

**NETWORKING AS A GROWTH INITIATIVE FOR SMALL AND MEDIUM  
ENTERPRISES IN SOUTH AFRICA**

By Nardos Teklu Desta

(Student no. 2011100456)

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Supervisor: Dr Neneh Brownhilder

Co-Supervisor: Dr Deidré Van Rooyen

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Above all, all glory belongs to my heavenly Father.

# DECLARATION

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I declare that the thesis “*Networking as a growth initiative for small and medium enterprises (SMES)*” hereby submitted is my own work and that I have not previously submitted the same work for a qualification at/in another university/faculty. I also declare that all sources or quotations I have used have been acknowledged by means of complete references.

Nardos Teklu Desta

.....  
Signature

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Date

# *Abstract*

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Small and Medium Enterprises (SMEs) make a tremendous contribution to worldwide economies. SMEs are especially important for the South African economy, as they are expected to address the high unemployment and poverty rate the country is experiencing. It is thus critical to study factors that can enhance the growth of the SME sector. This study investigates the role which networks play on the growth of SMEs. The study mainly focuses on four types of networks namely: social, general business, managerial and ethnic networks and how these networks can help SMEs enhance their growth. The study used a descriptive-quantitative research design. Data was collected from local and foreign SME owners in the Mangaung Metropolitan Municipality, Free State Province of South Africa using stratified random sampling and snowball sampling methods. A self-administered questionnaire was used to collect data. The data was then analysed by using Statistical Package for the Social Science (SPSS) Software. The results revealed that networking had a positive impact on SME growth. The study further identified that managerial networks and ethnic networks were significantly related to locally-owned SMEs and foreign-owned SMEs, respectively.

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## Chapter 1 Overview of the study

### 1.1 Introduction and Background of the research

One of the main indicators of a strong and booming economy is the presence of well-established small and medium enterprises (SMEs) (Neneh & Smit, 2013). The SME sector has been internationally accepted and acknowledged as an essential factor in encouraging and promoting economic growth (Nieman & Nieuwenhuizen, 2009). This sector contributes a significant share to economic growth and job creation across many countries. Raynard and Forstater (2002) established that SMEs account for over 90% of enterprises and contribute around 50% to 60% of employment opportunities globally. Also, data from both developed and developing countries indicate that the SME sector plays a crucial role in employment creation, economic growth and economic development (Fan, 2003; Tambunan, 2008; Wattanapruttipaisan, 2003). In developed countries, such as the United States of America (USA), Globalsmes (2014) established that SMEs provide up to 39% of GDP and around 53% of jobs. In Germany, SMEs create 78% of jobs and contribute 75% to GDP. Furthermore, approximately 99% of all European businesses are SMEs (Matt & Ohlhausen, 2011).

In developing countries, Haselip, Desgain and Mackenzie (2013) found that the SME sector accounts for over 93% of the total enterprises in Morocco and provide 46% of total employment. In Ghana, the SME sector makes up approximately 70% of GDP (Abor & Quartey, 2010). Andzelic, Dzakovic, Lalic, Zrnic and Palci (2011) found that in Montenegro, SMEs make up 80.22% of all businesses and create employment for around 60% of the national workforce, and in Serbia, SMEs make up 99% of all businesses and employ over two-thirds of the national workforce. Also, in Nigeria, SMEs make up 98% of businesses (Ademola & Michael, 2012). Pandya (2012) remarks that the role SMEs play is more essential in developing countries as they have the capacity to improve income distribution, employment creation, poverty reduction and development of entrepreneurship in the rural economy. Hence, it can be concluded that a flourishing and vibrant SME sector is a key driving force in the development of every country's economy. As such, encouraging the creation of a well-supported and improved SME sector will likely contribute to economic development in the same way as large businesses.

In South Africa, SMEs are considered one of the main solutions to the country's development issues, such as poverty, income inequality and unemployment (Maas & Herrington, 2006). This has been demonstrated by a number of studies (Finweek, 2012; Abor & Quartey, 2010; CIB, 2012) and the outcome of these studies has shown that SMEs contribute a significant share to South Africa's GDP and employment rate. For example, a study conducted by FinScope (2010) showed that there were as many as 5,579,767 small business owners and 5,979,510 small businesses in South Africa. Also, a study by the World Wide Worx (2012) reported that SMEs in South Africa provide close to 7.8 million jobs (CIB, 2012). Furthermore, Finweek (2012) established that approximately 9 million South Africans are employed by SMEs and these SMEs contribute around 60% of the national GDP. Moreover, Abor and Quartey (2010) pointed out that approximately 91% of formal businesses in South Africa are SMEs and that these SMEs contribute between 52% and 57% of GDP and account for approximately 61% of employment. Another estimation forwarded by the Banking Association of South Africa (2013), showed that the total economic output of SMEs to the GDP of South Africa is close to 34%. In addition, other studies (Phillips & Bhatia-Panthaki, 2007; Monks, 2010) remarked that in South Africa, SMEs are especially important for creating jobs for the unskilled, the poor and low-income workers, which characterizes the predominance of the labour force.

The success, growth and performance of SMEs depends on many aspects, one of which is their ability to network with other businesses which in turn influences the creation and delivery of their product or service offerings (Valkokari & Helander, 2007). Studies have shown that the success of SMEs depends on the networking they create and interact in (Cova, Mazet & Salle, 1994; Hill, McGowan & Drummond, 1999; Machirori, 2012). Networking has been identified as one tool that can be utilized by SMEs to improve their performance (Premaratne, 2002). 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, 2009:3). Chipika and Wilson (2006:971) define networking as a set of continuous and sustained relationships, which involves collaboration and cooperation which is mutually beneficial to all the parties involved. Networking is also defined by Nieman and Nieuwenhuizen (2009) 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 (2012) points out that the various definitions of networks suggest 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, 2007). These theories of networking differentiate and divide networks into general networks, official networks, managerial networks and social networks (Machirori, 2012; Ngoc & Nguyen, 2009). Littunen (2000) categorizes networks into informal and formal networks. Also, Nieman and Nieuwenhuizen (2009) divide networks into social, personal and extended networks. Another form of network identified by researchers is ethnic network (Bowles & Gintis 2004; Vipraio & Pauluzzo, 2007.).

Networking has been established to contribute to the growth of businesses by providing new ideas, practical assistance, and emotional support (Nieman & Nieuwenhuizen, 2009). Thrikawala (2011) established a positive relationship between small business networking and performance. Sawyerr, McGee and Peterson (2003) observed that the positive impact of networking on firm performance stems from information and resource sharing which are mutually beneficial to them. Coulthard and Loos (2007) explain networking in SMEs as an activity in which small businesses build and manage personal relationships with different individuals in their environment. Also, Watson (2007) and Valkokari and Helander (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 helps these small firms achieve economies of scale. Furthermore, networking assists small firms in obtaining the necessary support from key stakeholders which are important tools for firm growth (Ngoc & Nguyen, 2009). In addition, networks are important in assisting entrepreneurs to develop and access valuable ideas, resources and opportunities that are otherwise unavailable (Mitchell, 2003). It is through networking that SMEs can utilize their full potential to improve their performance (Premaratne, 2002; Valkokari & Helander, 2007). Thus, it is important for businesses to actively participate in networks, as it will help them to improve their growth, success and performance.

SME growth has been identified as a key driver in the creation of wealth, employment, and economic development in every country around the world (Davidsson, Achtenhagen & Naldi,

2010). SME growth is the most important source of new jobs and also considered a valuable measure of entrepreneurial success (Edelman, Brush, Manolova & Greene, 2010). Another important factor of SME growth is its ability to foster innovation (Aidis & Mickiewicz, 2004; Pasanen and Laukkanen, 2006). The growth of businesses is essential for meeting economic objectives such as creating wealth and employment, and social objectives such as eradicating poverty and improving standards of living (Davidsson, *et al.*, 2010; Zindiye, 2008). Growth enables small businesses to turn into larger firms that are able to achieve their full potential in their contribution towards development. Furthermore, Karadeniz and Ozcam (2010) emphasise that growth-oriented businesses are more important for economic development than small and new firms. Consequently, Širec and Močnik (2010) remark that the growth of small firms has become an important issue amongst governments around the world since SME growth is essential for the creation of wealth, employment and economic development. As a result, encouraging growth-oriented business people to establish high growth businesses is high on the agenda of governments (Birdthistle, Hynes, Costin & Lucey, 2010; Bosma, Van Praag & Wit, 2000), as it is the most important source of new jobs and also considered a key measure of entrepreneurial success.

