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INFLUENCE OF SOCIAL CAPITAL ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY KENYA

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Entrepreneurship, Entrepreneurship skills, Financial accessibility, Small and micro enterprises, Social Capital, Social networks

ABSTRACT

Social capital refers connections among individuals, based on norms and networks of cooperation and trust, which spills over to the market and state to enhance collective action between formal actors and achieve improved social efficiency and growth. Despite the significant role by the SMEs it has continued to experience many constraints like poor financial access, lack of innovativeness, limited access to information, unfavourable polices among others that have inhibited the realization of its full potential. The study was guided by the following research objectives which include; finding out to what extent social networks, access to

innovation, level of trust and access to finance which are components of social capital influence the performance of SMEs in Kenya. The target population consisted of 1000 SMEs operating in the Nairobi Business District. A sample of 100 entrepreneurs of the target population was considered by use of stratified sampling method. The study found that social capital components (Social Networks, Access to innovation, Entrepreneurial Skills and Access to Finance) have a great positive influence on the growth of SMEs. Entrepreneurial skills are the most significant of social capital at 5% level of significance influencing performance of small and medium enterprises Nairobi County.

INTRODUCTION

Globally, small and medium enterprises (SMEs) have been the engines of economic growth in driving industrial development (IFC, 2011). Due to their sheer numbers, size and nature of operations, the role of SMEs in promoting endogenous sources of growth and strengthening the infrastructure for accelerated economic expansion and development Worldwide has been recognized (Lumpr, 2006). The interdependence of SMEs and large enterprises in collaborating with each other has led to the further expansion of SMEs.

The potential of SMEs to promote domestic-led growth in new and existing industries and to strengthen the resilience of the economy in a competitive and challenging environment is inarguable (WB, 2002). Available data show that on about a decade ago, SMEs in Kenya employed 3.2 million people and accounted for 18% of national GDP (Woldie, 2008). In view of this, governments globally including Kenya have put a lot of emphasis on the growth of this sector and as a result, in 2011, SMEs contribution to GDP rose up to about 70%, however this sector have continuously remained stagnant in terms of growth and expansion. As vital as they are, SMEs have low survival rate, less than a third of their business survive transition from first to second generation ownership and those that do, about half do not survive the transition from second to third generation ownership (Bowman, 2006). This therefore implies need for intervention and more research on various concepts of their business and operations to enhance their performance in the country. Social capital matters for economic growth (Tabellini 2009; Algan & Cahuc, 2010). The literature clearly indicates that social capital, or the resources that entrepreneurs may access through their personal networks (Adler & Kwon, 2002), allows entrepreneurs to identify opportunities (Bhagavatula et al., 2010), mobilize resources (Batjargal, 2003), and build legitimacy for their firms (Elfring & Hulsink, 2003). Researchers increasingly

acknowledge that entrepreneurial activity is embedded in network relationships that direct resource flows to entrepreneurs who are somehow better connected (Hoang & Antoncic, 2003). Yet despite this surge of interest, little consensus exists concerning what exactly is known about the social capital–performance link in the small firm context (Maurer & Ebers, 2006; Stuart & Sorensen, 2007).

Researchers have been investigating the effects of social capital on the performance of institutions (Carlos, 2011). Different studies have been carried out on the interactions between social capital and growth whereby many authors have suggested that SMEs need to carry greater leverage in order to maximize value of the firm. According to Fabio (2007) there is growing empirical evidence that social capital contributes significantly to sustainable development.

Social Capital

Wu (2008) points out that there is lack of consensus on a precise definition of social capital. Acquaah (2008) defines social capital as the actual and potential resources embedded in net-working relationships that are accessed and used by actors (for example, managers of business enterprises) for actions (for example, conduct of enterprise business activities). Acquaah (2008) further notes that social capital can be divided into internal and external social capital. While internal social capital deals with the structure and social networking relationships among actors (that is, individual members) within a system organization, external social capital focuses on the structure and social networking relationships. The OECD defines social capital as networks together with shared norms, values and understandings that facilitate co-operation within or among groups (Cote & Healy, 2001). Woolcock (2001) suggests that a virtue of adopting a relatively narrow and agreed upon definition is that it encourages supporters and skeptics to adhere to the same rules.

Aquilera (2002), using the 2000 Social Capital Benchmark Survey, finds that social networks are generally positively related with increased labor force participation. Temple (1998) finds that social capital differences explain much of the variation of growth performance among African economies. Maluccio et al. (2000) and Carter and Maluccio (2003) using a household panel data set in South Africa, find that social capital had a positive effect on per capita expenditure in 1998 and that households in communities with more social capital seem better and able to weather shocks. Grooteart et al (2002) find that higher levels of social capital are associated with higher household per capita expenditures and better access to credit for rural households in Burkina Faso. Buerkle and Guseva (2002) find in a study on Poland and the Czech Republic that social capital gained while in school has an independent effect on individual income. Rupasingha et al. (2000) use regression analysis on U.S. county-level data and find that social capital has an independent positive effect on the rate of per-capita income growth.

