davidsson and Gartner (2003) suggest that if there is one measure of SME performance that could be used, then it has to be sales growth.

**Return on Equity (ROE):** As suggested by Watson (2007), ROE should be the starting point for any systematic analysis of firm performance. ROE relates the earnings left over for equity investors after debt service costs have been factored in to the equity invested in the firm (Damoradan, 2007). To calculate the ROE the equation below is used:

ROE = Net profit after interest before TX/ total equity

**Return on Assets (ROA):** Cooke and Uchida (2004) suggest that the ROA is used as a vital measure of profitability. The ROA provides information about how much profit is generated, on average, by each unit of the assets of the firm (Petersen & Schoeman, 2008). In addition, Petersen and Schoeman (2008) note that ROA can be measured using the equation: ROA = Net Profit after Tax /total equity. This suggests that ROA is an indicator of how efficiently a firm is being operated with the assets available to the firm.

Schayek (2011) states that SME owners/managers are very sensitive about disclosing or discussing their information relating to their firm's financial performance. According to Watson (2007), SMEs are not required or regulated to report and publish their financial records; it is difficult to obtain, directly, the financial figures on sales and profitability of most SMEs. This problem may be more prevalent in developing countries, where despite the high failure rate of SMEs, limited follow up is conducted on how they perform annually. Therefore, most research studies such as Lechner, Dowling and Welpe (2016) and Watson (2007), have developed the use of a Likert scale which measures sales growth and profitability growth as financial performance measures. A similar technique is used by Sawyer (2003) Thrikawala (2011) and Watson (2012). This approach is implemented as it avoids the direct approach of asking for sales or profitability figures but infers the performance, indirectly, through the responses on the level of satisfaction with sales and profitability growth of the firm.

Profitability and sales growth should not be viewed in isolation as profits and sales may increase as a result of some underlying factor such as price increases or sales promotions, respectively, and not due to the improved performance of the firm or its products. Thus, it is essential to introduce non-financial measures of performance in conjunction with financial measures in order to fully measure performance.

**Non-financial (subjective) measures**

The non-financial measures are also known as the subjective performance measures of performance. Using the subjective performance measures, Likert scaling questions are used to measure firm performance from the top management perspectives (Selvarajan, Ramamoorthy, Flood, Guthrie, MacCurtain & Liu, 2007, cited in Marimuthu, Arokjasamy & Ismail, 2009). The use of non-financial measures of performance supplements accounting measures and gives data on progress relative to customer requirements or competitors and other non-financial objectives that may be important in achieving profitability. In addition, non-financial measures can provide indirect, quantitative indicators of a firm's intangible assets, such as intellectual capital and customer satisfaction and loyalty which are drivers of success (Ittner & Larcker, 2003).

- **Employee growth:** Employee growth is an increase in the number of employees who are working in the firm and represents a non-financial measure of performance. An increase in the number of employees will indicate an increase in performance while a decrease in employees will indicate a decrease in firm performance.
- **Satisfaction with performance compared to competitors:** Another non-financial performance measure which can be used to measure SME performance is satisfaction with the performance of the firm compared to competitors. Because most SMEs are reluctant to divulge direct figures of their sales or profits, measuring the overall satisfaction compared to competitors is a composite measure of performance.
- **Customer satisfaction:** Customer satisfaction is defined as a customer's feeling of pleasure or disappointment resulting from comparing goods or service's performance to the customer's own expectations (Kotler & Keller, 2012). Customer satisfaction is an important non-financial measure of performance as satisfied customers are likely to return for repeat purchases and spread positive word of mouth publicity for a firm. Kristensen and Ostergaard (2002) argue that satisfied customers will become loyal customers

and the firm will obtain positive net operating margins as well as referrals, thus increasing market share of the firm.

- **Overall satisfaction:** The overall satisfaction with performance of the SME is also a significant non-financial performance measure. SME owners who are overall satisfied with the performance of their SMEs, perform better than SME owners who are dissatisfied with the performance of their firms.

In measuring SME performance, the Financial Directory (2011) suggests that no one measure of performance should be taken on its own and to obtain a true measure of how a firm is performing, different measures should be used together. Marimuthu, Arokjasamy and Ismail (2009) use a combination of both financial and non-financial performance measures, utilising sales growth and employment growth as the measures of performance. Rauf (2007) also uses high profitability and high employment as the measures of performance. Dzansi (2004) and Schayek (2011) utilise a Likert scale measuring satisfaction with sales growth and profitability growth as the primary measures of financial performance. Fatoki (2011) utilises satisfaction with overall performance and satisfaction with performance compared to competitors as the measures of non-financial performance. Schayek (2011) states that measuring both financial and non-financial performance through indirect questions on sales growth, profitability and overall satisfaction improves the response rates of SMEs. In addition, it also enables an objective measure of SME performance.

### *2.7.2 Performance based on value creation*

In more recent years, scholars have applied a resource-based view to conceptualising performance (Steigenberger, 2014; Santos & Brito, 2012). From this perspective, an organisation has unique resources that are difficult to imitate or substitute. These resources can be used to create competitive advantage which can be leveraged to create value and such value can be distributed to the organisation's stakeholders, depending on their bargaining power (Steigenberger, 2014). The stakeholders' appropriation of the value created is the subject of appropriation theory (Coff, 1999). Measures of financial performance, such as return on assets or return

on equity, actually measure the value appropriated by shareholders; they do not measure the value created by the organisation.

Value creation is not the same construct as financial performance (Steigenberger, 2014). Other measures of performance, such as sales or innovativeness, measure an organisation's ability to create value in its chosen markets (Steigenberger, 2014; Antony & Bhattacharyya, 2010). Interchangeable use of measures for value creation and value appropriation obscures research. Steigenberger (2014) emphasises that it matters how performance is being measured. Empirical measurement must be congruent to the theoretical construct.

Miller, Washburn, and Glick (2013) argue that performance measures should be selected, based on what is of interest to a specific stakeholder group. For this research, 'performance' is evaluated from a shareholder and customer perspective. Profitability, growth and market value are of key interest to shareholders. Taking into account the planned method of collecting data, anticipated challenges with availability of information, as well as previous research findings that point to owner–managers having limited knowledge of financial metrics (Halabi, Barret, & Dyt, 2010; Nemaezhe, 2010), objective assessment of performance will be difficult to achieve. On that basis, profitability and market value are excluded as measures of performance. Growth refers to the net change in a specific variable within a specific time period, given a certain context (Cooper & Nakanishi, 2010). Growth can be applied as a subjective measure by evaluating the perception of a change in a specific variable in a fixed period.

## 2.8 Development of a Conceptual Framework

The conceptual model depicts relationship between the types of networking and performance. This conceptualisation of the variables in framework is guided by the social network theory ( Burt,1987, Granovetters, 1973, Kim, Newth & Christein,2013, Gruzd & Wellman,2014, Ogayanova & Monge,2013, Barnes, 1954, Portes, 1998, Bourdieu , 1989; Coleman, 1990; Kim & Sherraden,2014; Kotler 2010; Seibert et al., 2001;Tata & Prasad 2008; Hussan& Mugambi, 2013). The framework on figure 2.1

shows the link independent variable ( Performance) and the dependent variables (social networking, business networking and managerial networking).

**The hypotheses put forward are as follows:**

This study has been developed based on social network theory (SNT). Social network theory explains the influence of the social structure of relationships on human behaviours that surround a group, a person, or an organisation (Barnes, 1954). It focuses on the relationships among people, rather than on people's attributes and characteristics. In business, networking of owner managers with relevant parties such as customers, suppliers, government agencies, friends, social organisations and trade organisations assist in accessing critical resources.

Social networks theory (Portes, 1998) states that social networks is the ability of group members to receive economic benefits from the social network, and gain access to resources that influence their social interactions, as they relate with other group members. Social networks theory was originally developed by Bourdieu (1985), expatiated by Coleman (1990) and refined by Portes (1998). For Bourdieu (1985), the emphasis was on the group member's ability to access actual or potential resources, such as information, from the social networks. Coleman (1990) emphasised the role of social networks consisting of different entities (e.g. school structure) to create human capital (e.g. education) for better achievement.

It has been argued that social networks could serve as a good training model for improving SMEs performance, and could help in product marketing as network members could be the first customers and suppliers (Kim & Sherraden, 2014; Kotler, 2012). This is due to the unique characteristics and the resources within the network (Seibert , 2001); while Tata and Prasad (2008) found that necessary information and resources provided by social networks through collaborative exchange led to entrepreneur performance in the USA. As such, social networks could realise much benefit through increased collaboration and better communication (Hassan & Mugambi, 2013).

***Hypothesis 1: Social networking positively influences performance***

Hung (2006) defined social networks as linkages or social systems of individual(s) that facilitate access to resources or valued sources of information that are beneficial to business enterprises. Lea, Yu, Maguluru and Nichols (2006) considered social networks as sets of people who are connected by socially meaningful relationships, such as friendship, co-working and information exchange to achieve mutual goals. Krebs (2008) posits that the essence of social capital entails that it is not what individuals can do that provides competitive advantage. This view ties with Laibanca and Brass (2006), who argued that in business enterprises, employees' and manager's social contacts convey benefits that create opportunities for their enterprises which lead to competitive advantages.

***Hypothesis 2: Business networking positively influence performance***

Moller and Halinen (2010) defines business networks as voluntary inter-business c-operation between at least three enterprises whose entrepreneurial autonomy is partially limited by their co-operation. Xu, Lin and Lin (2008) view business networks as a set of two or more connected relationships in which each exchange relation is between business enterprises that are regarded as collective actors in the network. Besser, Miller, Korsching, and Welch (2006) described business networks as formal linkages composed primarily of business owners or managers established to facilitate the success of their respective enterprises. From all these definitions it can be noted that business networks add value to and increase the performance of an enterprise. Thus, enterprises form business relations to gain value central to business networks with trust and commitment (Moller and Halinen 2010).

***Hypothesis 3: Managerial networking positively influence performance***

Managerial networks involve networking with suppliers, customers and with similar enterprises. Managerial networks involve links between the manager of a firm and the managers of other firms. Managerial networking between a firm's manager and the other top managers of other firms presenting opportunities for information

acquisition is essential. These managerial ties have pivotal influences on firm activities, provide a source of competitive advantages, enable the superior performance of the firm and help in increasing the legitimacy of firms (Ngoc & Nguyen, 2009).

Managerial networks of firm owners may improve the sharing of information and contacts (Khwaja, Ijaz, Mian, & Qamar, 2011), access to bank loans from the banks, more clients, business associates, suppliers, technical and market knowledge (Farinda, Kamarulzaman, Abdullah & Ahmad, 2009) and gain managerial skills (Hicklin, O'Toole & Meier, 2006). This mutual support from firms and managers in the same managerial networks may lead to better performance of the firms (Thrikalawa, 2011). However, Hicklin (2006) proposed that too much investment in managerial networks will result in diminishing returns in terms of performance

Based on the hypotheses formulated, the conceptual model is as follows:

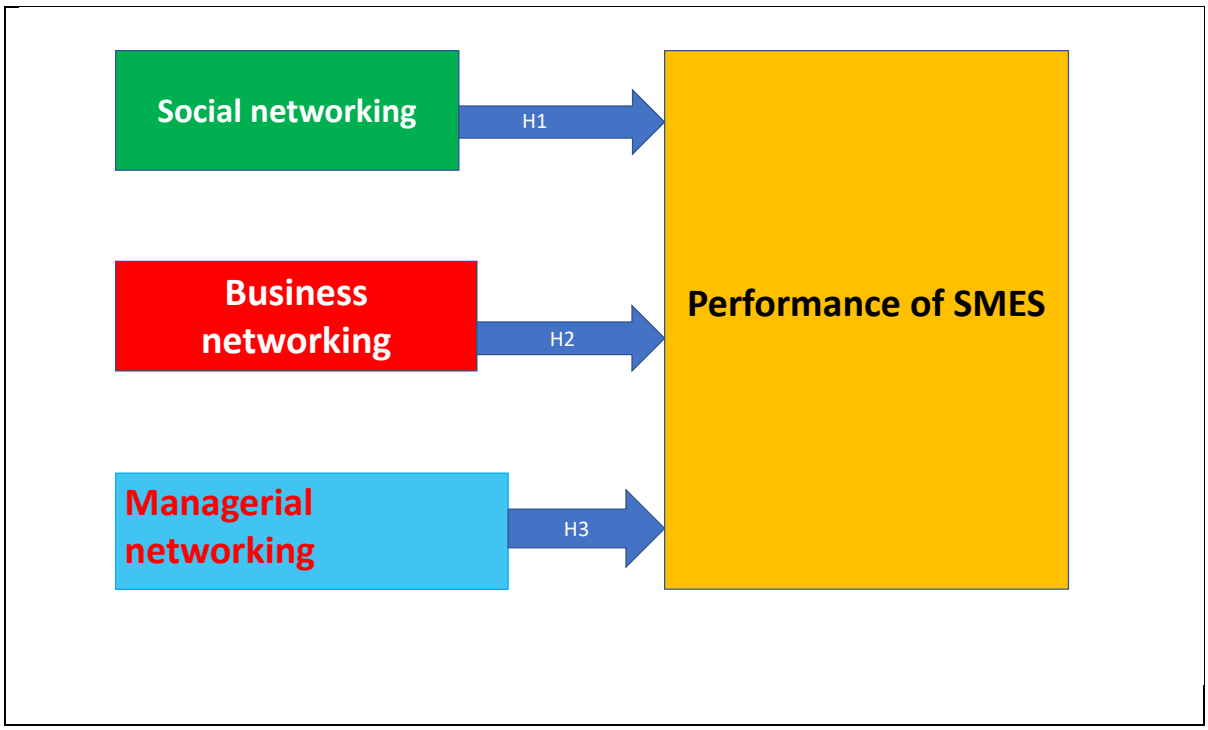


**Figure 2.1 Conceptual model framework of social networking, business networking, and managerial networking and how they impact SMEs Performance**

**Source: Author construction based on reviewed literature** (Hung ,2006, Moller and Halinen 2010, & Thrikalawa, 2011)

## 2.9 Conclusion of Literature Review

Networking in the organisational field means knowing the right people, making connections to get something accomplished and working together with people from within a system to reach common objectives.