In South Africa, in spite of the noted contributions of SMEs to the economy, SMEs in South Africa do not grow (Fatoki, 2013), but rather assume a survivalist position (Smit & Watkins, 2012). Herrington, Kew and Kew (2010) observed that in South Africa, only 1% of all newly established SMEs grow and survive for longer than one year. Also, studies by Fatoki (2013) and Kesper (2001) discovered that small businesses in South Africa are mostly dominated by firms that only achieve a survival position and grow in number but not size. Likewise, Fatoki and Garwe (2010) remark that in South Africa, the predominance of newly established SMEs do not advance from the initial stage (existence) of growth to other stages like survival, success, take off and maturity. Fatoki and Garwe (2010) further observed that approximately 75% of new SMEs in South Africa do not grow and develop into established businesses. Furthermore, besides the fact that SMEs in South Africa do not grow, other studies (Fatoki & Garwe, 2010; Adeniran & Johnston, 2011) in South Africa have also established that SMEs have a high failure rate, as between 70% and 80% of SMEs are prone to fail (Adeniran & Johnston, 2011). Moreover, despite the nation's encouraging environment to entrepreneurial ventures and programmes aimed at stimulating entrepreneurship, the level of entrepreneurial activity remains one of the lowest in the world. According to the Global Entrepreneurship Monitor (GEM) report (2014), South Africa has an alarmingly low level of entrepreneurship.

The Global Entrepreneurship Monitor (GEM) report (2014) surveyed more than 206,000 individuals and 3,936 national experts on entrepreneurship within 73 economies. The report showed that South Africa's Total Early-Stage Entrepreneurial Activity (TEA) which was 10.6% in 2013, has dropped a staggering 34% to 7.00% in 2014. This means that for every 100 adults aged 18 to 64 years in South Africa, only about 7 individuals are engaged in entrepreneurial activity. The Global Entrepreneurship Monitor (GEM) report (2014) further noted that South Africa's performance is lower than other similar economies, whose average TEA rate was around 14%. As such, Persson (2004) is of the opinion that many of these SMEs do not provide their benefits to society.

This lack of growth of SMEs, coupled with their alarming failure rate in South Africa, has led to the high unemployment rate which is currently estimated at 26.4% (Trading Economics, 2015). This becomes a major concern for a country with a high level of poverty and inequality as statistics from The World Bank (2014) reported that 45.5% of South Africans live in absolute poverty. The report also showed that with a Gini score of 0.69, South Africa has one of the most unequal income distributions in the world. The Gini coefficient measures income inequality on a scale of 0 to 1. The closer the Gini score is to 1, the more unequal a society and vice versa. Moreover, considering that in South Africa, up to 16.6 million people depend on government grants to earn a living (South African Social Security Agency, 2015), it becomes imperative for the health of the South African economy that these SMEs succeed and grow. Hence, SMEs are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development in South Africa (Maas & Herrington, 2006). Consequently, encouraging greater numbers of individuals to start high growth businesses has become the top priority agenda for many countries as growth-oriented businesses have been identified as catalysts of employment, innovation and skill (Bosma *et al.*, 2000).

All around the world, when looking at the global trends of SMEs, it becomes evident that they are the backbone of every economy, as they address the issues of job creation, equality in the distribution of income and wealth, economic growth and economic development. However, the lack of SME growth will result in the lack of entrepreneurial success and thus reduce the employment creation rate by these businesses. As a result, it becomes necessary to boost the growth of SMEs so they can start providing their benefits to society. Creating high-growth businesses requires that SME owners and managers engage in networking as

networking has been identified as one tool that can be utilized by SMEs to improve their growth and performance. Consequently, in order to enhance the growth of SMEs, it becomes important to examine all the various types of networking that SME owners and managers engage in and also to find out if networking can be used as initiative for SME growth.

## 1.2 Problem statement

Small businesses in South Africa do not grow (Fatoki, 2013; Kesper, 2001; Fatoki & Garwe, 2010; Smit & Watkins, 2012). This situation is not only prevalent in South Africa but in other parts of the world as well. An analysis of more than 28,000 SMEs in Africa and Latin America showed that less than 3% of SMEs grow by four or more employees after their initial start-up (Liedholm, 2002). In understanding the reasons why SMEs do not grow, studies (Delmar, 1996; Gundry & Welsch, 2001; Wiklund & Shepherd, 2003) have shown that SME owners have little interest towards growth. This might be due to the fact that many small business owners are not interested in growth or might be deliberately refraining from growing (Gundry & Welsch 2001; Wiklund & Shepherd, 2003). Whilst, SME growth increases a business's ability to create sustainable jobs, the low interest in growth amongst business owners becomes problematic because only growth-oriented firms have been identified to create sustainable jobs and contribute to economic development in every country around the world.

In South Africa, the lack of growth of SMEs coupled with the alarming failure rate and low entrepreneurial activity has resulted in the high rate of unemployment. SMEs in South Africa are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development. With South Africa having one of the highest unemployment rates and the biggest disparities in incomes and living standards in the world, creating sustainable jobs is central to economic growth and political stability in the country. Maas and Herrington (2006) point out that the creation of new SMEs is seen as a vital component of the solution to South Africa's developmental issues. Fatoki and Garwe (2010) stress that without the sustainability and growth of SMEs in South Africa, the country risks economic stagnation. Hence, encouraging the creation, growth and sustainability of SMEs becomes vital to the economic prosperity of South Africa. Consequently, it becomes essential to research factors that enable the growth of SMEs.

Previous studies (López-García & Puente, 2009; Stam & Schutjens, 2005) have identified networking as one of the characteristics of high growth firms (HGFs). Hankansson and Ford (2002) ascertained that the impact networking has on performance of a business has been researched by many scholars with the results showing a positive relationship between networking and firm performance (Bandiera, Barankay & Rasul 2008; Chen, Tzeng, Ou & Chiang, 2007; Eisingerich & Bell, 2008; Thrikawala, 2011; Zhang & Fung, 2006). Rowley, Behrens and Krackhardt (2000), on the other hand, found a negative relationship between networking and business growth and performance. These studies have identified networking to be key determinants of SME's growth although with inadequate empirical results. As a result, it is not clear whether or not networks contribute to SME growth. It is alleged that the growth of businesses necessitates that SME owners and managers engage in networks to successfully run their business. With the low SME growth rate across the globe and especially in South Africa, it is necessary to establish an understanding of the key types of networking SME owners and managers engage in and also find what role these networks play on the growth of SMEs in the Mangaung Metropolitan Municipality (Botshabelo, Thaba 'Nchu and Bloemfontein) in the Free State Province.

**Figure 1-1 Conceptual framework**

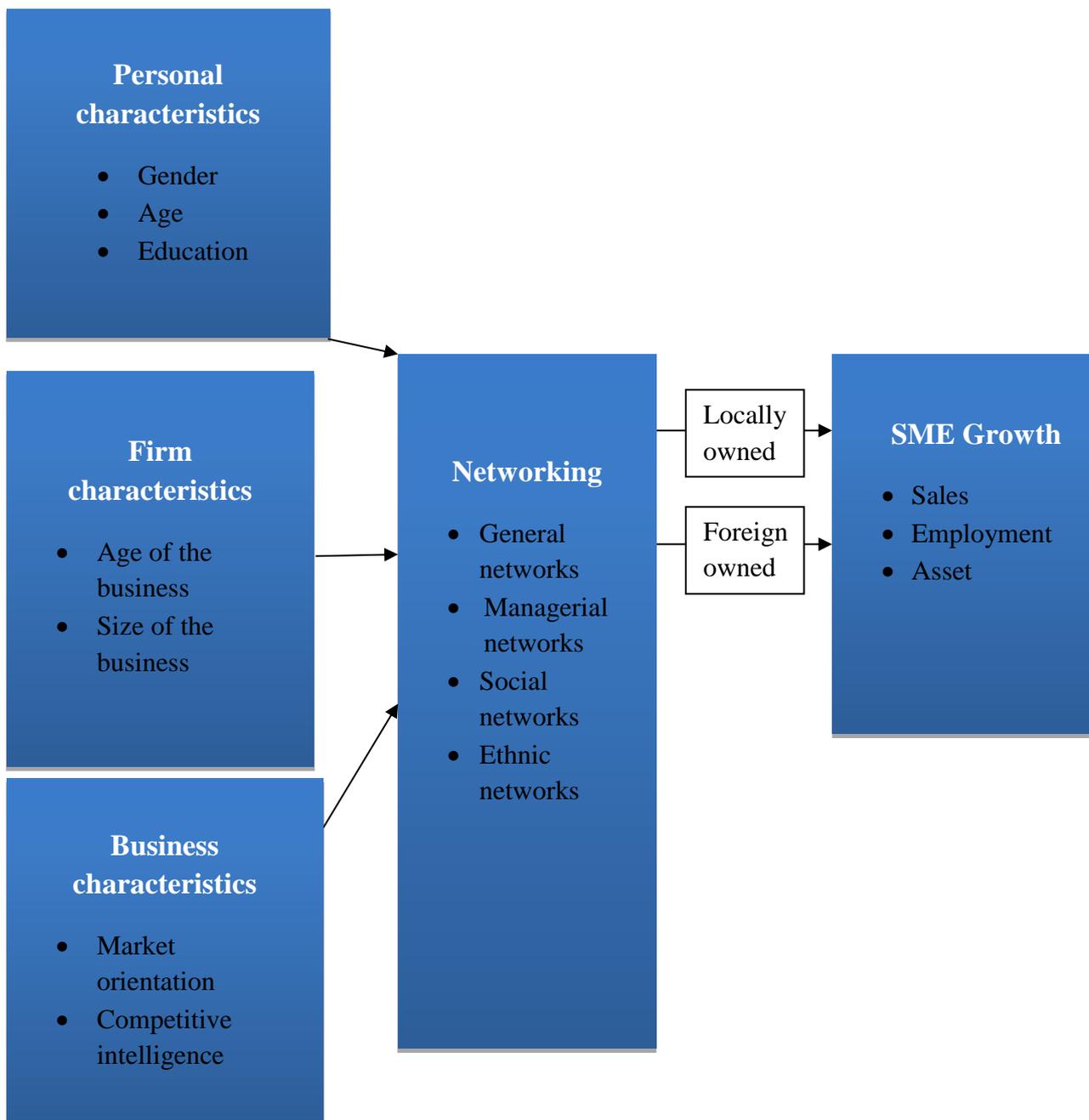


Figure 1.1 shows the conceptual framework designed for this study. The conceptual framework revolved around finding out how the personal, firm and business characteristics influence SME networking and consequently how the networks affect SME growth. The difference in network usage among foreigners and locals was taken into consideration. Also, amongst the various measures of SME growth (sales growth, asset growth and employment growth), a greater emphasis was placed on employment growth. This is because employment growth is considered a vital measure of SME growth especially in South Africa due to the