Social Capital and Firm Performance

Social capital through social relations is capable of providing individual entrepreneurs with financial and physical support (start-up capital and labour); useful information (market intelligence, information on customers and other business opportunities) (Maskell, 2001); and psychological and moral or emotional support (Sanders & Nee, 1996). Similarly, social capital facilitates the accumulation of other kinds of resources (Burt, 1992). At the firm level, the stock of social capital that an entrepreneur brings to the business at start-up and the subsequent phases has a significant influence on business survival and growth (Liao & Welsch, 2005). In particular, social capital expedites resources exchange among different units and promotes efficiency within the firm (Davidsson & Honig, 2003). Social capital also helps to strengthen supplier relations

and inter-firm learning; and enhance enterprise performance by promoting innovation and by nurturing the diffusion of knowledge (Murphy, 2002).

Statement of the Problem

The SME sector plays a vital role in creating jobs and wealth in an economy (Ngugi & Bwisa, 2013). However, RoK, 2011 notes the collapse ratio of SMEs is alarming and most enterprises are short lived and barely survive third anniversary. According to RoK, 2014, the Small Medium Enterprise sector contributed to about 75% of the GDP and constituting 90% of the private sector. Studies from Australia, USA and England showed that approximately 80% to 90% of SMEs fails within 5-10 years (Zimmerer et al. 2008; Hodgetts & Kuratko 2004; Peacock 1985; Ahmad et al. 2011). While those that survive eventually stagnate and lack continuity (Tera, 2011). Sessional paper No. 2 of 2005 shows that despite the significant role by the SMEs, they have continued to experience many constraints like poor access to market and financial services and unfavorable polices. These could lead to reduced economic development (RoK, 2012). Would the failure be caused by poor consumption of social capital by SMEs?

Social capital embedded in personal networks is critical to the development of small firm (Maurer & Ebers, 2006) as it reduces transaction cost (Piazza-Georgi, 2002). Further, investment into social capital is also closely related to technological progress, which drives growth (Routledge & Amsberg, 2003). Social connections and trustworthiness are positively correlated, and they are both ingredients of social capital which enhances access to credit from financial institutions (Glaeser et al. 2000). Therefore Social capital has impacted the efficiency of economic growth (Hjerppe 2003).

Previous studies by Mwangi, (2012) and Kirigo (2010) Social Capital and Access to Credit in Kenya indicated that no detailed study has addressed the relationship between social capital and the performance of SMEs and their impact of social network on the overall growth of small enterprises. However, relatively little is known about how SMEs develop and maintain network relationships. This study therefore seeks to find out whether social capital is a contributor to the performance of SMEs in Kenya.

General Objectives

I. Establish the influence of social network on the performance of the performance of small and medium enterprises in Kenya.

II. Find out the influence of technological innovation on the performance of small and medium enterprises in Kenya.

III. Determine the influence of entrepreneurial skills on the performance of small and medium enterprises in Kenya.

IV. Examine the influence of financial accessibility on the performance of small and medium enterprises in Kenya.

Theoretical Literature Review

This explained the different theories that supported the study. A theory is an abstract generalization that offers a systematic explanation about how phenomenons interrelate (Young, 2009). A formal theory is syntactic in nature and is only meaningful when given a semantic component by applying it to some content (facts and relationships of the actual historical world as it is unfolding (Zima, 2007). This study was based on Social Network theory, transaction cost theory, resources dependency theory and social network theory.

Social Network Theory

According to Thomas and Ranganathan 2005, social network theory views social relationships as consisting of nodes and ties. Nodes are the individual actors within the networks, and ties are the relationships between the actors. Premaratne (2002) and Jaafar et al. (2009) observe that social relationships are crucially important to the entrepreneurial process because the information needed to start and grow a business is passed to the entrepreneur basically through the existing social networks of friends.

Entrepreneurs are embedded in a larger social network structure that constitutes a significant proportion of their opportunity structure (Clausen, 2006). According to Shane and Eckhardt (2003) individual may have the ability to recognize a given entrepreneurial opportunity exist, but might lack the social connections to transform the opportunity into a business start up. It is therefore thought that access to a larger social network might help overcome this problem. Other researchers have suggested that it is important for nascent founders to have access to entrepreneurs in their social network, as the competence these people have represents a kind of cultural capital that nascent ventures can draw upon in order to detect opportunities (Aldrich & Cliff, 2003, Gartner et al, 2004).

The interest in networks spans all of the social sciences, and is rising even faster in physics, epidemiology and biology. In management research (our field), social networks have been used to understand job performance (Sparrowe, Liden, Wayne & Kraimer 2001), turnover (Kilduff & Krackhardt 2004), innovation (Obstfeld, 2005), creativity (Burt 2004), and unethical behavior (Brass, Butterfield & Skaggs 2008). In management consulting, network analysis and networking are fast becoming standard diagnostic and prescriptive tools (Anklam 2007; Baker 2000; Bonabeau & Krebs 2002; Cross, Parker & Borgatti 2000).The above theory facilitated

understanding of the first variable and objective of the study to establish the effect of social networks on performance of SMEs in Nairobi County.