In summary, unlike the personality trait approach and the demographic approach that primarily focus upon the individual entrepreneur, the social capital approach focuses on social capital. High levels of social capital are considered to assist entrepreneurs gain access to key information, resources, knowledge, expertise and opportunities.

Park and Rhee (2014) in a study that sought to explore the relationship between networks types and business performance, revealed that all of the different types of networks have importance for SMEs. Therefore, the more an SME owner/business manager engages in different types of networks, the more access the business will have to diverse resources, new potential customers and suppliers. There are, however, factors that can impede or promote participation in networks. Amongst such factors are personal characteristics, business characteristics, market share, human capital, infrastructures. Thus, this research investigates the influence of networks on SMEs performance.

# CHAPTER 3: RESEARCH METHODOLOGY

This section describes the methodology that was followed to test the hypotheses that were put forward in order to answer the selected research questions. The discussion covers the research paradigm, research design, sampling method, the design of the research instrument, the procedure for data collection as well as the techniques that were employed in the analysis and interpretation of the data.

## 3.1 Research design and paradigm

The research is a cross-sectional study that falls within the positivism paradigm. The positivist paradigm is an epistemological approach that is based on quantitative data and observation, with the goal of being independent from subjective opinions. This paradigm uses a deductive approach where theories are tested, and hypotheses are generated. According to Cooper and Schindler (2014), qualitative research is exploratory and useful when important variables are not examined. In contrast, quantitative approaches emphasise measurement and analysis of the causal relationship between variables (Cooper & Schindler, 2014), hence the selection of a quantitative approach

This was a quantitative study to test theories (Cooper & Schindler, 2014) about concepts that exist (Gall & Olson, 2012), including networking of SMEs and their performance. The selected methodology enabled the researcher to measure the independent variables (social networking, business networking and managerial networking) as well as the dependent variable (Performance) in order to establish if there are significant correlations between variables and where significant correlations exist, the nature of the correlations could be expanded upon. The research study is cross-sectional in nature. It measures the selected variables at a point in time. Although it would be desirable to examine how the levels of networks change over time, a longitudinal study was ruled out due to time constraints.

## 3.2 Population and sample

The population of interest for this research comprised SMEs that operate across various sectors in Gauteng. The geographical distribution of the SMEs spanned the Gauteng province. The sampling frame is a list of elements from which the sample is drawn (Cooper & Schindler, 2014).

Due to the practical implications of contacting SMEs across South Africa, the sample was selected from SMEs that are associated with business groups which provide finance and training programmes. This reduced the effort required to make contact with SMEs as some groups, such as National small business chamber (NSBC), were able to distribute the survey to SMEs that are involved in their programmes. Only SMES that operate in Gauteng were asked to participate on the survey because National Small Business Chamber (NSBC) is a national database. Hence, the sampling frame for this research was SME owners/ managers that operate across various sectors in Gauteng and are found within these databases.

The simple random sampling method represents the purest form of probability sampling where each element has a known and equal chance of selection (Stat trekcom, 2016). This research used the simple random sampling method.

**Table 3. 1: Summary of the survey**

| Variable | Description |
|---|---|
| Target population | SMES in Gauteng |
| Geographical survey | Gauteng Province |
| Number of respondents | 304 |
| Respondents | Founders and managers of SMEs |
| Sources of data | National Small Business Chamber ( NSBC), SME South Africa, Acts Christian Church and Black Business network |

The target respondent for this study was the owner manager or a manager that has the responsibility of dealing with the running of day-to-day business within the SME. The geographical distribution of the SMEs was within the Gauteng Province.

The sample was also expanded to include SMEs that are contactable through various business groups on Facebook and operating in Gauteng.

## 3.3 The research instrument

Primary data was gathered using a structured research questionnaire. The following are advantages of collecting data through a survey (Cooper & Schindler, 2014): fixed and low costs, data can be collected from large samples, and ease of administration.

Established scales found in academic research are incorporated in a structured questionnaire in order to measure the identified variables, through an online survey.

The research instrument was intended to measure the influence of networks on SME performance. The instrument was developed, based on instruments that were previously used in similar studies; a similar approach has also been used in Premaratne (2002), Lechner (2006) and Watson (2012). Where scales had previously been developed for measuring a variable under investigation in the current study, those scales were used as part of the data collection process, as opposed to developing new scales.

Using existing scales reduces the risk of low external validity i.e. it ensures that the survey instrument to be used has demonstrated proficiency in measuring what is intended (Cooper & Schindler, 2014). One of the main values of a scale is its ability to measure a concept using multiple indicators rather than a single item scale that may be misleading and lacking in context (McMullan, 2005). Hence, multiple items scales were used in an effort to overcome these distortions.

Approximately a third of the criteria were stated in the negative to ensure a fuller measurement of the respondent attitude/measurement. Reverse items ensure respondents use both ends of the scale and keeps them from answering carelessly as well as helped correct for agreement bias (Hopper, 2017). Prior to analysis,

negatively worded items were reverse coded to ensure that respondents that are the most satisfied, loyal or those that display the best performance score the highest (Hopper, 2017). This makes it easier to interpret the data at a later stage. A 7-point Likert scale was used ranging from 1 to 7 (Cooper & Schindler, 2014). The wording on the scale was adapted for relevance to the nature of the question.

The following table summarises different sections of the research instrument:

**Table 3 2: Research instrument summary**

| Section | Description | Source of questions | Type of questions | Comments |
|---|---|---|---|---|
| Section A: entrepreneurial characteristics | This section collects demographic information of the respondent including age, gender, education level | Adapted from Madukua, Mpiranjingab, and Duhc (2016); Shanka (2012); Ozkan, Bindusara, and Hackney (2010); Kumar (2017) | multiple choice | • Respondent age categories match life stages that correspond to economic activity i.e. Youth, Professional, pre-retirement and early retirement<br>• Education level has been included as it has been found to be correlated to entrepreneurial activity (Venter & Urban, 2015) |
| Section B Firm characteristics | This section collects firm characteristics data | Compiled based on literature review: Kellen (2003); Ford *et al.* (2006); Moeller (2010); Brush *et al*. (2004); Watson (2011) | 7 Point Likert scale | • Dichotomous data could be collected for firm characteristics. |
| Section C<br><br>Networking | This section collects data pertaining to the SME's Network | Compiled based on literature review: Portes (1998); Bourdieu (1985); Watson (2011); Coleman (1990); Thrikawala (2011); Stam | 7 Point Likert scale | • All of the different types of networks have importance for SMEs. Therefore, the more a SME owner/business manager engages in different types of networks, the more access the business will have to diverse |

| | | | | |
|---|---|---|---|---|
| | | (2014) | | resources, new potential customers and suppliers, Thrikawala (2011) |
| Section D: Business performance | This section collects data on business performance, which has been operationalised as growth, ROI cash flow, and net profit. | Santos and Brito (2012) | 7 Point Likert scale | • SME owner managers have been shown to have limited knowledge of financial measures (Halabi, Barret, & Dyt, 2010). Simple indicators that are likely to be available to the respondent were selected as measures for growth |

## 3.4 Procedure data collection, capturing and cleaning

The primary data used for empirical analyses was collected through a survey using a structured research instrument. All primary data used for empirical analyses was collected in December 2018.The instrument was sent to potential business incubators, such National Small Business Chamber ( NSBC, and the research instrument was further distributed through facebook ( social media) platforms such as SME South Africa, Black business network and Acts Christian Church which holds networking meetings for Small Medium Enterprises at the end of every month . The research instrument was hand delivered and collected after the respondents completed it. Internet research has been questioned as a viable method for carrying out scientific research as there are doubts about its ability to produce valid and reliable data. However, in their 2012 study, Baltar and Brunet found that social networking sites can be an effective method for studying hard-to-reach populations. The data was captured in Excel and imported into SPSS for statistical analysis. The data was cleaned initially in Excel and also in SPSS.

## 3.5 Data analysis and interpretation

Parametric statistical tests were applied in data analysis, as a means of determining relationships between the variables of interest. Analysis of the data collected may or may not provide evidence that support the theories that have been put forward as hypotheses. Data analysis is the process of breaking down the accumulated research data to a manageable format and forming summaries, using statistical techniques (Cooper & Schindler, 2014). The data collected using questionnaires was analysed using Statistical Package for the Social Sciences (SPSS) software. SPSS is a computer software used for manipulating, analysing and presenting data. The SPSS software has most of the statistical features available and is therefore extensively used for quantitative analysis (Coakes, 2005). This software helped the researcher in statistically analysing the questionnaires which was used for this study.

### *3.5.1 Data screening and validation*

To minimise the risk of invalid conclusions, data validation was conducted. This entailed screening the data and addressing problems, such as missing or invalid data, to ensure the data was of good quality to conduct analysis. To minimise the risk of invalid conclusions, the following steps were taken to validate the data

#### *a) Responses from participants and owner-managers in an SME*

The data set contained 304 responses after eliminating incomplete cases. These responses were eliminated from the data set as they might not have been in a position to provide accurate and credible responses.

#### *b) Missing data*

Missing values are a common occurrence in research data. The presence of missing values reduces the quantity of data that is available to analyse and in turn, compromises the statistical power of the study, ultimately affecting the reliability of the results (Kwak & Kim, 2017). Missing data can occur at a unit level or at item level. Unit level missing data occurs when a respondent does not take a survey. Item level missing data occurs when incomplete information is collected from a respondent (Dong & Peng, 2013); when considering item level missing data, researchers must consider the proportion of missing data, the missing data mechanism as well as any pattern that may emerge from the missing data.

Missing data assume univariate, monotone or arbitrary patterns. A data displays a univariate pattern if the same respondents have not provided responses to multiple items. A monotone missing data pattern arises when sequential data is missing. Such a pattern is common in longitudinal studies where respondents drop out at a point in the study and subsequent measures are missing. The monotone missing data pattern is a form of the univariate missing data pattern as missing data is attributable to the same respondent. Data is said to have a missing data pattern if data is missing in any variable for any respondent, in a random fashion. The impact of missing data on a quantitative research can be considerable as it could lead to a biased estimate of parameters, decreased statistical power and ultimately, reduces

the generalisability of the findings (Dong & Peng, 2013). The authors further argue that a data set with missing data needs to be edited into a complete data set to reduce the likelihood of being unsuitable for a statistical procedure or violating the assumptions of the statistical procedure applied. Missing data was performed and cases with missing data were eliminated.

### *c) Reverse the coding of variables*

In the design of the survey instrument, reverse questions were included, and this was done to ensure a fuller measurement of the respondent attitude or measurement, to keep respondents from answering carelessly, as well as to help to correct for agreement bias (Hopper, 2017). In the design of the survey instrument, some statements had the rating scale ranging from negative to positive while the other variables had the rating scale ranging from positive to negative. Items measuring networking, business growth and business performance had a scale ranging from positive to negative while the importance of the networking channels were rated from negative to positive.

Questions 7 – 9 and 11 - 12 had the scale revesed (i.e. 1=7, 2=6, 3=5, 4=4, 5=3, 6=2, 7=1). This was done to ensure a low score implied a disagreement while a higher score implied an agreement across all statements.

### *d) Check for normal distribution*

A sample that displays normal distribution is considered to be a better representation of the larger population and so any conclusions drawn from studying that sample are more likely to be generalisable to the larger population (Field, 2009). Many statistical procedures, including correlation, regression, t-tests and analysis of variance are based on the assumption that the data is normally distributed (Ghasemi & Zahediasl, 2012).