country's desperate need for job creation, which has been recognized as a top priority by policy makers (Fatoki, 2013). Also, employment growth is a measure that has most relevance to many government policy makers due to the fact that SME growth has been seen as an important way of reducing unemployment (Robson and Bennett, 2000).

### 1.3 Objectives

The primary objective of this research was to find out what role networks play on the growth of SMEs.

Secondary objectives:

- To establish the determinants of SME growth.
- To determine which type of networks are essential for the growth of SMEs
- To assess to what extent ethnic networks affect SME growth
- To establish a conceptual framework linking key networks that can enhance SME growth

### 1.4 Contribution of the study

This research project has contributed to literature in the following ways:

- Growth is widely accepted as a good objective for most firms because it can be used as an indicator of entrepreneurial success (Davidsson, 1991). The increasing rate of unemployment in South Africa is a major concern for the country. To resolve this problem, the government is looking for ways to create new jobs and promote entrepreneurship. Since the growth of SMEs is a fundamental source for creation of jobs (Wiklund & Shepherd, 2003) and given that most SMEs do not show any signs of growth, this study intends to establish the determinants of SMEs growth for SMEs owners and managers in the Mangaung Metropolitan Municipality.
- Prior studies (Carter & Jones-Evans, 2006; Nieman & Nieuwenhuizen, 2009; Valkokari & Helander, 2007) have established that businesses engage in various types of networks to enhance their business growth and performance. These forms and types of networks differ and possibly account for the difference in their business performance. Also, studies (Bogan & Darity, 2008; Rath & Kloosterman, 2000; Tengeh, 2013) have shown that foreigners often form their own networks to compensate for the disadvantages they face in competing with local businesses.

Therefore, the study has examined the various types of networks used by foreign and local SME owners within the Mangaung Metropolitan Municipality to specifically determine if the various forms of networks differ, as well as the impact each form of network has on the growth of their businesses.

- The outcome of the research has contributed to the development of the South African economy. By understanding how SMEs benefit from networks and which networking practices result in their growth, policy makers can use this information to design SME support programmes and trainings. It can also help in the development of a model on how best to promote the growth of small businesses. The outcome of this research provides entrepreneurs with information they can use to increase the performance of their business. The information, in turn, may have an impact on not only the entrepreneurs and the businesses they run, but also on their dependants, their employees and the communities where the businesses are located at large.
- In addition, this study has also contributed to the on-going research on SMEs in South Africa and the importance thereof. By examining the relationship between networks and SME growth, the study adds to the body of knowledge that exists on the topic.

## 1.5 Research methodology

This section briefly introduces the research methodology for this study. A more detailed discussion on the methodology, including discussion of the business research process as well as the types of techniques that can be used and the motives behind choosing the techniques, is presented in chapter four.

### 1.5.1 Research design

A research design is the plan or blueprint (procedural guide for a research activity) of how a study will be carried out (Babbie & Mouton, 2011; Cooper & Schindler, 2008). There are three types of research designs, namely qualitative, quantitative, and mixed research designs. Quantitative research design through the use of a self-administered questionnaire was used in this study. The reason for choosing this method is because quantitative research design uses numerical data to collect information, can be used to explain variables, determine connections among different variables and can also be used to test cause-and-effect interactions among variables (Leedy & Ormrod, 2005). Therefore, this research design approach was suitable to examine the relationship between networks and SME growth. Furthermore there are three types of research that can be used in quantitative research, qualitative research or both-

namely exploratory, descriptive and casual research. This study made use of descriptive research design method. This method is a formal method of research design that is typically well-structured with well-defined research questions and objectives (Cooper & Schindler, 2008). As the research objective and purpose of the study were clearly defined, this method was deemed appropriate for this study.

### 1.5.2 Data collection method

Both secondary and primary data have been used in this study. Secondary data refers to data that has been previously collected for a different research and can be reused in another study (Hox & Boeijs, 2005). Primary data, conversely, refers to first hand or original data collected for a research study (Hox & Boeijs, 2005).

- **Secondary Data**

The researcher made use of articles, journals, text books, dissertations, internet sources and other research documents to obtain secondary data. The secondary data also helped the researcher develop the questionnaire that was used in the primary data collection.

- **Primary data**

From the three types of primary data collection methods (Gerber-Nel, Nel & Kotze, 2005), namely survey, observation and experiment, the survey method of collecting primary data was used in this research. A survey is a quick, inexpensive, efficient and accurate means of assessing information from a representative sample of a population (Zikmund, Babin, Carr & Griffin, 2003). This method is chosen for the study since it is not feasible to get the entire population (entrepreneurs in the Mangaung Metropolitan Municipality) to participate in the research. Data was collected by distributing self-administered questionnaires. Self-administered questionnaires are research questionnaires delivered personally by the researcher to the respondents and the questionnaires are completed by a respondent without an interviewer (Cooper & Schindler, 2003). This method was selected because it is a cost-effective method of collecting data (Babbies, 2008) and also because it allows the respondents to remain anonymous enabling them to be more candid and honest with their responses (Cooper & Schindler, 2003).

### 1.5.3 Sample size determination

A sample of 500 entrepreneurs was identified for this research study. Three hundred questionnaires were distributed in Bloemfontein and the remaining 200 questionnaires were

equally divided amongst entrepreneurs in Botshabelo and Thaba ‘Nchu. Another factor that was taken into consideration with regard to the distribution of questionnaires was the origin of the entrepreneurs. 200 questionnaires were distributed to South African (local) entrepreneurs, and the remaining 300 were distributed evenly among West African- and East African entrepreneurs. This was done to ensure a good representation of both groups so that the different ethnic networks in the sample area are included in the sample.

#### 1.5.3.1 Population

Given that studying all the elements within the populations is not feasible due to time and cost constraints, the researcher has to choose a sample (Bhattacharjee, 2012). The population of this study comprises local (South African) and foreign (West African and East African) entrepreneurs in the Mangaung Metropolitan Municipality (Botshabelo, Thaba ‘Nchu and Bloemfontein) in the Free State Province.

#### 1.5.3.2 Sampling

The main purpose of sampling is to select a few elements from a population so conclusions can be drawn about the entire population (Cooper & Schindler, 2008).

- **Sampling design**

Stratified random sampling and snowball sampling were used in the study. Stratified random sampling is a sampling technique that first divides the sample into sub-sections of groups that are relatively homogeneous in one or more characteristics and then draws a random sample from each stratum (Onwuegbuzie & Collins, 2007). Stratified random sampling was used to ensure that specific groups of SMEs and managers which are represented from the chosen sample have an equal chance of being selected in the sample. Snowball sampling, on the other hand, is a type of sampling where the researcher is assisted by respondents to identify the sample for the study (Grinnell & Unrau, 2005). This sampling method procedure was selected because it is difficult to identify SMEs owned by foreigners.

#### 1.5.4 Data analysis

Data analysis is the process of breaking down the accumulated research data to a manageable format and forming summaries using statistical techniques (Cooper & Schindler, 2003). Statistical Package for the Social Science (SPSS) Software was used to analyse the data collected using the questionnaire. Descriptive statistical tools such as frequency distributions, and graphs such as pie charts and bar charts have been used to interpret and present data.

Additionally, inferential statistical tools such as Pearson’s Chi-Square, linear regression, correlation and cross-tabulation were also used for further analysis in the study.

## 1.6 Research framework

**Table 1-1 Research framework**

CHAPTERS	TITLE	AIM OF CHAPTER
1	Introduction	This chapter provided the background of the research, the research problem, purpose and objectives of the study, the contributions of the study and the limitations of the study.
2	Importance of SMEs and SME growth	Theoretical discussion on SMEs in South Africa and other parts of the world was presented in this chapter.
3	Networks	The different networks used by SMEs were discussed in this chapter.
4	Research methodology	This chapter provided the overall plan of the research methodology by describing the research design, data collection and data analysis procedures.
5	Research results	This chapter presented the data gathered and processed to show findings according to the objective of the study.
6	Conclusion and recommendation	This chapter closed the study by providing a summary of the research and recommendations for future research.