Financial Capital/Liquidity Theory

Empirical research has showed that the founding of new firms is more common when people have access to financial capital (Blanchflower et al, 2001). By implication this theory suggests that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities, and set up a firm to do so (Clausen, 2006).

However , other studies contest this theory as it is demonstrated that most founders start new ventures without much capital, and that financial capital is not significantly related to the probability of being nascent entrepreneurs (Aldrich & Keister, 2003, Hurst & Lusardi, 2004, Davidson & Honing, 2003).This apparent confusion is due to the fact that the line of research connected to the theory of liquidity constraints generally aims to resolve whether a founder's access to capital is determined by the amount of capital employed to start a new venture (Clausen, 2006). In his view, this does not necessarily rule out the possibility of starting a firm without much capital. Therefore, founders access to capital is an important predictor of new venture growth but not necessarily important for the founding of a new venture (Hurst & Lusardi, 2004)

This theory argues that entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of new resources for the emerging firm (Alvarez & Busenitz, 2001). Research shows that some persons are more able to recognize and exploit opportunities than others because they have better access to information and knowledge (Anderson & Miller, 2003; Shane & Venkataraman, 2000). The above theory facilitated

understanding of the fourth variable and objective of the study to examine the effect of financial accessibility on performance of SMEs in Nairobi County.

Resources Dependency Theory (RDT)

RDT focuses on the firm's ability to establish relationships to access resources (Van Witteloostuijn & Boone 2006). It further looks at the firm's ability to access resources from other actors in the environment and describes how resource scarcities force organizations to pursue new innovations that use alternative resources (Sherer & Lee 2002).

According to the RDT, successful performance of a firm depends on resources and supporting networks (Barringer & Harrison 2000). The resources and supports are, particularly important for small firms who have to depend on some external actors. Firms are linked to their environments by federations, associations, customer-supplier relationships, competitive relationships, and a social-legal apparatus that define and control the nature and limits of these relationships as well. To survive, firms need to obtain resources from (actors in) the external environment. The focal organization will act to reduce or increase its level of reliance on those actors, through actions such as alliances or joint ventures. For example, as customers increasingly seek globally coordinated sourcing (Honings, 2003), firms respond by creating alliances to strengthen relationships with key customers (Hurst, 2004) and suppliers, including following these customers overseas. The above theory instigated the third variable and objective of the study to establish the effect of entrepreneurial skills on performance of SMEs in Nairobi County.

Diffusion of Innovation Theory

According to Rogers (2003) diffusion of innovations is a theory that seeks to explain how, why, and at what rate new ideas and technology spread through cultures. He further argues that

diffusion is the process by which an innovation is communicated through certain channels over time among the participants in a social system (Rogers, 2003).

Rogers' diffusion of innovations theory is the most appropriate for investigating the adoption of technology in start up business (Medlin, 2001). In describing the process of managing technology and knowledge, Trott (2005) observes that one of the fundamental issues for firms is to transform technology into profit. Trott (2005) noted that, over long periods, firms build up a body of knowledge and skills through experience and learning-by-doing, which can then be transferred to competitive advantage. Trott (2005) further holds that the fundamental feature that characterises successful firms is their ability to identify and exploit technological opportunities. Firms may develop distinctive competencies. These tend to form the tacit knowledge and embedded routines that are at the core of the organisation's abilities (Bowden, 2004).

The ability of organisations to develop firm-specific competencies that take time to evolve and are costly to imitate will, to a large degree, determine their survival, particularly if the firm can turn technical competencies into effective innovation and thereby generate effective organisational learning (Piyatrapoomi et al. 2004). Such firms will often develop a knowledge base that is more than the sum of the firm's individual parts. The learning organisation, therefore, is critical to the development of knowledge and is thus a key component of its innovativeness (Trott 2005). Technological innovation has an impact on economic growth only when it is widely adopted and diffused (Ruttan, 2001). The above theory adopted the second variable and objective of the study to establish the effect of technological innovation on performance of SMEs in Nairobi County.

Conceptual Framework

According to Young (2009), conceptual framework is a diagrammatical representation that shows the relationship between dependent variable and independent variables. In the study, the conceptual framework will look at the relationship between social capital and the performances of SMEs in Kenya.