Normality is an assumption for parametric tests (Field, 2009). Parametric tests require that the dependent variable must be normally distributed for each category of the independent variable (Lofgren, 2013). Prior to conducting analysis, the data must be checked to ensure that it is normally distributed.

There are two main methods of assessing normality: graphical or numerical (Field 2009). Graphical methods include the use of a frequency distribution (histogram), a P-P plot and a Q-Q plot. The frequency distribution plots observe values against their frequency enabling researchers to make a visual judgement about whether the distribution is bell shaped. It also provides insights about gaps in the data as well as values that are outliers (Ghasemi & Zahediasl, 2012). The P-P plot depicts cumulative probability of a variable against the cumulative of a normal distribution. If the data is normally distributed, the result will be a straight diagonal line (Field, 2009). A Q-Q plot is similar to the P-P plot except that it plots the quantiles of the data set instead of individual score in the data (Ghasemi & Zahediasl, 2012). Q-Q plots are easier to interpret in the case of large sample sizes.

Statistical methods include the Kolmogorov-Smirnov test (also referred to as the K-S test) and the Shapiro-Wilk test. Both tests compare values in the sample to a normally distributed set of values with the same mean and standard deviation; the null hypothesis is that the sample is normally distributed. If the test is significant, it is an indication that the distribution is non-normal (Ghasemi & Zahediasl, 2012). The K-S test is highly sensitive to extreme values and it has been reported to have low power. It should not be seriously considered when testing for normality (Ghasemi & Zahediasl, 2012). The Shapiro-Wilk test provides better power than the K-S test and is recommended as the best choice for testing normality (Ghasemi & Zahediasl, 2012).

Statistical tests have the advantage of making an objective judgement of normality but are disadvantaged by sometimes not being sensitive enough at low sample sizes or overly sensitive to large sample sizes. Graphical interpretation is better for assessing normality in situations where statistical tests cannot be applied. Graphical methods have the advantage of allowing good judgement to assess normality in situations when numerical tests might be over or under sensitive, but they have proven unreliable and do not guarantee normality (Ghasemi & Zahediasl, 2012) as the assessment is subjective (Lund Research Ltd, 2017).

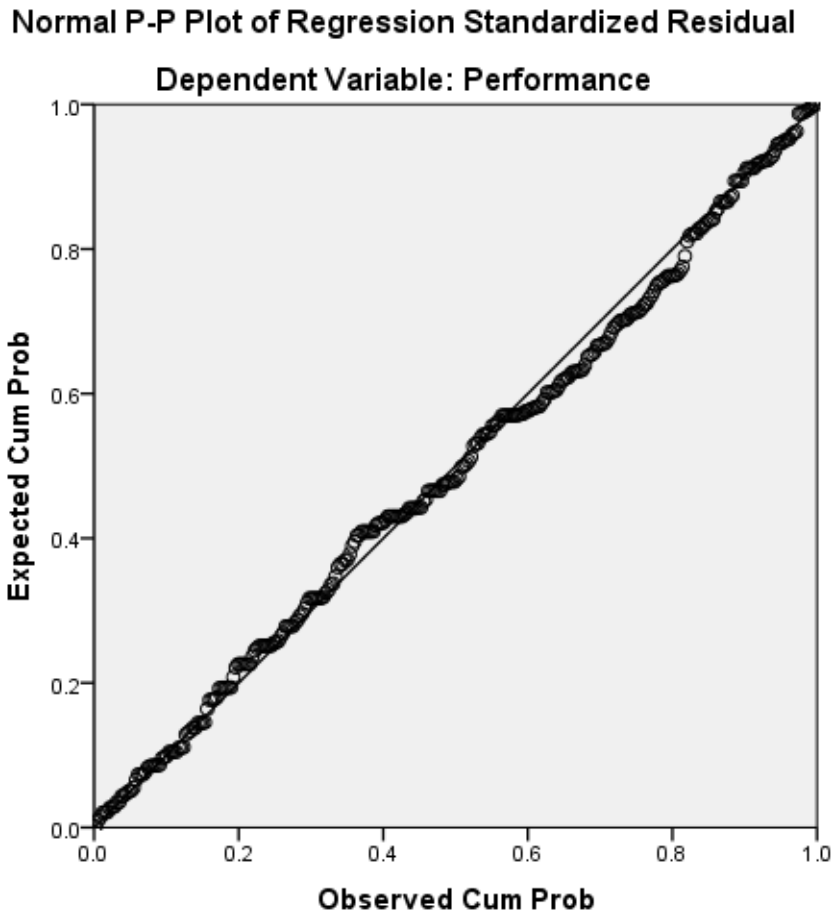


**Figure 3.1 Normal P-P Plot of Standardised Residuals**

**Source:** Primary Data

Figure 3.3 shows the normal P-P plot of standardised residuals also shows values very close to the diagonal line, this suggests that the residuals are normally distributed. Thus, the assumption for error terms being normally distributed is met.

### *3.5.2 Statistical Techniques and interpretation*

#### 3.5.2.1 *Descriptive statistics*

When conducting research, it is important to examine the demographics of a sample to check if the sample is representative of the larger population from which the sample was taken. A population that displays characteristics that form part of the

demographics is expected to be normally distributed (Field, 2009); this means that most values in that population would occur in the middle of the range and then the rest of the values occur on the periphery, on either side.

The demographics of the respondents in this study include age, gender and education level. The demographics of the business include sector, business tenure and number of permanent employees. A view of the respondent and business demographics creates a better understanding of the context in which the study was performed and may have implications for the generalisability of the results.

Descriptive statistics also enable the researcher to use the mean and standard deviation to provide a general description of the responses. The mean is the average of distribution of responses for a specific variable, i.e. the sum of the data values divided by the number of valid responses for the variable (Gall & Olson, 2012). Standard deviation describes the average variance from the mean among the responses (Field, 2009). The lower the standard deviation, the closer the responses tend to be to the mean, and vice versa (Gall & Olson, 2012). The descriptive statistics results are presented in Chapter 4.

#### 3.5.2.2 *Correlation analysis*

Prior to conducting regression analysis, it is important to establish if there is a linear relationship between the variables under investigation (Grande, 2015). This is known as a correlation (Field, 2009). The outcome of correlation analysis is an understanding of the direction as well as the strength of the relationship between the variables. The Pearson correlation coefficient is a measure of the strength of association between two variables and is used for variables that are normally distributed (Field, 2009).

Correlation analysis was conducted using two methods: Graphical evaluation as well as statistical analysis. Graphical evaluation of the correlation between two variables involves plotting the variables on a graph such as a scatter plot and evaluating the graph to see if there is a pattern in how the data is distributed. Statistical tests produce correlation coefficients which may differ depending on whether these are parametric or non-parametric. When using parametric methods, the value of

Pearson's correlation coefficient (r) ranges from -1 to 1. A positive correlation indicates that both variables increase or decrease together whereas a negative coefficient indicates that one variable increases as the other one decreases (Field, 2009). A 2-tailed significance value is calculated; it is 2-tailed as it evaluates the relationship in both directions i.e. how one variable affects the other and vice versa. A value closer to 1 indicates strong correlation whilst 0 indicates that there is no correlation.

#### 3.5.2.3 *Regression analysis*

Once it had been established that there is a linear relationship between the variables under investigation, regression analysis was conducted to generate a model that could be used to predict the dependent variable (outcome variable) using the independent variable (predictor variable) (Field, 2009). The outcome of regression analysis is a model summary that contains the Pearson correlation coefficient (R). This coefficient indicates the strength of the relation such that a value closer to 1 signifies a strong relationship whilst 0 represents no relationship.

A positive *R* value indicates a positive relationship where the outcome variable increases when the predictor variable increases whereas a negative R value indicates a negative relationship where the outcome variable decreases when the predictor variable increases. $R^2$ is the coefficient of determination which is a measure of the predictive capacity of the model. In essence, it measures how well the model fits the data. It also explains the proportion of variance that can be explained by the predictor variable. Once regression analysis has been completed, the researcher is able to interpret the data and determine if the data supports the hypotheses put forward

## 3.6 Validity and reliability of research

Reliability and validity define the benchmark against which the competence and correctness of measurement procedures are evaluated in scientific research (Bhattacherjee, 2012). Meaningful interpretations are from data that is collected using instruments with validity and reliability of scores (Creswell, 2014).

Validity refers to the extent to which an instrument measures the intended variables (Cooper & Schindler, 2014). An instrument that demonstrates validity is able to produce accurate results and it measures what is supposed to be measured. There are two forms of validity, namely external and internal validity.

### *3.6.1 External validity*

External validity refers to the data's ability to be generalised (Cooper & Schindler, 2014). McDermott (2011) defines it as the extent to which the conclusions of a given study can be applied to different populations or situations (cited in Krupnikov & Levine, 2014). The sampling method used by the researcher may raise some concerns pertaining to the external validity of the findings of this study by selecting respondents that have the infrastructure to access the internet (i.e. they use infrastructure offered by their incubator, or they make use of social media); bias may have been introduced such that the results of this study cannot be applied to a different context where the SME owner-manager may not have the infrastructure to access the internet .

### *3.6.2 Internal validity*

Internal validity refers to an instrument's ability to measure what is intended (Cooper & Schindler, 2014). To improve the internal validity of the research instrument, the following measures were taken:

- The variables that were measured (social networking, business networking, managerial networking and business performance) are known concepts, adopted from previous research
- A pilot survey was conducted, and the data collected during the pilot was used to assess the validity of the questionnaire
- The principle of parsimony was applied, and questions were framed succinctly to reduce ambiguity
- Each respondent was asked to confirm their role in the SME; this was done in order to establish if they have a responsibility to engage with other managers.

Owner-managers are expected to have such a responsibility as part of their role.

### *3.6.3 Reliability*

Reliability refers to the ability of an instrument to produce consistent results (Cooper & Schindler, 2014). An instrument that demonstrates reliability is free of random or unstable error. Reliability analysis was conducted to assess the internal consistency of the scale used in this research, using Cronbach's alpha (also known as the coefficient alpha). The value of the coefficient falls between 0 and 1. Values closer to 1 indicate higher internal consistency of the scales. A coefficient higher than 0.7 signifies a scale whose reliability is satisfactory (Radhakrishna, 2007).

## 3.7 Limitations of the study

Due to the use of a structured questionnaire for data collection, the following limitations apply to the research (Cooper & Schindler, 2014; Gall & Olson, 2012):

- Data was collected during the December holidays, according to research expects, it is not good to collect data during holidays as the data will be skewed because of the shift of focus.
- The study was focused on SMES and so the results of this study may not be transferable to large firms.
- The study used simple random sampling and it was very difficult without complete list of population members, and also selecting SMES who are based in Gauteng, it was potentially uneconomical and disruptive to isolate members from a group.
- Only a limited number of questions were asked.
- Respondents may have been biased in answering the questionnaire
- Respondents were not asked probing or clarifying questions.
- The study used perceptual measurements of performance and did not ask respondents to provide evidence of performance information during the

survey, the researcher was not able to cross examine the actual audited financial statements.

- In addition, the current study did not go a step further to quantitatively measure the contributions of the successful or established SMEs in Gauteng province to the provincial economy (such as to provincial Gross Domestic Product, job creation, and environmental benefits).

Given that not all SME owners and managers identified by this study had the time to complete the questionnaires and it should be noted that in most cases, business owners are often suspicious of people asking them questions, this results in some not being willing to co-operate.

## 3.8 Research ethics

Cooper and Schindler (2014) described ethics as behavioural norms or standards that guide moral choices related to our relationships with others and our behaviour. They maintain that as in business, research must strive to be ethical, ensuring that research activities do not lead to adverse consequences to anyone; that participants do not suffer embarrassment, loss of privacy, discomfort or pain. To achieve this, ethical research must protect the rights of the participant and be voluntary, obtaining informed consent from respondents and giving full disclosure on the consequences of the research. Cooper and Schindler (2014) further advised that the researcher must:

- Provide participants with the option to agree or not agree to participate in the research.
- Be honest about the purpose and benefits of the research and his or her motives in a manner that demonstrates integrity during the research process.
- Guarantee the right to privacy of respondents to ensure that the validity of the research is maintained as well as to ensure the protection of participants. This requires that confidentiality is assured by obtaining signed non-disclosures, restricting access to participant identities and only revealing participant information with their written consent.

The researcher took the following steps and actions to ensure that ethics was maintained in this study:

- Firstly, the go-ahead for the research was given by the University of the Witwatersrand and an official ethics letter from Wits Business School was received on 3 December 2018 and was attached to the questioner or survey request to ensure anonymity, confidentiality and good ethical treatment of the participants.
- Potential respondents could choose not to participate in the survey and were advised accordingly.