## 1.7 Chapter summary

This chapter provided a general background to the study and gave an insight into the rationale for selecting the study. Accordingly, a brief background on the importance of SMEs, the concept of networks, and SME growth has been presented. Subsequently, in this chapter, the research problem, primary and secondary objectives and the contributions to the study were presented. In addition, the chapter presented the methodology and the framework chosen for this study. The discussion of the next chapter is on small and medium enterprises (SMEs).

## Chapter 2 Small and medium enterprises (SMEs)

### 2.1 Introduction

The discussion in this chapter will be on the key concepts relating to small and medium enterprises (SMEs). A discussion on SMEs is relevant due to the role they play in employment creation and economic growth worldwide (Fan, 2003; Tambunan, 2008; Wattanapruttipaisan, 2003). SMEs are attributed as backbones to economic development (Fatoki & Garwe, 2010; Jutla, Bodorik & Dhaliqal, 2002; Nieman & Nieuwenhuizen, 2009). Before discussing SMEs, however, it is first important to look at the individuals who start these businesses. SMEs result from the activities undertaken by entrepreneurs (Nieman & Nieuwenhuizen, 2009). Therefore, this chapter will commence by providing a brief introduction on the concept of entrepreneurship, entrepreneurs and approaches to understanding entrepreneurship at an individual level. Next, the chapter will review definitions attributed to SMEs from an international as well as a South African perspective. This will be followed by a discussion on the contributions of the SME sector in South Africa followed by the government's perspective of the SME sector. Afterwards, concepts on SME growth will be discussed by focusing on SME growth models. This will be followed by a discussion on growth intentions and other determinants of SME growth. The final part of this chapter will focus on measurement of SME growth.

### 2.2 Broad overview of entrepreneurship and entrepreneurs

The lack of a generally accepted definition of entrepreneurs and entrepreneurship (Chell, 2008; Kobia & Sikalieh 2010; Praag, 1999) has caused confusion as to who constitutes an entrepreneur. Consequently, numerous scholars (Cronje, Du Toit & Motlatla, 2000:491; Hisrich, Peters & Shepherd, 2005; Nieman & Bennett, 2006:49; Rwigema & Venter, 2004) have given their own definitions of SMEs. These definitions are also provided from different fields of study. But despite the differences in the definition, scholars (Baumol, Robert & Carl, 2007; Radipere & Shepherd, 2014) agree that entrepreneurship is vital for economic growth.

In ordinary discourse, 'entrepreneur' refers to an individual who exploits opportunities overlooked by other people (Casson & Giusta 2007:223). The process by which entrepreneurs seek out opportunities and create something to fill the gap is called entrepreneurship. The opportunities might require invention of new products, the invention of new way of delivering existing products or simply switching existing resource for a better

output. Entrepreneurship involves the assumption of risks (Casson & Giusta 2007:223). Entrepreneurs have to assume the risk with the possibility of reaping the potential benefits. Thus, entrepreneurs have to identify the right gap in the market in which they are well equipped to exploit the opportunity. The concepts of entrepreneurship and entrepreneurs are presented in a detailed manner in the following sections.

### 2.2.1 Definition of entrepreneurship

“Entrepreneurship has meant different things to different people over the last eight hundred years since ‘entreprendre’ was in use in the twelfth century” (Paulose, 2011:8). Consequently, the definition of entrepreneurship has been an area of many debates amongst educators, scholars, researchers and policy makers since then. Entrepreneurship as a discipline of research is, however, a recent phenomenon. It was in the late 1980s that entrepreneurship was first seen as a field of study and it was in that decade that it began to be seen as its own field (Ireland & Van Aucken, 1987). Over the years that followed, entrepreneurship has begun to receive a lot of attention. The amount of research conducted on the field has also increased significantly (Kuratko & Hodgetts, 2007:36). Consequently, numerous definitions have been proposed by different scholars. Some of these definitions are presented in Table 2.1 below.

**Table 2-1 Definitions of entrepreneurship**

<b>Scholars</b>	<b>Definition</b>
Cantillon (1755)	Entrepreneurship is an act of assuming risk, by buying at a certain price and selling at an uncertain price, bearing the risk caused by price fluctuations in the market.
Knight (1921)	Entrepreneurship is the ability to deal with risk and uncertainty
Kirzner (1973)	Entrepreneurship is the ability to perceive new opportunities
Casson (1982)	Entrepreneurship encompasses decisions and judgments about the coordination of scarce resources.
Drucker (1985)	Entrepreneurship is the act of innovation that involves endowing existing resources with new wealth-producing capacity.
Gartner (1985)	Entrepreneurship is the establishment of a new venture.
Low and Macmillan (1988)	Entrepreneurship is the creation of a new business.
Bateman and Snell (1996)	Entrepreneurship is an innovative creation of an organization that has value.

Cronje, Du Toit and Motlatla (2000:491)	Entrepreneurship as the process through which an individual mobilizes resources to act upon an opportunity through an innovation to satisfy the needs of customers by assuming the risk of success or failure.
Kuratko and Hodgetts (2001)	Entrepreneurship is a process of innovation and new venture creation through four major dimensions, namely individual, organisational, environmental, and process.
Zahra and George (2002)	Entrepreneurship is a process through which businesses or individuals first identify and then pursue business opportunities to generate wealth.
Ulhøi (2005)	Entrepreneurship is defined as an ability to recognize and a risk-willingness to exploit entrepreneurial opportunities.
Moreland (2006:5)	Entrepreneurship is a process that uses innovation to discover opportunities and create value.
Nieman and Bennett (2006:49)	Entrepreneurship is the entire process of establishing and growing a new business.

Adapted and modified from Hitt, Camp, Ireland and Sexton (2002) and Isaga (2012:12)

By looking at different definitions of entrepreneurship, Hisrich *et al.* (2005) and Rwigema and Venter (2004) identified common terms that were used in many definitions of entrepreneurship. These terms are creation, initiative thinking and value creation through ventures, recognition of unsatisfied social and economic needs and the acceptance thereof. Accordingly, Rwigema and Venter (2004:6) combined these terms to come up with the following definition of entrepreneurship: “Entrepreneurship is the process of conceptualizing, organizing, launching and nurturing a business opportunity through innovation into a potentially high growth venture in a complex, unstable environment”. Entrepreneurship is a process by which individuals identify opportunities, gaps or unsatisfied needs in the market and try to meet these identified needs by mobilizing the necessary resources and thereby assuming the potential risk and benefits.

The discussion above focused on entrepreneurship. Although there are several definitions of the term, many of the definitions contained similar terminologies, such as creators, opportunity-seekers and risk-takers. These terminologies are also common amongst definitions of entrepreneurs. This can be seen in the following section of this study.

### 2.2.2 Who is an entrepreneur?

The word entrepreneur is a French word meaning “between-taker” or “go-between” (Hisrich *et al.*, 2005). The concept of entrepreneurship has been around since the commencement of the exchange of goods. However, it was during the middle ages when economic markets

emerged that the phenomenon started to receive much attention (Landström, Gouya & Fredrik, 2012). During this time, entrepreneurs were seen as managers who administered large projects (Hisrich *et al.*, 2005). The definition of entrepreneurs gradually developed in years that followed to distinguish their risk taking characteristic. Richard Cantillon, a noted author in economics in the 1700s, defined entrepreneurs as undertakers who buy items and sell them at uncertain price and hence bear the risk of price fluctuations (Bridge, O'Neill & Martin, 2009). Knight (1921) added that uncertainty is the main theme to define entrepreneurs. Knight (1921) views entrepreneurs as calculated risk-takers that bear uncertainty to obtain the reward, which is profit. In another theory of entrepreneurship by Schumpeter (1949), the concept of innovation was introduced. Schumpeter argued that only extraordinary individuals have the skill to become entrepreneurs. In conclusion, the term entrepreneur has been around for centuries, although its meaning has evolved over the years. In Table 2.2, the different definitions of entrepreneurs are presented.