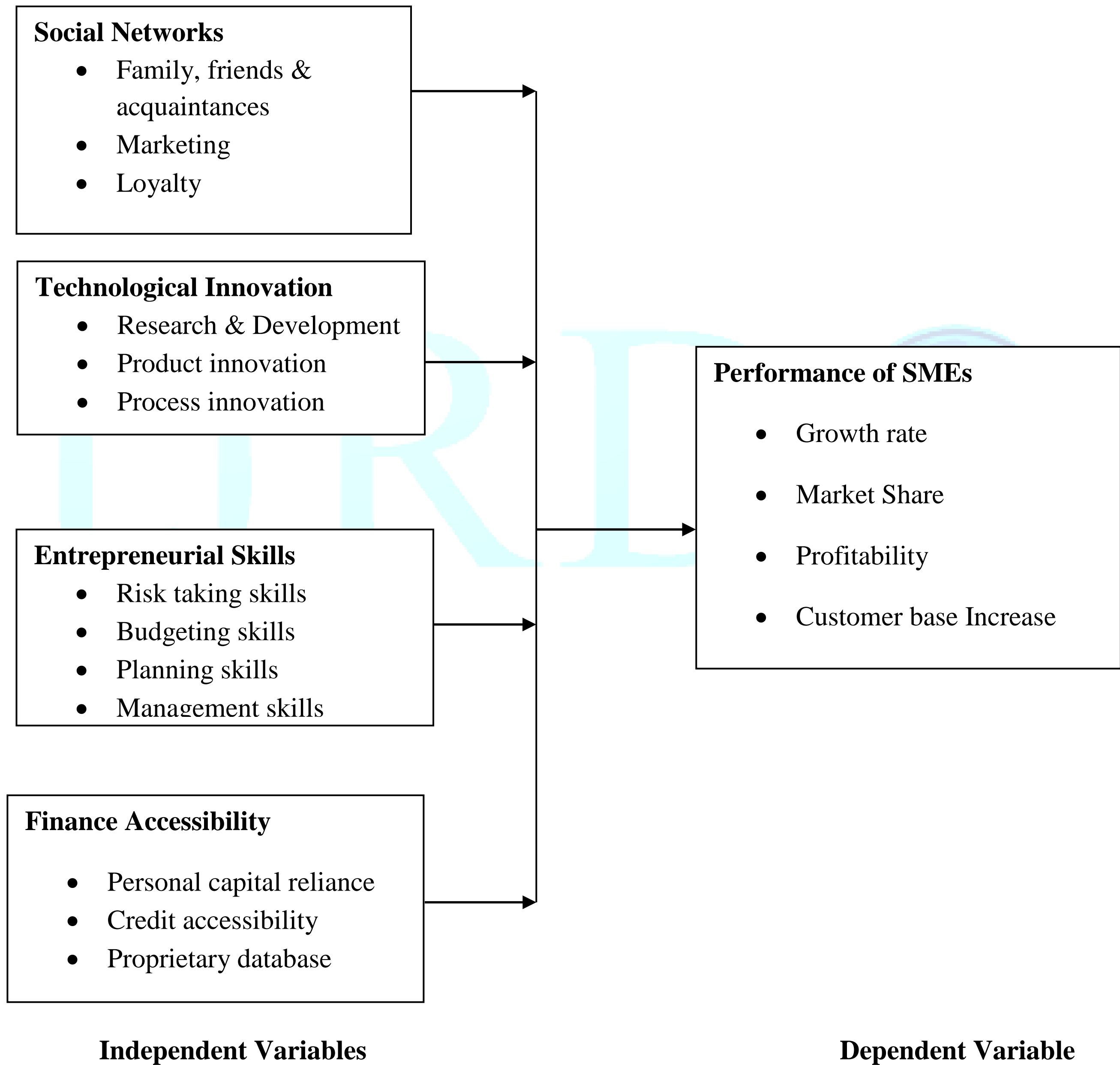

Figure 1; Conceptual Framework

Social Networks

The ability to form and maintain relationships is a necessary precondition for the accumulation of social capital. Coleman (2000) describes social capital as resources accumulated through the relationships among people. According to Lin (2001) the notion by emphasizing the importance of developing a social network, considering social capital to arise from investments in social relations with expected returns and suggests that the benefits arise from the greater access to and use of resources embedded in social networks.Social capital, located within the structure of relations between and amongst actors, represents resources available to those belonging to particular networks (Andreoni & Miller 2002). According to Coleman (2000) he examines the ways in which social relations constitute useful resources for individual actors. The core of social capital is that goodwill drawn from family, friends, workmates and other acquaintances provides a range of valuable resources including information, influence and solidarity (Sandefur & Laumann, 2004).

Social networks assists nascent entrepreneurs as individuals by exposing them to new and different ideas, world views, in effect, providing them with a wider frame of reference both supportive and nurturing to the new potential idea or venture (Aldrich Renzulli & Langton, (2001). Entrepreneurs frequently make decisions as a result of associations based on friendship or advice (Paxton, 2003), often consisting of social networks based on weak ties. Strong ties maintained by entrepreneurs and other team members may also assist in the discovery process. Aldrich et al. (2001) refer to the importance of family socialization by inspiring autonomy, as well as the delivery of personal networks that provide valuable resources

Hsiu-Yueh (2006) indicate that market orientation involves market intelligence pertaining to current and future needs of customers, dissemination of intelligence horizontally and vertically within the organization, and organization wide action or responsiveness to market intelligence.

Hoang and Antoncic, (2003) notes entrepreneurs embedded in stronger ties to their networks have enabled start-up entrepreneurs to acquire resources via a more direct and faster flow than business firms with limited stock of networks.

Standifird, (2001) show that corporate reputation allows a surge of cross-sharing of information and resources, that it increases loyalty among the social. Social capital contributes to growth by highlighting the importance of cooperation and trust within the firm and the market. The interdependence between decisions of individual agents and the emergence of externalities and common goods makes cooperation imperative to maximizing social welfare. The superiority of social cooperation has long been documented in economic and social thought.