# CHAPTER 4: PRESENTATION OF RESULTS

## 4.1 Introduction

The methodology for analysing the data aligns with the research methodology discussed in Chapter 3, including the research instrument and data collection methods. Chapter 4 presents the results of the data gathered from the research survey questionnaire, and analysis of the relationships between the independent variable and dependent variable. First, the demographic characteristics of the individual respondents is presented, second the characteristics of firm respondents is presented. Third, the properties of the scales of independent variables and dependent variables are measured in terms of reliability and validity. Fourthly, descriptive statistics are provided, followed by the correlation and factor analyses. This chapter ends with a summary of the hypotheses tested and their respective findings.

## 4.2 Demographics profile of respondents

This section present the demographics of the study's respondents which included age, gender and education. Moreover, it presents characteristics of the firms which are sector, business tenure and number of employees.

### *4.2.1 Age*

In the sample, a proportion of 53% of the respondents were in the 36 – 45 years age group, while 28% were 46 – 55 years old. There were fewer younger respondents as indicated in figure 4.1.

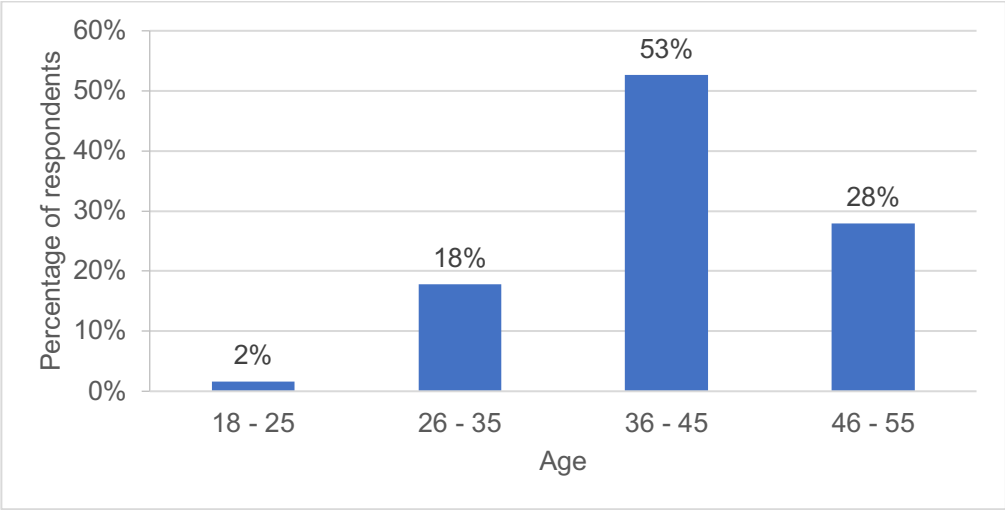


**Figure 4.1**: **Respondent Age Distribution**

**Source:** Primary Data

### *4.2.2 Gender*

More than half of the respondents, 54 % were male while the other 46 % were female. As indicated in figure 4.2

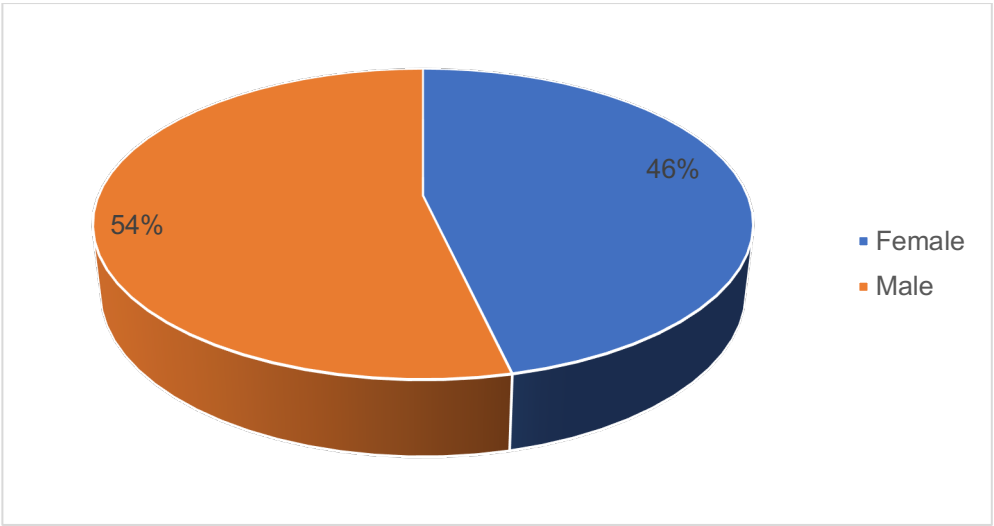


**Figure 4.2**: **Respondent Gender**

**Source:** Primary Data

### *4.2.3 Education*

The sample was made up of mostly people who had a tertiary qualification, with 40% having attained a diploma, 25% degrees and another 30% had post-graduate degrees/ diplomas. As indicated in figure 4.3, those who did not progress beyond secondary schooling were in the minority. The bias toward respondents with secondary qualification may be as a result of the sampling method or it could support the view that there is a positive correlation between education level and entrepreneurial behaviour (Venter & Urban, 2015).

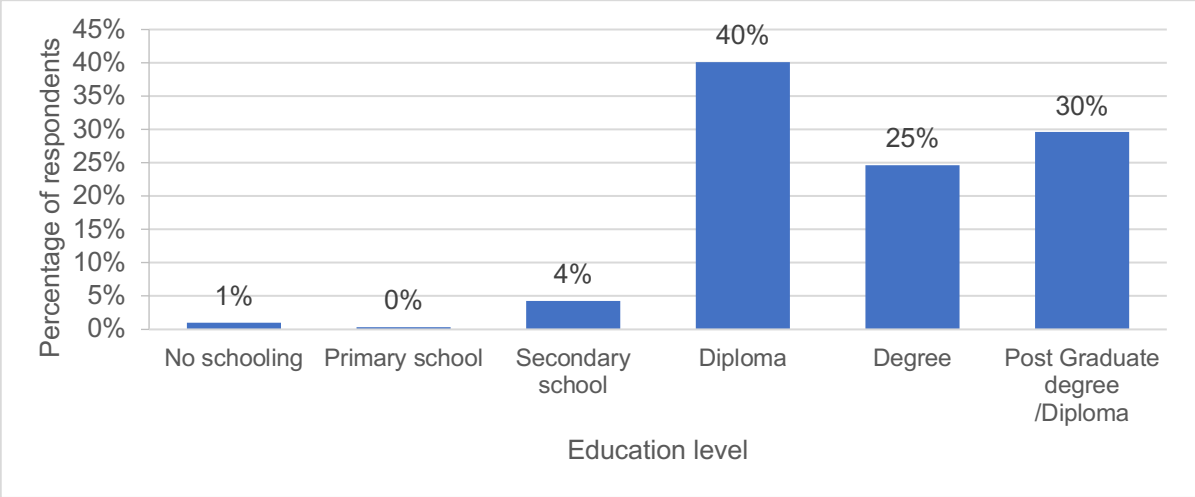


**Figure 4.3: Respondent level of education**

**Source:** Primary Data

### *4.2.4 Sector*

Sector descriptions used in the survey were adopted from the Department of Trade and Industry's standard industrial classification codes (The DTI, 2017). The respondents were mainly either in manufacturing (42%) or agriculture, fishing and forestry (30%) as shown in figure 4.4.

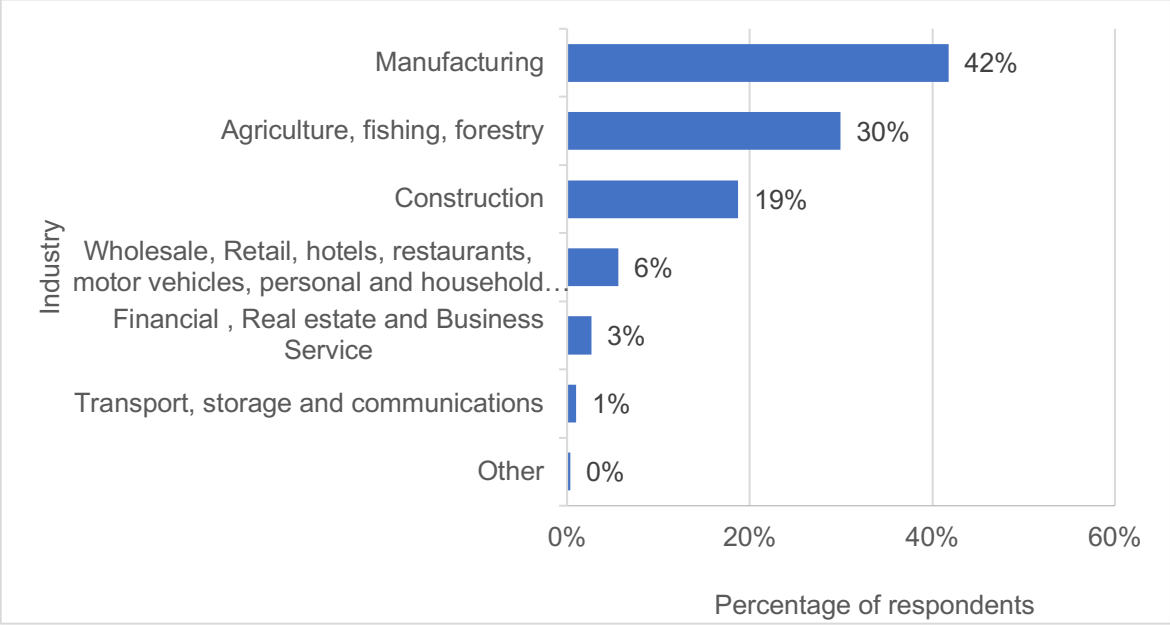


**Figure 4.4: Business sector**

**Source:** Primary Data

### *4.2.5 Business Tenure*

A proportion of 20% of the businesses had been in existence for 1 – 4 years. Figure 4.5 shows that 47% for 5 – 9 years, 22% for 10 – 14 years while another 11% had been in business for 15 years and above.

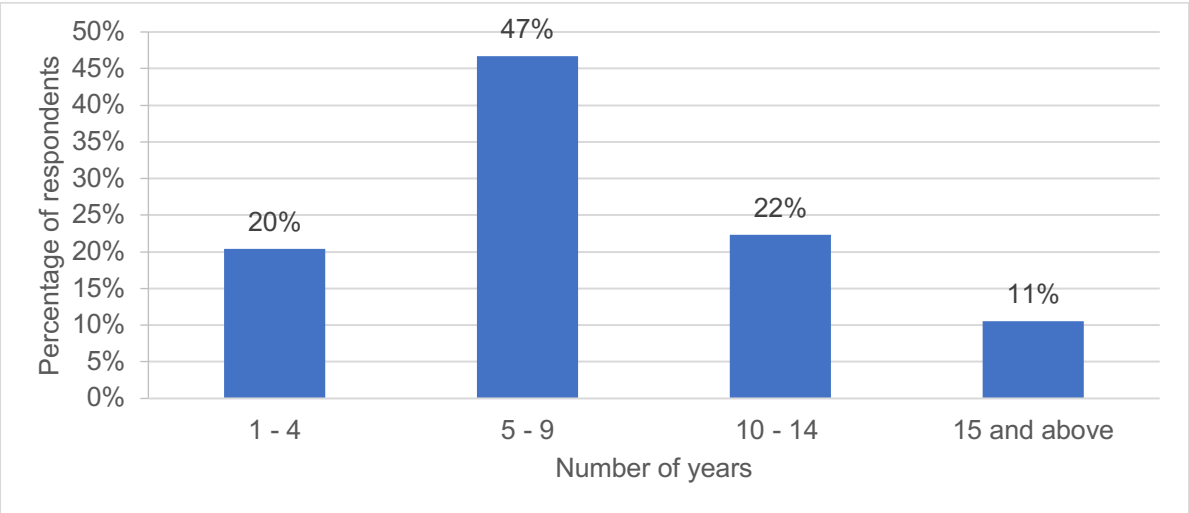


**Figure 4.5: Firm's characteristics: business tenure**

**Source:** Primary Data

### *4.2.6 Number of Employees*

The results as presented in figure 4.6, show that the majority (43%) of the SMEs in the study have between 11-49 employees. Followed by those (37 %) who have fewer than 10 employees. A relatively smaller number of SMEs (14%) have 50-100 employees, whilst the remaining (6%) employ between 100- 200 employees.