**Table 2-2 Definition of entrepreneurs**

<b>Scholars</b>	<b>Definition</b>
Schumpeter (1949)	Entrepreneurs are people who transform an innovative idea into successful business.
Kirzner (1979)	An entrepreneur is any individual who is on the lookout for an opportunity.
Henderson (2002)	Entrepreneurs are unique individuals that assume risk, manage the business's operations, reap the rewards of their success and bear the consequences of their failure.
Friedrich and Visser (2005)	Entrepreneurs are people, who pursue opportunities through innovation
Bolton and Thompson (2004:18)	An entrepreneur is a person who habitually creates and innovates to build something of recognised values around perceived opportunities
Bowey and Easton (2007:274)	An entrepreneur is an individual, who purposefully, sometimes casually, articulates opportunities, organizes resources and reconfigures capabilities regardless of ownership and then uniquely redeploys them to satisfy his/her own economic and social goals without necessarily assuming the risk(s).
Nieman and Niewenhuizen (2009)	Entrepreneurs are people who look for unsatisfied needs in the market and try to meet these needs by allocating resources, bearing the risk and creating a business.
Marques, Ferreira, Ferreira and Lages (2013).	An entrepreneur is an individual who is able to identify and/or to create opportunities and innovations, deploying resources that allow him/her to extract the maximum benefits from such innovations

Kuratko (2014)	Entrepreneurs are uniquely optimistic, confident, hardworking, committed individuals who take pleasure in being independent, use their failure as a learning experience, burn with competitive desire to excel and create new ventures by assuming the risk.
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From Table 2.2 above, it can be seen that there are a number of definitions of entrepreneurs. As a result, there is no clear cut definition of the concept. This lack of clear definition for entrepreneurs has also caused ambiguity in defining entrepreneurship (Kuratko & Hodgetts, 2001). However, the basic concepts that are used to identify entrepreneurs, which are risk-takers, creators and opportunity-chasers, appear repeatedly in many of the definitions. By combining these key terms, the researcher has chosen the following definition of entrepreneurs that will be used in this study. Entrepreneurs, in the context of this study, refer to individuals who identify opportunities, gaps or unsatisfied needs in the market, and try to meet these identified needs by creating a new business.

By looking at the different definitions of entrepreneurs and entrepreneurship, it can be observed that the concept is very broad in nature. In other words, entrepreneurship is an interdisciplinary concept. Hence, a further examination of theories on entrepreneurship is needed to better understand the concept. The following section of this chapter will further discuss the topic.

### 2.3 Approaches to understanding entrepreneurship at an individual level

There are various approaches to the study of entrepreneurship, namely the economic approach, human capital approach, the cognitive approach, the personality trait approach and the Demographic Approach. In this study, however, it is considered important to discuss entrepreneurship at an individual level. This is due to the fact that entrepreneurs have important implications on SMEs. Entrepreneurs are the starters and the decision-makers of SMEs (Isaga, 2012; Stewart & Roth 2001; Zhao, Seibert & Lumpkin, 2010). Ahmad, Halim and Zainal (2010) also explain that the personal skill, knowledge, experience, education and motivation of a manager are very determinant factors in predicting the performance of a business. Therefore, this study will look at approaches that directly address the entrepreneur. Two approaches that discuss entrepreneurs from an individual level have been chosen for further discussion. They are the Demographic Approach and the Personality Traits Approach.

In addition, a Social Capital Approach to entrepreneurship will also be discussed as the topic is relevant in the study of networking.

### 2.3.1 The Personality Traits Approach

The Personality Traits Approach is one of the most widely known approaches in entrepreneurship (Kuratko & Hodgetts, 2007). The underlying assumption of the Personality Traits Approach is that there are certain common traits that pertain to entrepreneurs. The approach, therefore, is mainly concerned with identifying and analysing the distinctive psychological traits possessed by entrepreneurs. The distinctive traits separate entrepreneurs from non-entrepreneurs as well as successful entrepreneurs from not-so-successful entrepreneurs (Kuratko & Hodgetts, 2007:39; Veciana, 2007:42). The identified traits can also be used to create a profile of entrepreneurs. The most common entrepreneurial traits in literature are: need for achievement, need of independence, internal locus of control, risk-taking propensity, tolerance of ambiguity, over-optimism, innovative behaviour and need for autonomy (Isaga, 2012; Kuratko & Hodgetts, 2007:39; Nieman, Hough & Nieuwenhuizen, 2003:2; Širec & Močnik, 2010; Timmons & Spinelli, 2009; Veciana, 2007). The traits approach is helpful in explaining the motives of the entrepreneur. That is, the traits can be used to explain only certain individuals prefer to start their own business. Additionally, the traits approach has also been used to determine small business success (Farrington, 2012; Nadkarni & Herrmann, 2010).

A major shortcoming of the Personality Traits Approach is that many of the traits fail to explain behaviour under diverse conditions or tend to be static in nature (Chell, 2008). That is, the Personality Traits Approach does not take into consideration the tendency of individuals to act differently under a different set of conditions (Eysenck, 2004:471). In addition, individuals that possess the identified entrepreneurial traits may not necessarily become entrepreneurs (Eysenck, 2004). Consequently, Isaga (2012) concludes that studies on entrepreneurship should be careful not to put too much focus on the entrepreneur as an individual because there are other important factors, such as demographic characteristics, social capital, and human capital that may determine the creation and the growth of a business.

### 2.3.2 The Demographic Approach

The Demographic Approach basically assumes that the demographic background of an individual is an important and influential factor in entrepreneurship. And so, the

Demographic Approach tries to identify the demographic characteristics that are relevant to entrepreneurs. Scholars (Davidsson & Honig, 2003; Dimov & Shepherd 2005; Hisrich *et al.*, 2005; Ishengoma, 2005; Nieman *et al.*, 2003:2; Shane & Khurana 2003) have identified many demographic characteristics over the years. The following factors are amongst the common ones: age, childhood family environment, marital status, ethnicity, education, work history and education. In the Demographic Approach, entrepreneurs are also considered to be the result of their external environment (Field, 2005:14). This suggests that entrepreneurs are strongly influenced by their social and economic environment. Entrepreneurs are considered to have no control over the influences of their external environment (Field, 2005:14). In addition, the demographic factors are not only assumed to predict entrepreneurial intentions but are also a significant determinant of SMEs' performance (Mau, Lau & Chan, 2002).

This approach, however, is not without flaws. One of the main concerns of using this approach is the validity of the result that comes from trying to predict entrepreneurial activities by looking at factors of the past (Krueger, Reilly & Carsrud, 2000). Moreover, Isaga (2012) argues that the approach's consideration of simple demographic factors, which are static in nature, cannot be used to explain complex phenomena such as entrepreneurship.

### 2.3.3 Social Capital Approach

Social capital refers to the relationships maintained by an individual in social networks and the cumulative capacity of these relationships (Peverelli, Song, Sun & Yu, 2011:122). Anderson and Jack (2002) describe social capital as the process of establishing an environment that allows for the easy exchange of resources and information. Thus, the concept of social capital is concerned with networks, relationships within networks and the creation of partnerships that enable co-operation (Gheitani & Tehran, 2013; Jorgensen, 2004; World Bank, 2011). The premise behind social capital can be described as the "investment in social relations with expected returns" (Lin, 2001:19). Therefore, social capital is also concerned with the ability of members of networks to extract benefits from their social networks (Adler & Kwon, 2002; Davidsson & Honig, 2003:307).

The concept of social capital revolves around the creation of value through trust, norms, and social networks (Lyon, 2000; Sasani, Rabani & Behrooz, 2012). Norms specify actions that are considered by a set of people as acceptable, correct or proper and what actions are not acceptable. Norms are the building blocks for creating and maintaining trust (Lyon, 2000).

Trust, on the other hand, refers to the quality of having confidence in other agents regardless of risks, uncertainties and the possibility for them to act opportunistically (Lyon, 2000:664). Trust is a significant aspect of social capital. Trust effectuates social capital by mitigating risks and thus enables more effective capital flow (Theingi, Purchase & Phungphol, 2008). Putnam (2000) explains that social capital is connections among individuals that result in the norms of reciprocity, network and trust. Trust, norms and social networks result from a repeated series of interactions and exchange of resources over a period of time (Landry, Amara & Lamari, 2002.). They are understood as the constructs that facilitate co-operation and co-ordination in social capital. The constructs are also assumed to reduce narrow self-interest, and thereby influence individuals to contribute productively to exchange instead of behaving opportunistically (Landry *et al.*, 2002). Additionally, social networks are considered as the key way of obtaining social capital.

Social capital has been gaining more and more attention in the last fifteen years in a vast range of disciplines, such as sociology, anthropology, economics and political science (Claridge, 2004; Fu, 2004; Presutti & Boari, 2011). Social capital is considered a vital element in the creation and maintenance of regional development (Grootaert & Van Bastelaer, 2001), efficient functioning of modern economies (Fukuyama, 2001), contingent value of social capital (Burt, 1997) and democratic governance (Putnam, 1993). Irrespective of the disciplinary focus, there have been three leading figures that have made the utmost contribution towards the study of social capital. They are Pierre Bourdieu, James Coleman and Robert Putnam. Bourdieu is acknowledged for bringing the concept of social capital into present-day discussions. Bourdieu was a pure sociologist whose work “The forms of capital” was analysed within the context of his critical theory of society (Claridge, 2004). The work of Coleman (1988), a sociologist with strong connections to economics, marked an important shift in social capital from Bourdieu’s individual outcomes to outcomes for groups, organizations, institutions or societies (Adam & Roncevic, 2003). Putnam, on the other hand, was a political scientist who popularized the concept of social capital through the study of civic engagement in his work “Making democracy work: civic tradition in modern Italy” in 1993 (Claridge, 2004). Despite the difference in their focus area, Bourdieu (1986), Coleman (1988) and Putnam (1993) stress that social capital inheres or abides in personal relationships and the shared sets of values in the relationships.