2.3.2 Technological Innovation

According to the Oslo Manual (OECD, 2005) an innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.

The competitiveness of small firms operating in high-technology industries largely depends on the strength of their innovative capabilities (Rosenbusch et al., 2011). In these markets, knowledge is increasingly specialized and dispersed across industry participants, creating the need to access knowledge from a variety of sources (Powell et al., 2000). Diverse personal networks will be particularly valuable for firms in high-technology industries since innovation entails the novel recombination of disparate ideas and resources (Arnold, 2000). In this regard, network diversity increases the number of unique knowledge elements that can potentially be

recombined and thus enhances the likelihood that entrepreneurs identify highly innovative opportunities (Ruef, 2002).

By contrast, for small firms in low-technology industries, it will be more beneficial when entrepreneurs maintain less diverse personal networks. Individuals can more easily share and absorb knowledge when they have similar backgrounds and experiences (Reagans & McEvily, 2003), suggesting that network diversity increases the effort and resources entrepreneurs must expend to effectively coordinate and communicate with their network contacts. At the same time, small firms in low-technology industries obtain fewer performance benefits from innovation such that the novelty value of access to diverse knowledge is reduced. Together this means that, in low-technology industries, the costs of network diversity are more likely to outweigh the benefits. The contribution of social capital to innovation is achieved by reducing transaction costs between firms and between firms and other actors, notably search and information costs, bargaining and decision costs, policing and enforcement costs (Maskell, 2005).

Entrepreneurial Skills

These are skills that enable an entrepreneur to turn their business idea into feasible business opportunities, to start and to grow a business enterprise. It includes creativity, innovation, risk taking, and the ability to take successful entrepreneurial role models and identification of market opportunities (Darroch & Clover 2005).

According to Botha (2006), the absence or low levels of key skills like motivation, ability to gather resources, financial management, human resource management, marketing and technical skills, may lead to zero performance, while weakness in a particular element would decrease effectiveness in the overall performance of the venture. This thus means that the increase in the capacity of any of these skills can lead to an increase in the entrepreneurial performance of the

entrepreneur (Botha, 2006). According to Solomon (2004), in his study on entrepreneurial training, discovered the need for entrepreneurial skills for the upkeep of the business. Kunene (2008) further argued that the entrepreneur's initiative and skill are significant determinants of success.

Entrepreneurship in the 21st century is a fundamental characteristic of knowledge-based economic activity. This is because the potential value of new ideas and knowledge are inherently uncertain. The existing firms will not pursue many new ideas because they have different agendas or simply do not recognize their potential value. If a new firm is not started to pursue such ideas they will simply remain untapped.

Entrepreneurial skills construct a complex system (Mikko & Jarkko (2008)). The connecting skills are defined both in general (Krueger (2005), Schiebel (2002) and for most economic sectors (Wolf, Schoorlemmer (2007). Up to the present the measurement and comparison of these skills is not solved. The positive connection between entrepreneurial skills and economic growth is only documented generally (Carree &Thurik (2005).

Financial Accessibility

Claessens (2006) defines financial access as the availability of a supply of reasonable quality financial services at reasonable costs. According to his analysis, access equals current users of financial services, and those who are voluntarily excluded from the financial services (for example, because they have no need for financial services or they decide the prices are too high).

According to Servon (2005), despite affirmative attempts to stimulate access to credit for low-wealth individuals, disconnect still remains between low-income entrepreneurs and the resources available through mainstream financial institutions and targeted government programs.

Parker and Bleghitar (2006) found that firm owners who succeed are more likely to have both personal and external sources of capital to draw upon. Fairlie and Robb (2008) further argue that access to capital influences the survival of the business, rather than the business itself influencing the capital. Likewise, Coleman and Robb (2009) found that dramatically smaller amounts of start-up capital and greater reliance on personal rather than external sources has implications for the ability of small businesses to develop new products and services, grow their firms, hire employees, and survive periods of adversity.Therefore Salazar (2007) concludes net wealth is positively correlated with the probability that a nascent entrepreneur will start a new company, suggesting those with very high net worth will be more successful.

Research Gaps

The concept of 'social capital' has emerged recently in recognition that business ownership is predicated on the availability of and access to financial and non-financial resources (Firkin, 2003). The variety and amount of capital possessed and available to entrepreneurs can significantly impact on both their experiences of business ownership and the performance of their firms (Davidsson and Honig, 2003; Firkin, 2003).

While circumstantial evidence suggests that social capital, as measured in terms of active participation in associations that knit society together is associated with perceptions of decline in the community (Putnam 2000) if the two are causally related, its direction that has not been fully resolved. More recently, a number of studies have attempted to provide a causal relationship using different methods (Rose 2000; Mohan& Mohan 2002; Landry, Amara, & Lamari 2002); however, even these results are far from conclusive. The lack of precision concerning the causes and consequences of features associated with social capital is a direct consequence of operating a multiplicity of concepts under the same umbrella term.