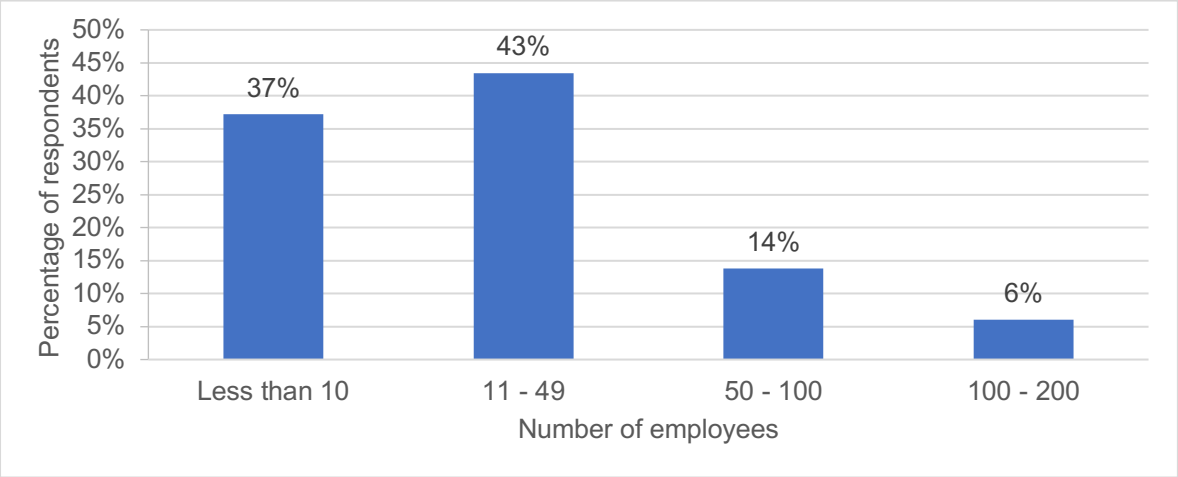


**Figure 4.6: Firm characteristic: number of employees**

**Source:** Primary Data

**Table 4.1.: Demographic data summary**

| Variable | Category | Frequency | Percent |
|---|---|---|---|
| Gender | Female | 141 | 46.38% |
| | Male | 163 | 53.62% |
| Age Group | 18 – 25 | 5 | 1.64% |
| | 26 – 35 | 54 | 17.76% |
| | 36 – 45 | 160 | 52.63% |
| | 46 – 55 | 85 | 27.96% |
| Level of education | No schooling | 3 | 0.99% |
| | Primary school | 1 | 0.33% |
| | Secondary school | 13 | 4.28% |
| | Diploma | 122 | 40.13% |
| | Degree | 75 | 24.67% |
| | Post Graduate | 90 | 29.61% |
| Business Tenure | 1 – 4 years | 62 | 20.39% |
| | 5 – 9 years | 142 | 46.71% |
| | 10 – 14 years | 68 | 22.37% |

| | | | |
|---|---|---|---|
| | 15 years and above | 32 | 10.53% |
| Number of employees | Less than 10 | 113 | 37.17% |
| | 11 – 49 | 132 | 43.42% |
| | 50 – 100 | 42 | 13.82% |
| | 100 – 200 | 17 | 5.59% |
| Industry | Manufacturing | 127 | 41.78% |
| | Agriculture, fishing, forestry | 91 | 29.93% |
| | Construction | 57 | 18.75% |
| | Wholesale, Retail, hotels, restaurants, motor vehicles, personal and household good | 17 | 5.59% |
| | Financial, Real estate and Business Service | 8 | 2.63% |
| | Transport, storage and communications | 3 | 0.99% |
| | Electricity, Gas and water supply | 1 | 0.33% |

**Source:** Primary Data

## 4.3 Descriptive Statistics

Descriptive statistics are used to describe the main features of collection of data in quantitative terms. In addition, descriptive statics provide simple summaries about the sample and the measures. The results of descriptive statistics for business networking, managerial networking, and SME performance are presented in the following tables.

### *4.3.1 Responses on Business Networking*

Six questions were asked in order to measure the SME's involvement in business networking. The results are as follows.

**Table 4.2: Scale item frequencies and descriptive for business networking**

| | Definitely not | Probably not | Maybe not | Not sure | Maybe yes | Probably yes | Definitely yes | Mean | SD |
|---|---|---|---|---|---|---|---|---|---|
| Q7aNBM Member of professional association | 0% | 3% | 7% | 21% | 22% | 10% | 37% | 5.38 | 1.483 |
| Q7eNBRS Maintain any business relationships with your suppliers | 0% | 0% | 9% | 26% | 19% | 11% | 35% | 5.36 | 1.414 |
| Q7bNBTS Attended any trade fairs and business seminars | 0% | 4% | 11% | 17% | 20% | 11% | 37% | 5.35 | 1.568 |
| Q7dNBRC Maintain any business relationships with your competitors | 0% | 1% | 11% | 20% | 23% | 10% | 35% | 5.34 | 1.462 |
| Q7fNBRC Maintain any business relationships with your customers | 0% | 4% | 12% | 16% | 23% | 10% | 34% | 5.26 | 1.559 |
| Q7cNBRGA Maintain relationships with government agencies | 0% | 4% | 14% | 22% | 19% | 13% | 27% | 5.06 | 1.531 |

Being a member of a professional association was the highest rated business networking with 69% of the respondents indicating that they may probably maintain such an association and definitely maintaining such an association followed by maintaining business relationship with suppliers (65%).

Maintain business relationships with friends was the highest rated social networking with 65% of the respondents indicating that they may probably maintain such a relationship to definitely maintaining such a relationship (mean = 5.14) followed by maintaining business relationship with family and relatives (65%, mean = 5.13).

### *4.3.2 Responses on Managerial networking*

Three questions were asked in order to measure the SME's involvement in managerial networking. The results are as follows.

**Table 4.3 Scale item frequencies and descriptive for managerial networking**

| | Definitely not | Probably not | Maybe not | Not sure | Maybe yes | Probably yes | Definitely yes | Mean | SD |
|---|---|---|---|---|---|---|---|---|---|
| Q9aMNRC Maintain any business relationships with your competitors | 0% | 4% | 13% | 21% | 18% | 15% | 30% | 5.16 | 1.553 |
| Q9cMNRC Maintain any business relationships with your customers | 0% | 3% | 14% | 23% | 16% | 15% | 30% | 5.14 | 1.537 |
| Q9bMNRS Maintain any business relationships with your suppliers | 0% | 5% | 12% | 22% | 20% | 12% | 30% | 5.13 | 1.547 |

Maintain business relationships with competitors was the highest rated managerial networking with 63% of the respondents indicating that they may probably maintain such a relationship to definitely maintaining such a relationship (mean = 5.16) followed by maintaining business relationship with customers (61%, mean = 5.14).

### *4.3.3 Responses on level of satisfaction with SME performance*

Nine questions were asked in order to measure the SME's level of satisfaction with their business performance. The results are as follows.

**Table 4.4: Scale item frequencies and descriptive statistics for SME performance**

| | Very dissatisfied | Moderate dissatisfied | Slightly dissatisfied | Neutral | Slightly satisfied | Moderately satisfied | Very satisfied | Mean | SD |
|---|---|---|---|---|---|---|---|---|---|
| Net profit from operations | 0% | 7% | 13% | 12% | 15% | 26% | 28% | 5.24 | 1.600 |
| Profit to sales ratio | 0% | 6% | 14% | 12% | 16% | 25% | 27% | 5.21 | 1.591 |
| Sales growth rate | 0% | 7% | 13% | 13% | 21% | 37% | 10% | 5.00 | 1.417 |
| Return on investment (ROI) | 0% | 6% | 14% | 12% | 16% | 48% | 3% | 4.97 | 1.362 |
| Gross profit margin | 0% | 8% | 13% | 10% | 18% | 49% | 3% | 4.96 | 1.384 |
| Return on shareholder equity | 0% | 6% | 17% | 15% | 17% | 34% | 11% | 4.89 | 1.469 |
| Cash flow | 0% | 6% | 14% | 16% | 27% | 27% | 10% | 4.85 | 1.375 |
| Sales level | 0% | 6% | 14% | 19% | 30% | 23% | 8% | 4.72 | 1.336 |
| Ability to fund business growth from profits | 0% | 7% | 12% | 15% | 44% | 18% | 4% | 4.68 | 1.208 |

**Source: Primary Data**

The respondents were satisfied the most with their net profit from operations with 69% indicting they are either slightly satisfied, moderately satisfied or very satisfied with their net profit from operations (mean = 5.24).

## 4.4 Validity and Reliability Results

This section examines the properties of the scales of the independent variables and dependent variables in terms of reliability and validity.

### *4.4.1 Validity of factors*

Exploratory factor analysis (EFA) was conducted to confirm the perceived structure of the individual derived scales. The primary goal of factor analysis is to determine the underlying structure among the variables in order to explain the pattern of interrelations (correlations) among the variables. Sets of variables that are highly interrelated are known as factors (Leech, Barret, & Morgan, 2015).

For the purpose of this study, in cases where variables designed to reflect the same construct loaded on different factors from those defined in the theory, the researcher noted these results but continued to work with the combinations of items derived from the theory. The research was not designed to attempt to create new scales but rather to confirm the reliability of the existing theoretical scales. Thus, the discussion is limited to the number of factors that provided the highest level of interpretability in line with theoretical constructs. The research aimed to search for, or define the fundamental constructs assumed to underline the variables, and the purpose of the research was to retain the nature and character of the original variables with minimal addition of new information.

#### 4.4.1.1 *Networking dimensions*

Networking dimensions were this study's independent variables which are business networking and managerial networking. The sufficiency of the 26 items designed to measure networking, were examined using the Kaiser-Meyer–Olkin (KMO) measure

of sampling adequacy and Bartlett's test of sphericity. As the KMO value was high at 0.974 and Bartlett's test of sphericity was significant ($p<0.001$), the factor analysis was allowed to proceed. Any value above 0.5 is considered acceptable although 0.6 (and above is preferred) (Grande, 2015). The Kaiser-Meyer-Olkin measure adequacy for this study is 0.974.

**Table 4.5: Test of Assumptions of factor analysis of networking**

| KMO and Bartlett's Test | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .974 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 13302.987 |
| | df | 325 |
| | Sig. | .000 |

**Source:** Primary Data

**Table 4.6: Eigenvalues principal axis factoring**

**Total Variance Explained**

| Factor | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings[a] |
|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total |
| 1 | 17.575 | 67.596 | 67.596 | 17.428 | 67.030 | 67.030 | 15.739 |
| 2 | 4.584 | 17.630 | 85.226 | 4.404 | 16.937 | 83.967 | 13.263 |
| 3 | .565 | 2.173 | 87.398 | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4 | .442 | 1.699 | 89.097 | | | | |
| 5 | .384 | 1.476 | 90.574 | | | | |
| 6 | .295 | 1.134 | 91.708 | | | | |
| 7 | .191 | .734 | 92.442 | | | | |
| 8 | .182 | .699 | 93.141 | | | | |
| 9 | .171 | .658 | 93.799 | | | | |
| 10 | .153 | .589 | 94.388 | | | | |
| 11 | .138 | .532 | 94.920 | | | | |
| 12 | .136 | .522 | 95.442 | | | | |
| 13 | .123 | .474 | 95.915 | | | | |
| 14 | .113 | .435 | 96.351 | | | | |
| 15 | .112 | .431 | 96.782 | | | | |
| 16 | .106 | .408 | 97.190 | | | | |
| 17 | .099 | .380 | 97.570 | | | | |
| 18 | .091 | .350 | 97.919 | | | | |
| 19 | .089 | .343 | 98.263 | | | | |
| 20 | .085 | .328 | 98.591 | | | | |
| 21 | .075 | .290 | 98.881 | | | | |
| 22 | .069 | .267 | 99.148 | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 23 | .063 | .242 | 99.390 | | | | |
| 24 | .062 | .240 | 99.629 | | | | |
| 25 | .054 | .206 | 99.836 | | | | |
| 26 | .043 | .164 | 100.000 | | | | |
| Extraction Method: Principal Axis Factoring. | | | | | | | |
| a. When factors are correlated, sums of squared loadings cannot be added to obtain a total variance. | | | | | | | |

**Source:** Primary Data

The eigenvalue summary Table 4.6. shows how the variance is divided among the 26 possible factors that were extracted. Only 2 of the 26 factors have eigenvalues (a measure of explained variance) greater than 1.0, which is a common criterion for a factor to be useful. When the eigenvalue is less than 1.0, the factor explains less information than a single item would have explained (Leech, Barrett, & Morgan, 2015). Factor 1 explains the most ; it explains 67.59% of the variance and factor 2 explains 17.63 of the variance.

This research set out to investigate the influence of business and managerial networking on SME performance. Two factors were extracted. To understand the nature of the extracted factors, the rotated component matrix was examined. When generating the rotated component matrix, all loadings with a value below 0.4 were suppressed in order to simplify the matrix and make sure it was easier to identify the factors that were extracted. Those items that loaded against multiple factors were ignored as they were lacking in measurement purity. To understand the extracted factors, the associated items were scrutinised.

Business networking – importance has the strongest loadings on factor 1. These items measure the importance of networking, hence factor one is the importance of networking. Managerial networking- management have the strongest loadings on factor 2. These items measure the management of networking, hence factor 2 is management of networking.