With regard to the study of entrepreneurship, the importance which social capital has in the process of entrepreneurship has been highlighted (Davidsson & Honig, 2003; Kim, Aldrich & Keister, 2006; Liao & Welsch, 2003; Meccheri & Pelloni, 2006; Mueller, 2006). In the Social Capital Approach of entrepreneurship, the significant factor in the entrepreneurial process is social capital. The Social Capital Approach argues that since economic activity is embedded in the society, entrepreneurs develop social capital through building networks (Owino, 2009:63). Presutti and Boari (2011) suggest that contingent factor for entrepreneurship lies in the nature and structure of social capital which the entrepreneur has. Social capital is considered to be a productive element that enables the achievement of certain ends which are only attainable by making use of it (Putnam, 2000). Social capital is also 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 businesses (Liao & Welsch, 2003). One way in which social capital is thought to influence entrepreneurial decisions is by retaining important business information. In this case, entrepreneurs who are partakers of the social capital benefit from the available information (Giannetti & Simonov, 2004). Moreover, the readily available information entrepreneurs get through their social capital reduces uncertainties and thereby makes individuals more assured to become entrepreneurs (Giannetti & Simonov, 2004). Social capital also provides entrepreneurs with networks that facilitate the discovery of opportunities along with the identification, collection and allocation of scarce resources (Davidsson & Honig, 2003). Additionally, social capital provides resources and support required for entrepreneurship, reduce transaction costs by allowing the coordination of activities and also facilitate collective decision-making (Grootaert & Van Bastelaer 2001; Presutti & Boari, 2011:5). Social capital created amongst entrepreneurs can be used by the members to advance their own knowledge and expertise, learn from the experiences of others by encouraging and allowing mutual learning and also emotional and psychological support (Kutzhanova, Lyons & Lichtenstein, 2009:207).

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 is considered to assist entrepreneurs gain access to key information, resources, knowledge, expertise and opportunities. Thus, social capital is considered a 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 which

networking plays on the growth of SMEs. The concept of networking is presented in a detailed manner in chapter three.

The three approaches to understanding entrepreneurship discussed above are summarized in table 2.3 below.

**Table 2-3 Summary of approaches to understanding entrepreneurship at an individual level**

<b>Approach</b>	<b>Factors considered in explaining entrepreneurship</b>
<b>The Personality Traits Approach</b>	Traits posed by an individual, such as need for achievement, need of independence, internal locus of control, risk-taking propensity, tolerance of ambiguity, over-optimism, innovative behaviour and need for autonomy
<b>The Demographic Approach</b>	Characteristics of individual, such as age, childhood family environment, marital status, ethnicity, education, work history and education.
<b>Social Capital Approach</b>	Social capital, that is, value of networks and relationships.

In this section, the concept of entrepreneurs and entrepreneurship was discussed. It was deemed important to start with this topic before discussing SMEs, since entrepreneurs are the ones who start these businesses. The next section will focus on the main subjects of this chapter, which are SMEs.

## 2.4 Defining Small and medium enterprises

The definition of SMEs varies amongst countries because of the lack of clear set criteria as to what businesses can be classified under SMEs. Moreover, the definition of SMEs also varies across sectors. Mahembe (2011) explains that businesses differ in their levels of capitalisation, employment and sales. Hence, definitions which employ measures of size, such as number of employees, turnover, profitability and net worth, when applied to one sector, might lead to all businesses being classified as small, whilst the same size definition when applied to a different sector might lead to a different result. Therefore, there is no universal definition of SMEs (Gibson & Van Der Vaart, 2008; Stamatović & Zakić, 2010:152).

In defining SMEs, there are two kinds of methods which can be used. They are quantitative and qualitative methods (Organisation for Economic Co-operation and Development, 2004). In the quantitative method, quantifiable measures such as number of employees, total net assets, sales and turnover are used (Ayyagari, Beck & Demircug-Kunt, 2007; Haselip, Desgain & Mackenzie, 2014; Ogechukwu, 2011). Number of employees is the most frequently used quantitative method of defining SMEs, due to its simplicity and its ease to collect data (Ardic, Mylenko & Saltane, 2011; Ayyagari *et al.*, 2007, Beck, Demircug-Kunt, & Levine, 2005; Organisation for Economic Co-operation and Development, 2004). Countries such as the United States, Britain, and other European countries use number of employees and turnover to define SMEs (Gbandi & Amisah, 2014). Nevertheless, even when using the number of employees to define SMEs, there is still dissimilarity between countries and across sectors in setting the upper and lower size-limit of SMEs. Conversely, SMEs can be defined in qualitative terms using their legal status and/or managerial experience (Dababneh & Tukan, 2007).

The United Nations Industrial Development Organisation (UNIDO) defines SMEs by using qualitative and quantitative measures. In quantitative terms, UNIDO defines SMEs by using the number of employees. It gives different categorizations for industrialized and developing countries (Elaian, 1996). In industrialized countries, UNIDO classifies businesses with 100-499 employees as medium, whilst businesses with 99 or less employees are classified under small. On the other hand, in developing countries, businesses are classified under medium if they have between 20 and 99 employees (Elaian, 1996). Small businesses are those businesses that have 5 to 19 employees (Elaian, 1996). In its qualitative measurement, UNIDO describes SMEs as businesses that are labour intensive, have highly personalised contacts, and have a fragile and unclear competitive position (Dababneh & Tukan, 2007). Another organization with its own definition of SMEs is the European Small Business Alliance. This can be seen in Table 2.4 below.

**Table 2-4 Definition of SMEs**

<b>Enterprise Category</b>	<b>Head count</b>	<b>Turnover</b>	<b>Balance Sheet Total</b>
<b>Medium-sized</b>	< 250	< € 50 million	< € 43 million
<b>Small</b>	<50	< € 10 million	< € 10 million
<b>Micro</b>	<10	10 < € 2 million	

Table: European Small Business Alliance, 2011

From the above discussion, it is clear that there are various definitions of SMEs. Different countries, institutions and sectors also have their own classification of SMEs. Another factor that has contributed to the lack of universal definition for SMEs is the diversity in the very nature of the businesses. The following section will discuss what SMEs are in a South African context.

## 2.5 SMEs in South Africa

The lack of uniform definition of SMEs observed internationally is also evident in South Africa. The most widely used definition of SMEs in South Africa is the one given by The National Small Business Act 102 of 1996, which was amended in 2003 (Abor & Quartey, 2010; Fatoki & Garwe, 2010). Qualitatively, the act defines SMEs as “a separate and distinct entity including cooperative enterprises and non-governmental organizations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards and can be classified as an SME by satisfying the criteria mentioned in the schedule of size standards” (Mahembe, 2011:24). By taking into account quantitative measures such as number of employees, annual turnover and gross asset value, the act also gives another definition of SMEs which is presented in Table 2.5 below.

**Table 2-5 Quantitative definition of SMEs in South Africa**

<b>Size of the enterprise</b>	<b>Number of employees</b>	<b>Annual Turnover</b>	<b>Gross Asset Value</b>
<b>Small</b>	Not more than 50.	Less than R2 million or R25 million, depending on the industry.	Less than R2 million or R4.5 million, depending on the industry.
<b>Medium</b>	Not more than 100 or 200, depending on the industry.	Less than R4 million or R51 million, depending on the industry.	Less than R2 million or R18 million, depending on the industry.

Source: Government Gazette of the Republic of South Africa (2003).

The study adopts the quantitative definition of The National Small Business Act 102 of 1996 to define SMEs. More specifically, the demarcation given on the number of employees by the act will be used to classify SMEs. Thus, Small businesses in this study refer to businesses that have a maximum of fifty employees, whilst medium enterprises, on the other hand, refers to businesses with a maximum of two hundred employees. The following sections will continue the discussion of SMEs in South Africa by elaborating on the role which SMEs play in South Africa's economy and what the government's perspective is on the SME sector.

### 2.5.1 Role of SMEs in South African economy

The importance of SMEs has been acknowledged worldwide. SMEs are vital to economic development as they create jobs, contribute to the growth in output, enhance innovation, contribute to public investment by paying taxes and aid in the equitable distribution of wealth (Franz, 2000:16; Onwuegbuchunam & Akujuobi, 2013). Also, SMEs are flexible in creating products that are more aligned with the needs of the local market. That is, SMEs are able to serve segmented consumer markets (Atkinson, 2012; Kesper, 2001:1). Furthermore, SMEs are flexible to adapt to adverse economic conditions. Their flexibility gives them a great advantage over large companies in that they can run their business in rural areas, which has a positive impact on the economy. Distribution of economic activities to rural areas results in a reduced economic gap between rural and urban areas. The distribution of economic activities also leads to the dissemination of entrepreneurial skills to rural areas and creation of new jobs, which results in a more equitable distribution of income (Kayanula & Quartey, 2000).

SMEs especially play a distinct role in developing countries' economies (Atkinson, 2012; Fan, 2003; Pandya, 2012). The businesses in the SME sector have a tendency to be highly labour intensive and have low capital costs associated with job creation (Abor & Quartey, 2010). These factors work in the favour of developing countries which are characterized by high labour resource (Fan, 2003). Thus, SMEs have high potential to create new jobs, thereby reducing income-based poverty. Thus, a growing SME sector has the power to help countries overcome several development challenges. Moreover, through fostering innovation and completion, the SME sector is expected to advance the country's product and service output. Hence SMEs have an enormous role to play in overcoming these challenges.