The only study that has been done that is close to the current study is Nthuni (2014) on the influence of social capital on the growth of small and medium enterprises in Kenya. The finding of the study revealed that there is a significant positive relationship between the components of social capital namely Business Networks, Access to Information, Access to Innovations and Access to Finance. Also the study further recommends that entrepreneurs should establish strong business networks which are an important element of social capital that entails establishing a solid stock of connections, interactions, relationships, linkages, closeness, goodwill, and loyalty between a firm and its customers, downstream clients, strategic partners or other external stakeholders as this has a positive and significant influence on the growth of SMEs in Kenya.

This study therefore intends to fill theses pertinent gaps in literature by studying the selected independent variables on the relationship between the social capital and the performance of SMEs in Kenya. This study will add value to existing literature by providing empirical evidence on the influence of social capital on the performance of SMEs in Kenya and fill the existing contextual and conceptual gaps.

RESEARCH METHODOLOGY

The study adopted an exploratory approach using a descriptive survey design. A descriptive research design determines and reports the way things are (Mugenda & Mugenda, 2003).

The target population consisted of all the SMEs operating within the CBD in Nairobi County. From the records of City Council of Nairobi, there are 1000 registered SMEs in the manufacturing, trading and service sector in Nairobi City.

The study used stratified random sampling method as the study population was heterogeneous. In the sampling procedure, the SMEs were stratified in three sections. They included the service

sector, the manufacturing sector and the trade sector. In the population, the service sector had 445 SMEs; the manufacturing sector had 234 SMEs while the trade sector had 321 SMEs.

Data collection is a means by which information is obtained from the selected subjects of an investigation (Kothari 2008). Both primary and secondary research was carried out using structured questionnaires as an instrument of data collection. Questionnaires were preferred to other data collection instruments because they are cheap; they do not require efforts on the side of the questioner and always have standardized answers. Its disadvantage is that it gives the user limited chance of expressing anything.

Data Analysis and Presentation

Burns and Grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. The data collected was quantitative and qualitative. Once the questionnaires were received they were coded and edited for completeness and consistency. Data analysis entailed editing, coding and tabulation of data collected into manageable summaries (Mugenda & Mugenda, 2003).

An Analysis of Variance (ANOVA) was used to measure statistically the significance in predicting how social networks, entrepreneurial skills, technological innovation and financial accessibility and Performance of Small and micro enterprises. The test of significance involved the use of squared moment correlation coefficient, the R square, as a measure of significance. The coefficient is a standard measure of an assumed linear relationship between variables. A coefficient of value between (+ve) 0.5 and (-ve) 0.5 or higher indicates a strong relationship and by extension a significant variable in influencing the trend of the dependent variable at 5% level of significance.

To ensure easy analysis, the questionnaires were coded according to each variable of the study to ensure accuracy during analysis. Quantitative data was analyzed by employing descriptive statistics and inferential analysis using statistical package for social science (SPSS) version 21 and excel. This technique gave simple summaries about the sample data and present quantitative descriptions in a manageable form, (Orodho, 2003). Together with simple graphics analysis, descriptive statistics formed the basis of virtually every quantitative analysis to data, (Kothari, 2005).

The study further adopted multiple regression model at 5% level of significance and 95% level of confidence to establish the strength and direction of the relationship between the independent variables (Social X_1 is Social Networks, X_2 is Entrepreneurial Skills, X_3 is Innovation and X_4 is Financial accessibility) and the dependent variable (Performance of Small and micro enterprises). Performance of Small and micro enterprises was regressed against the four independent variables and the equation was expressed as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y= Dependent Variable (Performance of Small and micro enterprises)

X1-n= Independent Variable (X_1 is Social Networks, X_2 is Entrepreneurial Skills, X_3 is Innovation and X_4 is Financial accessibility

B0= the constant

B1-n= the regression coefficient or change included in Y by each X

X_1= Social Networks

X_2= Entrepreneurial Skills

X_3= Technological Innovation

X_4= Finance Accessibility

e= error term.

RESULTS AND DISCUSSIONS

The study targeted a sample size of 100 respondents from which 63 filled in and returned the questionnaires making a response rate of 63.00%. Mugenda & Mugenda (2003) recommends that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the findings, the response rate was good.

Multiple Regression Analysis

The study conducted a multiple regression analysis so as to determine the relationship between the performance of SMEs and the components of social capital (Social Networks, Access to finance, technological innovation and entrepreneurial skill).

From the findings the value of adjusted r squared was 0.777 an indication that there was variation of 77.7 percentage on performance of SMEs in Nairobi County due to changes in Social networks, Innovation, Financial accessibility, Entrepreneurial skills at 5% level of significance. This shows that 77.7 percent changes in performance of SMEs in Nairobi County could be explained by Social networks, Innovation, Finance, Entrepreneurial skills. R is the correlation coefficient which shows the relationship between the study variables and from the findings shown in the Table 1 is notable that there exists a strong positive relationship between the study variables as shown by 0.899.