It was found that social networking – social had the weakest factor loadings, thus were dropped because the items did not converge with other factors. Several factors may account for the insignificant influence due to the different context and interpretations. The majority of prior studies investigated social networks for new firms, mostly start-ups ( Krishnan, 2010); whereas the current study investigated the social network of established firms; from the data most respondents had their businesses for over five years. The importance of family members and friends networking for a new firm has been more referenced as part of social capital. Second, the insignificant findings might be explained by the research setting. The majority of social networking studies have been implemented in the European and Western context. Urban (2011) noted that in spite of poor social networks, African firms of varying size and structure make very effective use of business networks. Empirical evidence, so far, has in fact, provided evidence bringing the researchers attention to the networking themes in South Africa, which is because of the weakest correlation between social networking and SME performance Therefore it can be concluded that there is no significant relationship between social networking and SME performance in Gauteng province. In the absence of a correlation between the two variables, there is no evidence to suggest that there is an influence between social networking and SME performance, hence hypothesis 1 is rejected.

#### 4.4.1.2 *Business Performance*

Business performance is the dependent variable which was operationalised as SME performance. The data matrix of the nine items designed to measure SME performance showed sufficient correlations to proceed with the application of factor analysis as the sampling adequacy measure of the Kaiser-Meyer–Olkin (KMO) measure of sampling. Adequacy was high at .946 with Bartletts test of sphericity significant greater than 1.

**Table 4.7: Test of assumptions of factor analysis of business performance**

**KMO and Bartlett's Test**

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .946 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 2150.012 |
| | df | 36 |
| | Sig. | .000 |

**Source:** Primary Data

**Table 4.8 : Test of assumptions of factor for dependent variable**

**Total Variance Explained**

| | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|
| Factor | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.214 | 69.049 | 69.049 | 5.880 | 65.331 | 65.331 |
| 2 | .580 | 6.448 | 75.497 | | | |
| 3 | .503 | 5.589 | 81.086 | | | |
| 4 | .404 | 4.491 | 85.577 | | | |
| 5 | .348 | 3.862 | 89.439 | | | |
| 6 | .299 | 3.319 | 92.758 | | | |
| 7 | .257 | 2.855 | 95.613 | | | |
| 8 | .215 | 2.384 | 97.997 | | | |
| 9 | .180 | 2.003 | 100.000 | | | |

Extraction Method: Principal Axis Factoring.

**Source:** Primary Data

The eigenvalue summary for the firm business performance scale (Table 4.8) indicates that a one factor solution is a suitable factor structure of the dependent variable scale. This factor has an eigenvalue of 6.214, indicating a satisfactorily defined construct, and the factor explains 69% of the variance which is significantly above the recommended 60%, thus acceptable and good.

### *4.4.2 Reliability of the measurement scale*

The reliability of the scale for the constructs was assessed using Cronbach's Alpha. The results are summarised on table below.

**Table 4.9:Reliability test results business networking - Importance**

**Reliability Statistics**

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|---|---|---|
| .992 | .992 | 14 |

**Source:** Primary Data

The results show that the construct, business networking (14 items, $\alpha$ = 0.992), had excellent reliability level. Since the reliability results produced Cronbach's alpha values greater than the minimum required value of at least 0.7, it means that the items within each of construct could be combined to form a summated scale for the construct. The summated scale was computed by calculating the average of the items within the scale.

**Table 4. 10: Reliability test results managerial networking management**

**Reliability Statistics**

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|---|---|---|
| .974 | .974 | 12 |

**Source:** Primary Data

The results show that the construct, managerial networking (12 items, $\alpha$ = 0.974), had excellent reliability level. Since the reliability results produced Cronbach's alpha values greater than the minimum required value of at least 0.7, it means that the items within each of construct could be combined to form a summated scale for the

construct. The summated scale was computed by calculating the average of the items within the scale.

**Table 4. 11: Reliability test results performance**

**Reliability Statistics**

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|---|---|---|
| .943 | .943 | 9 |

**Source:** Primary Data

The results show that all the construct, business performance (9 items, $\alpha$ = 0.943) had excellent reliability level. Since the reliability results produced Cronbach's alpha values greater than the minimum required value of at least 0.7, it means that the items within each of construct could be combined to form a summated scale for the construct. The summated scale was computed by calculating the average of the items within the scale.

## 4.5 Correlational analysis results

Descriptive statistics display characteristics of the location, spread, and shape of the variables under study. The measures of central location (mean and median) of all the variables were interpreted relative to the neutral value of the 7-point Likert scales. Variability in the distribution of the variable is represented by the standard deviation (std. dev. column). Social networking independent variable did not converge on factor analysis therefore the researcher dropped the social networking independent variable for further analysis. Only the two variables business networking- importance and managerial networking- management were used for further analysis.

The results revealed that business networking was the highest rated construct (mean = 0.5.29). The second rated construct was managerial networking (mean = 5.14) and the lowest rated was business performance (mean = 4.95).

Correlations refer to mechanisms to measure the strength of a linear associations between variables (Cooper & Schindler, 2014). Cohen (1998) explains that negative correlations are inverse and result when an increase in one variable results in a reduction in the other. The reverse is true for positive relations where the strength is determined by its closeness to one (Cooper & Schindler, 2014). Correlations greater than .80 reflect a stronger association and conversely, those closer to zero indicate a weak relationship or no relationship at all.

**Table 4. 12: Correlations**

| Construct | Mean | SD | | | |
|---|---|---|---|---|---|
| | | | 1. | 2. | 3 |
| 1. Business Networking | 5.29 | 1.35 | 1 | | |
| 2.Managerial Networking | 5.14 | 1.48 | .880** | 1 | |
| 3.Business Performance | 4.95 | 1.18 | .818** | .794** | 1 |

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

**Source:** Primary Data

The results in Table 4.12 also showed that there were positive and significant correlations between business performance and each of the networking dimensions which are business networking ($r = 0.818$, p-value $< 0.01$), and managerial networking ($r = 0.794$, p-value $< 0.01$) since the coefficients were positive and the p-values were less than 0.05. Respondents agreed the most with business networking (mean 5.29), and they were agreed on the importance of networking, then with managerial networking (mean 5.14) and business performance (4.95) they were agreeing on the management of networking.

Based on these correlational results, then it was deemed viable to conduct further analysis and test the hypotheses on the influence of networking on business performance.

## 4.6 Results from multiple regression analysis

Regression analysis can be conducted meaningfully when there is a linear relationship between two variables. The study's objective was to test the influence of networking dimensions on business performance and as a result three hypotheses were developed. The results for the regression analysis are presented on Table 4.13 – 15 and are interpreted below according to each hypothesis.

**Table 4.13 Model summary**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .876[a] | .767 | .766 | .57005 | 1.279 |

a. Predictors: (Constant), business networking - Importance, managerial networking - management

b. Dependent Variable: Performance

**Source:** Primary Data

Table 4. 13 shows the $R^2$ which is the coefficient of determination. It is a measure of the predictive capacity of the model and it measure how well the model fits the data. In this case, an $R^2$ value of 0.767 indicates that 76.7% of the variance is seen on performance and can be explained by business networking- importance and managerial networking – management and this model is significant according to the ANOVA table 4.14 as explained below.

**Table 4.14: ANOVA**

ANOVAa

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 322.557 | 2 | 161.279 | 496.308 | .000[b] |
| | Residual | 97.812 | 301 | .325 | | |
| | Total | 420.369 | 303 | | | |

a. Dependent Variable: Performance

b. Predictors: (Constant),business - Importance Networking, managerial management Networking

**Source:** Primary Data

Table 4.15 shows that the model is statistically significant for hypothesis 2 and 3. This means that managerial networking- management and business networking-importance have a positive influence on business performance. Thus, the data is in support of hypothesis 2 and 3. In other words, management and importance of networking have a positive influence on SME Performance. The coefficients table 4.15 below has results showing the coefficients that were significant in predicting business performance.

**Table 4.15: Regression coefficients**

**Coefficientsa**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 (Constant) | .722 | .138 | | 5.225 | .000 | | |
| Business Importance | .562 | .030 | .647 | 18.997 | .000 | .667 | 1.499 |
| Managerial Management | .231 | .024 | .326 | 9.562 | .000 | .667 | 1.499 |

a. Dependent Variable: Performance

The constant is the value of business networking and managerial networking when performance is 0. It is a useful way to conceptualise how one value might be predicted from another. For this study, when performance is 0, business networking is expected to be 0.722 units, and when business performance is at 0, managerial networking is 0.562. In other words, for one unit increase in networking, the expected odds of performance being in a higher level increase (that is, as one moves to the next response category of performance, from strongly disagree to disagree, neutral, and so on).

Table 4.15 provides the collinearity statistics with VIF<10 and >1 and T >0.2 which suggest there is no collinearity problem (Galawe ,2017) , multicollinearity is when two or more predictor variables in the model are highly correlated ( r >0.8 or 0.9 ) and provide redundant information about the responses. The main reason for

carrying the test is to determine if any independent variables are similar ( Field, 2013; Tabachnick & Fideli, 2003) Table 4.13 shows a correlation coefficient of the different variables and none of them has a coefficient ( (r>0.8) therefore there is no problem of multicollinearity.

### *4.6.1 Hypothesis 1: Social networking positively influences performance*

Hypothesis 1 was not tested as it did not measure what it was meant to measure it was eliminated at the validity stage. The study has the view that the respondents did not understand the questions about social networking as a separate construct from business networking. As a result the social networking construct was eliminated at the validity test stage and was not part of the correlational and regression analysis. Therefore it was concluded that social networking was not a valid latent factor as it did not measure what it was purported to measure.

In this study, business networking – importance and managerial networking – management were the predictors and business performance is the dependent variable. Regression analysis was used to generate a model that could support the performance, based on the business networking - importance and Managerial networking - management . The results are as follows.

### *4.6.2 Hypothesis 2: Business networking positively influence performance*

The results showed that business networking significantly influences performance with $\beta=0.647$, $p<.05$. Business networking in this case was specific to the importance of business networking which is at 65% which can be viewed as a strong influence.

### *4.6.3 Hypothesis 3: Managerial networking positively influence performance*

It was also evident that managerial networking significantly influences performance with $\beta=0.326$, $p<.05$. This was specific to the management of managerial business networking though it is not large but only 33% but is still significant.

## 4.7 Summary of results

In this chapter, the results of the data collected from 304 SMEs were presented. Tests were performed to determine the validity and reliability of the research instrument used to measure the influence of networking on SME performance in Gauteng.

53.62% of respondents were female and 46.38% were male, which means that survey was taken up mostly by women, with the most popular age group being 36-45. The participants with the highest education level were in the diploma category. The results also revealed that most of the respondents had been in business for 5-9 years. With employees ranging from 11- 49, the industry with the highest SMEs was manufacturing.

The results from factor analysis indicated that there are 26 items that could explain the variance in the data. However, high correlations between factors enabled some items to be combined into two factors of management and importance of networking.

Correlation analysis provided supporting evidence for a strong, positive relation between business- importance and managerial – management networking and SME performance, thus supporting hypothesis 2 and 3. No strong evidence was found in support of hypothesis 1 as the factors did not load onto social networking.

**Table 4. 16: Summary of hypothesis testing outcomes**

| | **Hypothesis** | **Testing outcome** |
|---|---|---|
| H1 | Social networking positively influences performance | Not supported |
| H2 | Business networking positively influence performance | Supported and Significant |
| H3 | Managerial networking positively influence performance | Supported and Significant |

Based on the data collected, networking is important because managers and management can be expected to exert influence, especially within the network context and because of the performance related impacts, such as managerial efforts, have shown to be significant. Management is more crucial in networks because of its influence on SME performance in terms of creating organisational structure that contributes to system stability and also for exploiting opportunities present in the environment. Such significance has been established in studies by Maina, Marwa and Waiguchu (2016), Mmereki, Setibi, and Bafaneli (2015) and Kariuki (2014).

# CHAPTER 5: DISCUSSION OF THE RESULTS

## 5.1 INTRODUCTION

This chapter interprets and discusses the results of the study, following the results presented in chapter 4. The findings of the study are integrated with the literature review in order to generate meaningful insights in response to the problem, investigating the influence networking plays in the performance of SMEs. The discussion in this section covers the demographic profile of respondents, followed by a discussion pertaining to the demographics of the business. The outcomes of the hypothesis testing are reviewed and finally, the implications of the findings are discussed.

## 5.2 Demographic profile of respondents

### *5.2.1 Age*

It was found out that most respondents (53%) fall in the middle age category (36-45 years). Venter and Urban (2015) contend that individuals tend to undertake entrepreneurship and new venture creation at a time when they have lower demands in terms of family and financial responsibility. This typically occurs in their youth or at a later stage in their life when family and financial responsibilities have reduced and they have had an opportunity to pursue a career. The outcome of this study is surprising as a smaller proportion of repondents (2%) fall within the young adults category (18 – 25 years) and also a smaller propotion of 18% on (26 – 35 years) and an even smaller proportion (28%) falls within the older adults category (46-55). As a solution to the high levels of youth unemployment in South Africa (Netshitenzhe, 2013), policy makers must focus on interventions that stimulate entrepreneurship in the young adults category.