The SME sector plays a significant role in South Africa's economy. SMEs account for 91% of the formal business entities in South Africa, contribute 52-57% to GDP and provide employment for approximately 61% of the labour force (Abor & Quartey, 2010: 223). A study by Magda (2010) also showed the total economic output by SMEs to be close to 50% of the Gross Domestic Product (GDP) and that the sector accounts for 60% of the employment. In addition to the SME sector's current contribution to the South African economy, the sector can be used to further address the following economic challenges which South Africa is facing.

**Unemployment:** The high unemployment rate, estimated at 26.4% (Trading Economics, 2015), is a major concern for South Africa. The formal and public sector have failed to absorb the growing number of job seekers (Mitchell, 2013.) Thus, in order to tackle the high unemployment problem, it is suggested that South Africa needs a dynamic economy with an expanding and vigorous SME environment (Abrie & Doussy, 2006; Fourie, 2008; Mahadea, 2012). In addition, SMEs employ individuals whose labour market characteristics make it difficult for them to get a job (SBP Alert, 2013). Amongst these labour market characteristics are lack of skill and education. Muthethwa (2013) notes that the high proportion of job seekers in South Africa tend to either be unskilled or have not completed matric. Thus, the ability of SMEs to create jobs for unskilled/uneducated labour is vital for South Africa's labour force. Furthermore, Muthethwa (2013) notes that South Africa's youth unemployment rate between the ages of 15-24 is estimated at 52.9%, which is alarmingly high. SBP Alert (2013:5) also warns that "Chronic unemployment amongst the country's youth has come to the fore as one of the most serious problems facing South Africa; unaddressed, it could be a permanently destabilising factor". SMEs can provide a solution to

this problem since they mostly employ the younger labour force (SBP Alert, 2013). Hence, it can be concluded that SMEs have enormous potential in creating new jobs that will suit South Africa's unemployed labour force.

**Poverty:** The SME sector is expected to offer solutions to the high poverty and unequal income distribution rate in South Africa. The poverty rate is estimated at 56.8% in South Africa (Statistics South Africa, 2014). South Africa's government provides grants for citizens in order to reduce the poverty rate. A staggering 30.7% of South Africa's population (16.6 million) rely on government grants as a basic income (South African Social Security Agency, 2015). However, social grants are not enough to address the poverty problem of the country (Hagen-Zanker, Morgan & Meth, 2011). New jobs need to be created, that will allow individuals to earn an income and therefore reduce poverty. Moreover, South Africa is experiencing an increase in civil actions and high level of social unrest due to delays in service delivery (Hagen-Zanker *et al.*, 2011). The creation of new jobs can also assist in reducing the pressure which the government is facing in providing grants.

**Unequal distribution of income:** With a Gini coefficient of 0.65, South Africa has one of the most unequal income distributions in the world (World Bank, 2014). The Gini coefficient measures inequality on a scale of 0 to 1. The closer the Gini score is to 1, the more unequal the society's income is and vice versa. Even though there has been a decline in between-race income inequality in post-apartheid South Africa, it still remains remarkably high by international standards (Hagen-Zanker *et al.*, 2011; Leibbrandt, Woolard, Finn & Argent, 2010). Africans are much poorer when compared to other races (Leibbrandt *et al.*, 2010). Furthermore, within-race inequality has shown an increase significant enough to stop South Africa's aggregate inequality from declining (Leibbrandt *et al.*, 2010). The highest interracial inequality in South Africa was observed within the Black African race (Hagen-Zanker *et al.*, 2011; Leibbrandt *et al.*, 2010). The income equality of a country is directly influenced by a lack of jobs and employment (Leibbrandt *et al.*, 2010). Thus, unequal income distribution can be improved by the creation of employment opportunities. Therefore, job creation through SMEs can go a long way in reducing the high income inequality gap which South Africa is facing.

However, despite all the expectations on SMEs in solving South Africa's economic problems, whether directly or indirectly, different studies have concluded that these businesses do not grow (Fatoki, 2013; Fatoki & Garwe, 2010; Kesper, 2001; Smit & Watkins, 2012).

Furthermore, Atkinson (2012:71) added that “South Africa generally has a low SME start-up rate and a high failure rate of young SMEs”. Consequently, the South African government has come up with different measures to help SMEs overcome the challenges they face. It has set up several institutions with the aim of creating more businesses and growing the existing ones. The following section will explore more on the measures taken by the government to foster the SME sector.

### 2.5.2 Government perspectives on SMEs in South Africa (Support for SME development)

Countries all over the world have long recognized the importance of SMEs for economic growth. As a result, they have been coming up with different policy measures and creating organizations to foster the growth of the sector. South Africa is no exception. The country’s government sees SMEs as a key resolution in resolving many socio-economic problems. In addition, the government has also put a lot of expectation on the SME sector in attaining economic growth and other social objectives (Fatoki & Garwe, 2010:730; Smit & Watkins, 2012). This was clearly stated in the speech given by Deputy Minister of Trade and Industry, Ms Elizabeth Thabethe, in June 2011 during the National Council Of Provinces (NCOP) budget vote speech, which stated that the South African government sees SMEs as “critical in stimulating economic development, and that it is also a pivotal area in terms of innovation, skills development, entrepreneurship, labour- absorption and job-creation” (Krause, Schutte & Du Preez, 2012:203-3).

As a result the government has invested much attention by putting in place support programmes and policies for SMEs (Abor & Quartey, 2010). The government has also created institutions that provide financial and non-financial assistance for businesses. Some of the enterprises are listed below.

- The ministry of Small Business Development: the ministry of Small Business Development was officially announced on 25 May 2014 by President Jacob Zuma. (Thulo, 2015). President Zuma stated that the development of the small business sector is critical for the economic development of South Africa (Wealthwisemag, 2014). The Ministry was set up to improve the performance of small businesses in South Africa and thereby achieve economic growth, reduce unemployment and poverty rates and meet social objectives (Parliamentary monitoring group, 2014). The ministry was mandated to review rules and regulations that need to be put in place to

ease the burden on small businesses and additionally allow for direct interaction with the government (Wealthwisemag, 2014). The ministry deals with small business policy, business cycle support, small business financial solutions and moving the current Small Enterprise Development Agency (SEDA) into the Small Business Development Department (Parliamentary monitoring group, 2014). In addition, the ministry is expected to provide a solution with regards to the gap that exists between banks and development finance institutions and small businesses, by serving as a bridge. Banks and development finance institutions (DFIs) face difficulty in finding newly established SMEs with feasible business plans, combined with the management skills to achieve the objectives set out in their plans (Standardbank, 2014). In addition, DFIs also struggle to find small businesses that exhibit growth potential (Wealthwisemag, 2014). On the other hand, SMEs have reported that financial assistance services of DFIs are largely inaccessible, in addition to being administratively complex (Standardbank, 2014). Furthermore, applicants often receive inadequate feedback and are not aware of where to get assistance with funding and improving their business plans (Wealthwisemag, 2014). Thus, the ministry's role in providing co-ordination at the government level and improved direct interaction of SMEs with the government (Wealthwisemag, 2014) can go a long way in diminishing the gap. Additionally, the minister's efforts to define market segments on a competitive basis, will allow the private sector financial institutions to be in a better position to support small business, (Standardbank, 2014). The ministry is also expected to play a role in the collection and analysis of data that has relevance in assisting small business owners to make informed and strategic decisions (Standardbank, 2014).

- Khula Enterprise Finance Ltd: Established in 1996, Khula is a wholesale financial institution that is auspices of department of trade and industry (DTI). The institution strives for the development and sustainability of small businesses. Its main objective is to address the funding gap that exists in the SME sector that the commercial financial institutions have failed to fulfil. It does so by providing funding to small businesses through retail financial institutions, commercial banks, specialist funds and joint ventures. (Atkinson, 2012; Ismaila, 2011).

- The Small Enterprise Development Agency (SEDA): An agency of the South African DTI, which was established in 2004. SEDA's main mission is to develop, support and promote small enterprises in South Africa in general. Services provided by this institution include tender advice, networking and business links, providing guidance to access markets, technical support for businesses and improving productivity (Atkinson, 2012).
- The Industrial Development Corporation (IDC): State-owned and self-financing institution which was founded in 1940. The institution promotes entrepreneurial activities by providing financial and non-financial support to SMEs (Ismaila, 2011).

Other institutions that support SMEs include Small Enterprise Finance Agency (SEFA), National Empowerment Fund (NEF), National Youth Development Agency (NYDA), Land Bank, and Mafisa. Despite government attempts to enhance the growth of the SME sector in South Africa, Falkena, Abedian, Von Blottnitz, Coovadia, Davel, Magungandaba and Rees (2002) argue that these attempts are not sufficient. According to Falkena *et al.* (2002), despite the SME sector's massive contribution to the country's economy, it is not receiving much attention from the government. Moreover, the institutions established to provide support for small businesses are not only unproductive (Atkinson, 2012), but many entrepreneurs are not even aware of their existence (Maas & Herrington, 2006).