Table 1: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.899	.808	.777	.303

Analysis of Variance (ANOVA)

From the ANOVA statics Table 2, the study established the regression model had a significance level of 0.005 which is less than 5% an indication that Social networks, Innovation, Finance, Entrepreneurial skills all influence performance of SMEs in Nairobi County. This indicates the model was significant.

Table 2: Analysis of Variance[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	12.005	4	.3001	6.552	.005[b]
1	Residual	2.654	58	.0458		
	Total	14.659	62			

a. Dependent Variable: Performance of MSEs in Nairobi County

b. Predictors: (Constant), Social networks, Innovation, Finance, Entrepreneurial skills

Critical value = 3.5597

Regression Coefficients

The study depicted that holding independent variables constant(Social networks, Innovation, Finance, Entrepreneurial skills) to a constant zero, Performance of MSEs in Nairobi County would be at 33.654 , a unit increase in social networks would lead to increase in Performance of MSEs in Nairobi County by a factor of 0.707, a unit increase in Innovation would lead to increase Performance of MSEs in Nairobi County by factor of 0.700, a unit increase in Finance would lead to increase in Performance of MSEs in Nairobi County by a factor of 0.759 and unit increase in Entrepreneurial skills would lead to increase in Performance of MSEs in Nairobi County by a factor of 0.784. Hence the most significant factor is entrepreneurial skills.

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From the results in Table 3, regression equation was $Y = 33.654 + 0.707X_1 + 0.700 X_2 + 0.759 X_3 + 0.784 X_4$. Therefore, Performance of MSEs in Nairobi County = 33.654 + (0.707 x Social networks) + (0.700 x Innovation) + (0.759 x Finance) + (0.784 x Entrepreneurial skills).

From the results of this study in Table 3, at 5% level of significance, Social networks had a p-value of 0.004; Innovation had a p-value of 0.005; Finance had a p-value of 0.003; Entrepreneurial skills had a p-value of 0.002. Therefore, the most significant factor was entrepreneurial skills as it had the lowest p-value among the other independent variables. It was also established that the independent variables had p-value less that 5% which implies that they were statistically and positively significant and influenced performance of SMEs in Nairobi county.

Table 3: Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	33.654	.453		2.865	.006
	Social Networks	.707	.060	.198	2.950	.004
	Innovation	.700	.068	.245	2.397	.005
	Finance	.759	.075	.008	2.187	.003
	Entrepreneurial Skills	.784	.064	.031	2.391	.002

a. Dependent Variable: Performance of MSEs in Nairobi County

The results shown in table 3, above indicate that Social Network Skills have a significant positive influence on SMEs growth. This is shown by the regression analysis value of t – Calculated which is greater than 2 (2.950) and P Value is 0.004 at 95% level of significance that is less than 5%.

How does technological innovation an element of Social Capital influence the performance of SMEs in Kenya?

The results also show that innovativeness has a significant positive association with the performance of SMEs as shown by a p value of 0.005 at 95% level of significance which is less than 0.05 and a t value of 2.397, which is greater than 2. It is therefore conclusive to indicate that innovativeness is positively correlated to growth of SMEs.

To what extent does access to finance as a module of Social Capital influence the performance of SMEs in Kenya?

Regression analysis results for finance showed that the t value was 2.187, which is more than 2. Financial access as a module of social capital therefore has a significant positive relationship with SMEs performance as shown by a p value of 0.03 (less than 0.05) at 95% level of significance.

How do Entrepreneurial skills an element of Social Capital influence the performance of SMEs in Kenya?

The results from the Stepwise regression showed that entrepreneurial skill has a significant positive influence on the dependent variable (SMEs performance). This was revealed by a t value of 2.391 which is greater than 2 and a p value of 0.02 which is less than 0.05 at 95% level of significance.

From the results, social network as a component of social capital contributes most to the performance of SMEs, which has the greatest t value of 2.865, while the contributes the least is finance which has the smallest t value of 2.187.

Summary of the Findings

The study sought to investigate whether social networks influence performance of SMEs in Nairobi County. From the research findings, majority were of the opinion that social networks

influence performance of SMEs in Nairobi County. This implies that social networks influence performance of SMEs in Nairobi. The study also established that accessibility of the social networks influence performance of SMEs, family, friends and acquaintances as the social networks influence performance of the SMEs in the study area, that research pertaining to current and future need of customers through social networks played an important role on performance of SMEs in the study area as it influenced the performance of their businesses to a great extent. This implies that accessibility of social network played an important role on performance of SMEs in Nairobi County. Further, the study revealed that social networks was statistically significant and positively influenced performance of SMEs in Nairobi County at 5% level of significance.

Technological Innovation

From the research findings, majority of the respondents were of the opinion that technological innovation influence performance of SMEs in Nairobi County. This implies that technological innovation influence performance of SMEs in Nairobi County. They also stated that process and product innovation influenced performance of SMEs to a great extent, employee competence and research and development influenced performance of SMEs to a great extent. This infers that process and product innovation, employee competence and research and development on technological innovation played an important role on performance of SMEs in Nairobi County. Further, the study revealed that technological innovation was statistically significant and positively influenced performance of SMEs in Nairobi County at 5% level of significance. This infers that technological innovation was an important factor that influences performance of SMEs in Nairobi County.