### *5.2.3 Gender*

The gender of the entrepreneur also plays a role in enterprise growth (Rogerson, 2001). Results showed that only 46% of respondents were women whilst 54% were male. Women are amongst the groups of previously disadvantaged people in South Africa, with policy interventions aimed at improving their quality of life and securing their incomes. The poor representation of women in business may be as a result of inequalities that form barriers to women's participation in the economy. Despite many policy interventions, women in South Africa are still marginalised economically and socially. As a result of this, they have limited access to education and resources (Netshitenzhe, 2013), which are essential for starting and running a successful business. In addition to that, the under-representation of women may be as a result of women attempting to balance income generation activities with household and child rearing responsibilities.

The sample comprised businesses that participate in training programmes. Such businesses largely adopt growth-oriented strategies. Women entrepreneurs may be reluctant to pursue aggressive growth strategies for their enterprises (Rogerson, 2001) in order to maintain balance between income generation and household and child rearing responsibilities. Growth-oriented strategies for enterprise development are at risk of alienating and neglecting large numbers of women entrepreneurs whose primary objective may be survival and security of income (Rogerson, 2001). To meet the objectives of poverty reduction, South African policy makers must find ways to support and promote the survival of businesses in industries that are compatible with the needs of women.

### *5.2.4 Education*

Education forms part of an entrepreneur's human capital. Despite the common belief that one can flourish as an entrepreneur without an education, empirical evidence suggests that entrepreneurs have a higher level of education than non-entrepreneurs (Venter & Urban, 2015). Results showed that 40% of the respondents who participated in the research have a diploma level qualification while a significant proportion have an post-graduate qualification (30%). Those who did not progress

beyond secondary schooling were in the minority . The bias towards respondents with a secondary or post-matriculation qualification supports the assertion by Venter and Urban (2015) that there is a positive relationship between education level and entrepreneurial behaviour.

### *5.2.5 Business Tenure and Number of employees*

Results show that 20% of the businesses that participated in the survey have been in operation between one and three to four years. Such businesses are in the start-up phase and are typically concerned with overcoming the liability of newness (Venter & Urban, 2015) and undertaking activities that will ensure they fully exploit the opportunity in the market. 47% of participating businesses have been trading in that sector between five and nine to ten years. These businesses are in the post start-up phase (Venter & Urban, 2015) and are concerned mostly with sustainability and growth.

## 5.3 To what extent does networking influence performance?

The results are consistent with studies by Thrikawala (2011), furthermore, the author suggests that because of the strong impact of networking on the success of SMEs, policy makers should organise networking activities for SMEs, apart from their traditional supporting approaches.

There is evidence, as highlighted by Rehman (2015), who established that network size improves the performance of firms. From the study, it is evident that an enterprise engaged in different types of networks will gain advantage that will improve the performance of the enterprise. Business networks do influence business performance, relationships with direct partners will increase access to information because partners are more willing and able to share information. These business networks will enable an enterprise to gain more clients, shareholders, business associates, suppliers, and technical and market knowledge.

These findings are consistent to the findings of Parida (2010), who found that maintenance managerial network impacts positively on business performance of

SMEs. Managerial networks maintain relations with competitors, customers and suppliers. This study indicates that entrepreneurs are participative in managerial networks; it also showed that SMEs build networks with managers of similar enterprises and followed by suppliers and customers, the higher the chance the SME will attain legitimacy and business alliances. In addition, through networking, the SME learns appropriate business behaviour from other managers, suppliers and customers.

Different performance measures were used which included both financial and non-financial measure of performance. The net profit, sales growth, gross profit, cash flow, from the study showed that the respondents were satisfied with the performance of their business. Previous studies established that business owners are challenged by limited experience and competence in financial management (Seed Academy, 2017; Nemaezhe, 2010; Halabi, Barret, & Dty, 2010). It is not clear if South African SMEs are fully utilising the information available to them through networking to make decisions and take actions to optimise business performance. SMEs' level of performance is also determined by the owners' level of networking. SMEs with weak networking will most likely, also have weak business performance.

Participating in networks, such business and managerial networks will enable an enterprise to gain superior information and resources to overcome the constraints that arise in business operations. Furthermore, network participation will allow the SME owner to learn from others within the network and gain knowledge that improves the emotional intelligence of the owner and the performance of the SME.

To make this determination, the following hypotheses were tested

### *5.3.1 Hypothesis 1: Social networking positively influences performance*

Hypothesis 1 could not be tested since social networking was dropped during the validity testing stage. The hypothesis meant to test the influence of social networking on performance. It was evident that this sample of Gauteng entrepreneurs, regardless of different types of networking, seems to interpret networking as one type and managed to differentiate their importance and management. This means

that networking is largely unstructured in nature, where friends and families or relatives are accessed as opposed to business associates (Aldrich & Carter, 2004). The researcher concludes that this suggest that when entrepreneurs socialise they don't separate the networks acquired as business or social, they all viewed as business networks to be managed and valued.

### *5.3.2 Hypothesis 2: Business networking positively influence performance*

In support of hypothesis 2, the importance of networking for small and medium sized enterprises has been noted by a number of authors, with networking contributing to the business performance of SMEs. According to Stam, Arzlanian and Elfring (2014), the resources bundled up in an entrepreneurial network play a very important role in the performance of a firm. Networking, if well organised, will improve the financial performance and increase in market share of an organisation through identification of new business opportunities, ensure skills transfer and allow good ratings in different sectors. Networking plays an important role in providing information, thereby reducing the level of uncertainty in SMEs (Sungur, 2015).

### *5.3.3 Hypothesis 3: Managerial networking positively influence performance*

In support of hypothesis 3, the knowledge management strategies have a positive impact on firms' performances and on the performance of firms' networks (Bhatt, 2000). This is because current and updated knowledge is critical for the success of any business. Thus, firms keep on striving to develop close relationships with other stakeholders to minimise the uncertainties by mutually joining and increasing their resources' levels, including knowledge resources as well (Salamzadeh, 2015). By focusing on the management of networking, the present study has improved understanding of business networking, which is usually driven by managers. According to Aarakit and Kmbugwe (2015), managers build and manage relationships with particular managers in their surroundings.

# CHAPTER 6: CONCLUSION, IMPLICATIONS AND RECOMMENDATIONS

## 6.1 Introduction

The purpose of this chapter is to draw conclusions and discuss the theoretical and practical implications of the study's findings and make recommendations thereof. The study focused on the influence of networks, as well the performance of SMEs. Recommendations are made on the influence and suggestions for future research, aimed at researchers interested in this field of study.

## 6.2 Conclusions of the study

The purpose of this study was to investigate the influence of networking on business performance of SMEs. The findings of this study reveal a significant correlation between networking and SMEs performance. Accordingly, business networks do influence business performance. Relationships with direct partners will increase access to information because partners are more willing and able to share information. These business networks will enable an enterprise to gain more clients, shareholders, business associates' suppliers, and technical and market knowledge. Business networks are purposefully established alliances comprising a specific set of organisations, its members, who each have agreed upon roles and tasks that aim to benefit the network and its members (Jack , 2010; Moller, 2013).

Along with opportunity recognition and exploitation, firms use strategic alliances to gain access to extend firm operational boundaries in search of knowledge, resources and capabilities (Antoncic & Prodan, 2008, Haeussler, Patzelt & Zahra, 2012), thus managerial networks maintain relations with competitors, customers and suppliers. This study indicates that entrepreneurs are participative in managerial networks; it also showed that SMEs build networks with managers of similar enterprises, in addition, through networking, the SME learns appropriate business behaviour from other managers, suppliers and customers.

The results pertaining to influence of social, managerial, business networking to SMEs performance are as follows:

**Hypothesis 1: Social networking positively influence performance (NOT TESTED).**

Hypothesis 1 could not be tested since social networking was dropped during the validity testing stage. The hypothesis meant to test the influence of social networking on performance. Unfortunately the respondents only see networks as business and they don't treat as social. Moreover, the social networks can be biased in that they may exclude or provide unequal access to some members. According to Yu and Chiu (2010), when social networks of a business owner become too many, business performance will start to decrease.

**Hypothesis 2: Business networking positively influence performance (SUPPORTED).**

The findings showed strong support for hypothesis 2, which means there is a strong influence of business networking on business performance. The business networking was more specific to the importance of the networking itself. Business networks can have an impact on the performance of a business. This study is supported by Chittithaworn, Islam, Keawchana and Yusuf (2011) who found that business networking plays an important role in helping business gain organisational legitimacy and in helping them build a good reputation. Furthermore, relationships formed under business networks create a platform where businesses can access information about industry trends and future business opportunities.

**Hypothesis 3: Managerial networking positively influence performance (SUPPORTED).**

The findings showed a significant support for hypothesis 3, which means there is a strong influence on managerial networking on business performance. The managerial networking was more specific on the management of the networking itself. Managerial networks require an association between managers of a business and other managers of other businesses. Therefore, managerial networks are

directly related to managers of other business, hence management of networking plays an important role. Managerial networks are created and managed by managers. Managerial networks improve the business strategic position, help them focus on its core business (Heshmati, 2013).

## 6.3 Implications and Recommendations

Investigating the influence of networking on SME performance is advocated as a meaningful pursuit. The findings of the study are consistent with the results of Sarens, Everaert, Verplancke, and De Beelde (2015) and Park and Rhee (2014). This implies that a highly diverse networking offers a good resource mix that in turn, improves the business performance of small and medium enterprises.

The implications of the study suggest that although many studies encourage networking, the practical value of the present research to several areas of interest is to the big corporations, organisations, insurance companies, as well as industry regulators, government, interested stakeholders, business associations and suppliers, who desire to promote networking in South Africa. In light of the above, the following recommendations are made.

Tendai (2013) suggests networking enables SMEs to engage in collective bargaining with suppliers and enjoy large discounts of bulk purchasing from suppliers which increases the access to trade credit by SMEs. Therefore, entrepreneurs are encouraged to network to share ideas, knowledge and resources because networking opens channels and enables owners to interact and have relationships with influential people who positively contribute to the enterprises.

The findings of the study show that networking is one of the factors that can bring the success every entrepreneur craves in business. Owners of businesses should be involved in business networking and managerial networking which will enhance their business. Moreover, the right social media should be used to get current information relevant for the business which will increase business success. It can be concluded that business and managerial networking has become a viable / important tool in the hand of any entrepreneur for business differentiation and success because the

business world is becoming more competitive in the emerging global village. Based on the findings of this study, some recommendations and suggestions are meaningful, which may help and ensure the impact of managerial networking and business networking on entrepreneurial performance.

## 6.4 Suggestions for further research

It should be noted that this study has made contributions in understanding what networking is, the importance of networking, networking management, and the influence it has on the performance of SMEs, but there are some limitations which lay the foundation for future research. The data for this study was only collected from Gauteng province in South Africa, which is known as the economic hub of South Africa. Accordingly, the applicability of the findings to other provinces is not known. Therefore, future research can include all provinces to get a larger sample in order to ascertain if the present findings are applicable to the broader population of SMEs.

Furthermore, in addressing limitations of the present and similar research, it is concluded that most of the literature dealing with networking approaches the topic from a descriptive perspective, which causes variation in conceptualisation of types of networking, such as social networking, managerial networking and business networking (Rehman, 2015). These differences create confusion and make respondents interpret networking as one type; based on this study, respondents managed to differentiate the importance and managerial element of the questions. By investigating the types of networking, Jack, Dodd and Anderson (2008) demonstrate that networks are vital living organisms, changing, growing and developing over time.

This study looked at demographics but did not look at how they influence SME networking and performance. However, there are also other factors that influence the networking of SMEs, such as efficiency, political influence, market strategy, internalisation, personal characteristics and firm characteristics. In this regard, future research can also incorporate other factors in order to have a better understanding

of the factors of networking such as employee working experience, international networking and ethnic networking.

The researcher suggested various factors that have influence in initiating networking activities among SMEs. Since networking is an important topic to study, studying the factors will help SMEs get involved in networking activities, so the knowledge of the factors is very important for future research.

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# APPENDIX A: QUESTIONNAIRE

General Instructions

All questions must be answered by placing a tick in the relevant boxes

**Section A: Entrepreneurial Characteristics**

Q1.Please indicate your gender

- Male
- Female

Q2.Please indicate your age (years):

- 18-35
- 36-45
- 46-55
- 56+

Q3.Please indicate your level of education

- No schooling
- Primary school
- Secondary school
- Undergraduate degree/ diploma
- Postgraduate

**Section B Firms characteristics (Please tick appropriate)**

Q4. How many years has your business been in existence?

- 1-4 years
- 5-9 years
- 10-14
- 15 years and above

Q5. How many employees do you employ?)

- less than 10
- 11-49
- 50-99
- 100-200
- 200+

Q6. In what industry is your business enterprise operating

- Agriculture, fishing, forestry
- Manufacturing
- Construction
- Wholesale, Retail, hotels, restaurants, motor vehicles, personal and household good
- Electricity, Gas and water supply
- Transport, storage and communications
- Financial , Real estate and Business Service

**Section C: Networking (Networking will be measured by the following factors)**

Q7 Business Networks, (please tick appropriate)

(a) Are you a member of any kind of professional association such as chamber of commerce?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(b) Have you attended any trade fairs and business seminars?

1. Definitely yes

2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(c) Do you maintain relationships with government agencies?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(d) Do you maintain any business relationships with your competitors (similar businesses)?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(e) Do you maintain any business relationships with your suppliers?

1. Definitely yes
2. Probably yes
3. Maybe Yes

4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(f) Do you maintain any business relationships with your customers?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

Q8 Social Networks

(a) Do you belong to any social associations or clubs?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(b)Do you maintain any business relationships with your friends?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure

5. Maybe not
6. Probably not
7. Definitely not

(c) Do you maintain any business relationships with your family and relatives?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

Q9 Managerial networks

(a) Do you maintain any business relationships with your competitors (similar businesses)

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

(b)Do you maintain any business relationships with your suppliers?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not

7. Definitely not

(c) Do you maintain any business relationships with your customers?

1. Definitely yes
2. Probably yes
3. Maybe Yes
4. Not sure
5. Maybe not
6. Probably not
7. Definitely not

Q10. Please indicate the importance of each of these sources for your business in attaining the following:

**(a) Business Networks**

Please indicate the importance of Business networks

| | |
|---|---|
| Government Agencies | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| Membership in professional associations | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important |

| | |
|---|---|
| | 7. Extremely important |
| Business seminars | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| External consultant | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| Accountant | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| Customer | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important |

| | |
|---|---|
| | 7. Extremely important |
| Suppliers | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| Competitors | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |

**(b)Social Networks**

Please indicate the importance of Social networks

| | |
|---|---|
| Friends | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| Family and relatives | 1. not at all important<br>2. Low importance<br>3. Slightly importance |

| | |
|---|---|
| | 4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| Social associations or clubs | 1. not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |

**(C) Managerial**

Please indicate the importance of managerial networks

| | |
|---|---|
| Competitors or similar business | 1. not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |
| suppliers | 1. not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |

| | |
|---|---|
| customers | 1. Not at all important<br>2. Low importance<br>3. Slightly importance<br>4. Neutral<br>5. Moderately important<br>6. Very important<br>7. Extremely important |

**Section D**

Q11.Business performance

Indicate the level of satisfaction on business performance to the following criteria.
For all SMEs including for those with business less than 5 years

| | **Very satisfied** | **Moderately satisfied** | **Slightly satisfied** | **Neutral** | **Slightly dissatisfied** | **Moderate dissatisfied** | **Very dissatisfied** |
|---|---|---|---|---|---|---|---|
| Sales level | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Sales growth rate | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Cash flow | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Return on shareholder equity | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Gross profit margin | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Net profit from operations | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Profit to sales ratio | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Return on investment ( ROI) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Ability to fund | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| business growth from profits | | | | | | | |

# APPENDIX B : CONSISTENCY MATRIX

| To investigate the influence of networking on SME Performance | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Subproblems or Aims** | **Literature review** | **Research questions** | **Hypothesis** | **Variables** | **Relevant question on instrument** | **Type of data** | **Analysis** |
| **Aim 1:** To investigate the influence of social networking on performance. | (Abdullahi, M.S., Abubakar, A., Aliyu, R.L. & Umar, M.B, 2015).<br>(Tehseen, S., Ramayah, T. & Sajilan, S, 2017)<br>(Watson, 2012) | **1:** To what extent does social networking influence performance | **Hypothesis 1:** Social networking positively influences performance. | Social networking (ID)<br>Performance (D) | Section C and Section D | Ordinal | Regression Analysis<br>Descriptive analysis<br>Correlational analysis |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Aim 2:** to investigate the influence of business network on performance | (Yu, S.H. & Chiu, W.T, 2010)<br><br>(Thrikawala ,2011)<br><br>(Moeller ,2010) | **2**: To what extent does business networking influence performance | **Hypothesis 2**:<br><br>Business networking positively influences performance | Business Networking ( ID)<br><br>Performanc e (D) | Section C and Section D | Ordinal, | Regression Analysis<br><br>Descriptive analysis<br><br>Correlational analysis |
| **Aim 3:**To investigate the influence of Managerial networking on performance | (Surin, E.F., Edward, O.T., Hussin, H.F. & Wahab, I.A,2017).<br><br>(Brush et *al*.2004)<br><br>(Watson, 2012)<br><br>(Tehseen, S. & Sajilan, S,2016)<br><br>(Rehman,2015) | 3.To what extent does managerial networking influence performance | **Hypothesis 3:**<br><br>Managerial networking positively influences performance | Managerial networking ( ID)<br><br>Performanc e (D) | Section C and Section D | Ordinal, | Regression Analysis<br><br>Descriptive analysis<br><br>Correlational analysis |

# APPENDIX C : CLEARANCE LETTERS (ETHICS DETAILS)

UNIVERSITY OF THE
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03 December 2018
Person No: 1757662
PAG

Miss SH Mlotshwa
04 Berger Road
Berger Road Vorna Valley
Midrand
1686
South Africa

Dear Miss Semukele Mlotshwa

**Master of Management in Entrepreneurship and New Venture Creation: Approval of Title**

We have pleasure in advising that your proposal entitled *The influence of networking on SME performance in Gauteng* has been approved. Please note that any amendments to this title have to be endorsed by the Faculty's higher degrees committee and formally approved.

Yours sincerely

Mrs Marike Bosman
Faculty Registrar
Faculty of Commerce, Law and Management

**UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG**

**FACULTY OF COMMERCE, LAW & MANAGEMENT**

**CERTIFICATE TO BE SIGNED BY SUPERVISORS OF HIGHER DEGREE CANDIDATES**

Semukele Hellen Mlotshwa **and** 1757662 candidate for the MMENVC

(student's name) (student number) (degree)

has today submitted his/her thesis/dissertation titled:

The influence of networking on Small Medium Enterprise Performance in South Africa - Gauteng

A) Has his/her thesis / dissertation been submitted with the acquiescence of the supervisor?

Yes X No _____

B) To the best of your knowledge are you able to verify that the candidate has acknowledged wherever any information used in the thesis or dissertation or other work has been obtained by him or her while employed by, or working under the aegis of, any person or organisation other than the University or its associated institutions?

Yes X No _____

NAME OF SUPERVISOR: Jabulile Galawe

SIGNATURE: _____ DATE: 25 Feb 2019

NAME OF ACADEMIC HEAD / RESEARCH DIRECTOR: _____

SIGNATURE: _____ DATE: _____

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## Statement of principles for postgraduate supervision MM ENT & NVC

**S2007/476B**

IN A CONTEXT OF ACADEMIC FREEDOM AND WITHIN A FRAMEWORK OF INDIVIDUAL AUTONOMY AND THE PURSUIT OF KNOWLEDGE THIS STATEMENT IS WRITTEN IN THE BELIEF THAT THERE IS A RECIPROCAL RELATIONSHIP AND MUTUAL ACCOUNTABILITY BETWEEN SUPERVISOR AND STUDENT.

**THE SUPERVISOR AND THE STUDENT:**

1. Will establish agreed roles and clear processes to be maintained by both parties. In the case of joint supervision everybody's role needs to be clarified.
2. Will meet regularly and as frequently as is reasonable to ensure steady progress towards the completion of the proposal, research report, or dissertation or thesis. This time varies but the normal minimum requirement for face-to-face contact spread across each year of registration is: 10 contact hours for an Honours project, 15 contact hours for a Masters by research report and 24 contact hours for a Masters by dissertation and a PhD.
3. Will keep appointments, be punctual and respond timeously to messages.
4. Will keep one another informed of any planned vacations or absences as well as changes in his or her personal circumstances that might impact on the work schedule. Unplanned absences or delays should be discussed as soon as possible and arrangements should be made, to catch up lost time.
5. Will ensure that research on animal or human subjects is conducted according to the procedures and the requirements of the relevant University Ethics committee.
6. Will together complete progress reports on the research project, as requested by each Faculty Graduate Studies Committee.

**THE SUPERVISOR:**

1. Undertakes to provide guidance for the student's research project in relation to the design and scope of the project, the relevant literature and information sources, research methods and techniques and methods of data analysis.
2. Has a responsibility to be accessible to the students.
3. Will be prepared for the meeting with the student. This includes being up-to-date on the latest work in his/her area of expertise.
4. Will expect written work as jointly agreed, and will return that work with constructive criticism within a timeframe (a suggestion of 2-4 weeks) jointly agreed at the outset of the research.
5. Will provide advice that can help the student to improve his/her writing. This may include referrals for language training and academic writing. The supervisor will provide guidance on technical aspects of writing such as referencing as well as on discipline specific requirements. Detailed correction of drafts and instruction in aspects of language and style are not the responsibility of the supervisor.
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8. Will ensure the student has the opportunity to present work at postgraduate/ staff seminars/national/international conferences as appropriate.
9. Will assist with the publication of research articles as appropriate.
10. Will discuss the ownership of research conducted by the student in accordance with the University guidelines and rules on intellectual property, co-authorship and copyright.
11. Will ensure that the research is conducted in accordance with the University's policy on plagiarism.
12. Will ensure that the student is made aware in writing of the inadequacy of progress and/or of any work where the standard is below par. Acceptability will be according to criteria previously supplied to the student.
13. Has a duty to refuse to allow the submission of sub-standard work for examination, regardless of the circumstances. If the student chooses to submit without the consent of the supervisor, then this should be clearly recorded and the appropriate procedures followed.

**THE STUDENT:**

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5. Written work that is submitted should be relatively free from basic spelling mistakes, incorrect punctuation and grammatical errors. Responsibility for the accuracy of language, the overall structure and coherence of the final research report, dissertation or thesis rests with the student.
6. Undertakes to heed the advice given by the supervisor and to engage in discussion around suggestions made. Ultimately the student has to take responsibility for the quality and presentation of the work.
7. Should strive, within reasonable bounds, to maintain a focus on his/her research area and to work within the agreed time schedule.
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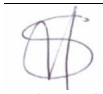
We confirm that we have read and understood this statement and agree to be guided by its principles for as long as we continue to work together.

Name of student: Semukele Hellen Mlotshwa



Student's signature:_____

Name of Supervisor: Dr. J. Galawe



Supervisor's signature:_____

Name of Co-Supervisor:_____

Co-Supervisor's signature:_____

The broad area of study is: **The influence of networking on Small Medium Enterprise Performance in South Africa -Gauteng**

Provisional submission date is:_____

Degree:_____
School:_____
Faculty:_____

Date:_____

Wits Business School
University of the Witwatersrand, Johannesburg
MM Panel Ethical Clearance Form

**Researcher's personal data**

| | | | |
|---|---|---|---|
| **Surname** | **Mlotshwa** | **Name:** | **Semukele Hellen** |
| **Title (circle one):** | | **Prof** ☐ **Dr** ☐ **Mr** ☐ **Ms** ☒ **Other:** | |
| **School** | Wits Business School | | |
| **Staff / Student number** | **1757662** | ☒ **Full time** ☐ **Part time** ☐ **Staff** | |
| **Name of Supervisor** | **Dr. J. Galawe** | | |

| **TITLE OF RESEARCH PROJECT** |
|---|
| **The influence of networking on Small Medium Enterprise Performance in South Africa – Gauteng** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Is this research for degree purposes?** | | | ☒ **Yes** | ☐ **No** | | | |
| **If so, for what degree?** | ☐ **Honours** | ☐ **MA** | ☐ **PhD** | ☒ **Other (specify): MM** | | | |
| **Has it been approved by the relevant higher degrees committee or other relevant unit?** | ☐ **Yes** | ☒ **No** | ☐ **Submitted & pending** | | | | |

| | | |
|---|---|---|
| **Does this research involve human subjects** | ☐ **Yes** | ☐ **No** |

**NB:** If the research does not involved human subjects the remainder of the form need not be completed, with the exception of the signatures.

| **Where will the research be carried out?** |
|---|
| **South Africa : Gauteng** |

| **What are the aims & objectives of the research relevant to human research participants** |
|---|
| To investigate the role networking plays in the performance of SMEs in Gauteng |

| **Has appropriate formal permission been obtained, if required (e.g. employer, government department, land owner, etc.)?** | | |
|---|---|---|
| ☐ Yes (attached) | ☒ Not required | ☐ Pending (must be supplied before permission is granted) |

| **Do you have any financial or material interest associated with your research participants or with the organisations that you will work with during your research?** | | |
|---|---|---|
| ☐ **Yes, current** | ☒ **No** | ☐ **Potential conflicts of interest may exist** |
| **If yes, please explain how you will manage any existing or potential conflicts of interest.** | | |

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