Entrepreneurial Skills

The study revealed that majority of the respondents was of the opinion that entrepreneurial skills influence performance of SMEs in Nairobi County. It was also established that risk taking skills on entrepreneurial skills, planning and management skills, budgeting and financial records management skills influence performance of SMEs in Nairobi County. Entrepreneurial skills were an important factor that influenced performance of SMEs in Nairobi County. Further, the study revealed that entrepreneurial skills was statistically significant and positively influenced performance of SMEs in Nairobi County at 5% level of significance. This infers that entrepreneurial skills was an important factor that influences performance of SMEs in Nairobi County

Financial Accessibility

The study established that financial accessibility influenced performance of SMEs in Nairobi County. The findings of the study revealed that credit accessibility was an important factor on performance of SMEs in the study area. On the personal capital reliance on the financial accessibility, majority of the respondents agreed to a great extent that it influenced performance of SMEs in Nairobi County. Additionally, the study revealed that financial accessibility was statistically significant and positively influenced performance of SMEs in Nairobi County at 5% level of significance. This infers that financial accessibility was an important factor that influences performance of SMEs in Nairobi County.

Performance of SMEs in Nairobi County

The study revealed that most of the respondents indicated that performance of the business was fair, as they had not applied aspects of social capital such as financial accessibility, social networks, entrepreneurial skills and technological innovation as established in the study thus affecting performance of enterprises. From the findings of the study it was estalished that 77.7

percentage on performance of SMEs in Nairobi County was influenced by Social networks, technological Innovation, financial accessibility, entrepreneurial skills at 5% level of significance. Therefore, this implies that other factors not studied in this study could contribute 22.30% of performance of SMEs in Nairobi County and a further research is recommended to be conducted on these other factors affecting performance of SMEs in Nairobi County.

Conclusions

The study established that social networks influence performance of SMEs in Nairobi County. The accessibility of the social networks influence performance of SMEs, family, friends and acquaintances as the social networks influence performance of the SMEs in the study area and that research pertaining to current and future need of customers through social networks played an important role on performance of SMEs in the Nairobi County

Additionally, from the research findings, it was that technological innovation influence performance of SMEs in Nairobi County. The process and product innovation influenced performance of SMEs to a great extent, employee competence and research and development equally influenced performance of SMEs to a great extent. This infers that process and product innovation, employee competence and research and development on technological innovation was an important factor on performance of SMEs in Nairobi County.

Further, the study revealed that entrepreneurial skills influence performance of SMEs in Nairobi County. It was also established that risk taking skills on entrepreneurial skills, planning and management skills, budgeting and financial records management skills influence performance of SMEs in Nairobi County. Entrepreneurial skills played an important role on performance of SMEs in Nairobi County.

Finally, study determined that financial accessibility influenced performance of SMEs in Nairobi County. On the personal capital reliance on the financial accessibility, it was established thatto a great extent it influenced performance of SMEs in Nairobi County. The study also revealed that financial accessibility positively influenced performance of SMEs in Nairobi County and this infers that financial accessibility was an important factor that influences performance of SMEs in Nairobi County.

Recommendations

The study recommends that social networks in SMEs need to be enhanced so that to improve performance of SMEs in Nairobi County. This can be done by ensuring that accessibility of the social networks, family, friends and acquaintances as the social networks and research pertaining to current and future need of customers as the social networks play an important role on performance of SMEs in the Nairobi County.

Additionally, the study recommends that technological innovation through process and product innovation, ensuring there is employee competence and research and development can promote performance of SMEs to a great extent. Further, the study recommends that entrepreneurial skills through risk taking skills on entrepreneurial skills, planning and management skills, budgeting and financial records management skills should be enhanced for performance of SMEs in Nairobi County. Finally, study recommends that the entrepreneurs of the SMEs should ensure that there exists a sustainable financial accessibility for their enterprises. This can be enhanced through the personal capital reliance because the firm owners who succeed are more likely to have both personal and external sources of capital to draw upon. Likewise, smaller amounts of start-up capital and greater reliance on personal rather than external sources has implications for

the ability of the SMEs to develop new products and services, grow their firms, hire employees, and survive periods of adversity.

Recommendations for further studies

Since this study sought to establish the influence of social capital on performance of SMEs in Kenya, it is evident that globally most studies are done in other countries such as enterprises in United States, Nigeria, and South Africa among others and scanty studies are available in Kenyan SMEs set up. More so very little has been undertaken to explore role of influence of social capital on performance of SMEs the reason why the researcher call for further studies to be undertaken in Kenya. The researcher also recommends further studies on effectiveness of social capital policies and programs in SMEs and initiatives related to social capital and encourage more studies on social capital approaches, discursive approaches, practitioner/consultant approach and social capital theories to build up more scholarly work in this field. Similar studies should also be conducted on the other contemporary trends in Entrepreneurship Management to provide realistic and contextual solutions to these social capital challenges affecting performance of SMEs.

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