## 2.6 Concept of SME growth

Growth is defined by Nieman *et al.* (2003) as a change in a particular parameter over a certain length of time. Growth is a dynamic process, that shows whether SMEs are static or developing (Nieman, 2006:188). A growing business is one that has a notable performance and is successful since growth creates an opportunity for businesses to expand their business, as well as earn higher profit. For this reason, growth is one of the indicators used to measure the success of a business. Growth is in effect a commonly used measure in the study of SMEs, for the reason that it is considered to be a more precise and easy measure (Fitzsimmons, Steffens & Douglas, 2005).

The study of SME growth has received a lot of attention. Over the years, different studies (Bartlett & Bukvič, 2001; Isaga, 2012, Mambula, 2002; Onwuegbuchunam & Akujobi, 2013; Robson & Bennett, 2000; Rodríguez, Molina, Peérez & Hernánandez, 2003; Širec & Močnik, 2010) have been conducted to better understand SME growth. However, despite

many attempts, there is no common theoretical framework on the topic (Dobbs & Hamilton 2007; Farouk & Saleh, 2011; Rodríguez *et al.*, 2003:290). Areas in which the theories vary are the variables they deem important as a determinant of business growth in addition to the number and type of variables they used to measure business growth. The theories also vary on the method they use to examine the growth process (Dobbs & Hamilton 2007; Rodríguez *et al.*, 2003). This has made the study of small business growth multidimensional. Nonetheless, Dobbs and Hamilton (2007), by assessing theories on SME growth, categorized the theories into six broad groups. They are the stochastic, descriptive, evolutionary, resource-based, learning, and deterministic approaches.

**Table 2-6 Summary of the approaches to Studying Small Firm Growth**

<b>Approach</b>	<b>Suggestions</b>
<b>Stochastic</b>	Business growth is a random phenomenon that can result from numerous causes and can occur independently of the business's initial size, Thus there is no dominant theory to explain the phenomenon.
<b>Descriptive</b>	The main focus is on how a small firm adapts internally in order to grow by using stages model which is developed to depict the dynamic nature of business growth.
<b>Deterministic</b>	Argues that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics. The characteristics include human resource, the firm itself and the business environment.
<b>Learning</b>	Learning is thought to create knowledge that facilitates the evolution of the business Thus, emphasis is placed on identifying how and when SME owners can learn most effectively.
<b>Evolutionary</b>	In the evolutionary approach growth is considered to be contingent on the interaction of internal and external factors; it is a result of firm's unique circumstances
<b>Resource-Based</b>	The main line of argument in the resource based approach is that growth depends on the managerial resources available to plan and manage it.

Adopted and modified from Reijonen, Laukkanen, Komppula and Tuominen (2012)

Table 2.6 summarizes the six approaches of SME growth. From the six approaches, four of the approaches that have gained attention in previous literature (Becchetti & Trovato, 2002; Çelebi, 2003; Dobbs & Hamilton, 2007; Farouk & Saleh, 2011; Levie & Lichtenstein, 2010; Pitelis, 2002) have been chosen for further discussion. They are the stochastic approach, the Descriptive Approach, the Deterministic Approach and the Learning Approach.

### 2.6.1 The Stochastic Model

The Stochastic Model originated from the initial studies conducted to explain SME growth (Farouk & Saleh, 2011:3). It is a model that evolved from the field of economics (Dobbs & Hamilton, 2007) and more specifically from Gibrat's (1931) model of "Law of proportionate effect". Gibrat's Law stipulates business growth as a random process that is independent from business size. According to Gibrat's Law, the future size of a business is independent of its present size. In other words, the future growth of a business cannot be predicted by looking at its past growth (Çelebi, 2003; Dobbs & Hamilton, 2007:297). Gibrat's Law accepts that there are a number of determinants of business size that ultimately contribute to its growth or decline. Among the determinants are management, the tastes of its customers, government policy and other forces (Dobbs & Hamilton, 2007). Gibrat's law also accepts that none of the determinants exert a major influence over time (Carrizosa, 2007; Dobbs & Hamilton, 2007). Additionally, Gibrat's law stipulates that since business growth is independent of initial size, the likelihood of growth for all businesses is the same (Carrizosa, 2007).

As the Stochastic Model was founded based on Gibrat's law, it also characterises business growth as a phenomenon that occurs independently of the business's initial size. The Stochastic Model further contends that business growth occurs by chance (Park & Jang, 2010). The Stochastic Model explains that as there are numerous causes that can randomly influence growth, some examples are customers' taste, quality of its management and government policy (Dobbs & Hamilton, 2007:297). Moreover, the model depicts that none of the factors that affect business growth exert a major influence over time. Therefore, although each factor has its contribution towards the growth or decline of a business, each factor has a very small share of the overall growth equation (Dobbs & Hamilton, 2007:297). Hence, this theory argues that growth cannot be explained by taking a specific dominant factor (Farouk & Saleh, 2011:3).

However, the Stochastic Model has received criticism with empirical evidence showing that small firms have a higher growth rate and pose a higher growth potential when compared to larger businesses (Almus & Nerlinger, 2000; Calvo, 2006; Davidsson, Kirchoff, Hatemi & Gustavsson, 2002; Park & Jang, 2010; Reichstein & Dahl, 2004). Additionally, using data that covered approximately 9000 observations, Reichstein and Dahl (2004) find significant proof that firm growth cannot be considered a simple and random process as postulated in Gibrat's Law. According to Reichstein and Dahl (2004), business growth is not idiosyncratic as it is highly dependent on industry and geography. Thus, Reichstein and Dahl (2004) disagree with the model of business growth that portrays growth as a random process, instead opting for a further deterministic analysis to business growth.

### 2.6.2 Descriptive Approach

What Dobbs and Hamilton (2007) describe as the Descriptive Approach of SME growth stems from several stages of development models. The stages model was developed to depict the dynamic nature of business growth (Farouk & Saleh, 2011:4). This model was adopted from the biology life-cycle analogy to illustrate how business progresses through a set of stages. "The stages of growth models view firms as growing through successive stages of roughly sequential ordering as they evolve from birth to maturity" (Park & Jang, 2010:53). Each stage in the model corresponds to problems, strategies and priorities that business owners or managers are expected to face and address (Park & Jang, 2010). Therefore, the right action taken on each stage allows businesses to sustain a period of steady growth until the business continues to grow and thereby faces new challenges (Park & Jang, 2010). The models in most cases are made up of three to six stages of business growth. Some examples are the three-stage models of Smith, Mitchell and Summer (1985), the four-stage models of Quinn and Cameron (1983), and the five-stage models of Churchill and Lewis (1983), Miller and Friesen (1984), and Scott and Bruce (1987). The stages include existence, survival, growth, take-off and maturity (Farouk & Saleh, 2011:4; Park & Jang, 2010). Some of the scholars who developed the stages models are Churchill and Lewis (1983), Greiner (1972), Miller and Friesen (1984), Scott and Bruce (1987), and Steinmetz (1969).

With regard to SMEs, Churchill and Lewis (1983) are accredited as the first scholars to develop a stages model for SMEs. The model of Churchill and Lewis (1983), by extending the frameworks of Steinmetz (1969) and Greiner (1972), suggested a five-stage SME growth model. In this model, SMEs are assumed to progress through five successive stages which are

existence, survival, success, take-off, and resource maturity. And so, the stages models illustrate how businesses grow in size and structure over time by passing through different stages. According to Dobbs and Hamilton (2007), the models of the Descriptive Approach are not mainly concerned with the determinants of business growth. Rather, the approach tries to explain how SMEs adapt internally in order to continue their growth (Dobbs & Hamilton, 2007).

However, the assumptions that the growth process can be explained by using a sequence of stages have been criticized. For instance, Levie and Lichtenstein (2010:336) suggested that there is lack of agreement on what the stages of growth are, how they progress, or why they shift. Additionally, Levie and Lichtenstein (2010) noted that the stages model lacks proper evidences on the path of progress from one stage to another and the reasons behind the progress. Dobbs and Hamilton (2007) add that the stages model explains the growth process by using a sequence of stages without providing supporting evidence. In addition, “these models assert a similar growth process in which the phases tend to be relatively long and smooth but which are perturbed by a number of crises that have to be resolved within the firm before the growth can continue on its way” (Dobbs & Hamilton, 2007:298). Furthermore, Bessant, Philips and Adams (2007) found that businesses can skip between the successive stages and, at times, repeat stages.

### 2.6.3 Deterministic Approach

The Deterministic Approach, contrary to Stochastic Models, assumes that the variance in the rates of growth amongst businesses can be explained by a set of observable industry and firm-specific characteristics (Becchetti & Trovato, 2002:292). Moreover, the Deterministic Approach is different from the Descriptive Approach as it focuses on what causes growth, as opposed to how a business adapts to accommodate growth, which is the emphasis of the Descriptive Approach (Dobbs & Hamilton, 2007:299). In the deterministic model, business growth is described using particular patterns of a cause and effect relationship (Park & Jang, 2010). That is, in the Deterministic Approach, the main objective is to identify internal and external variables that can have an effect on growth. The variables are thought to expound the main reason for the disparity in the growth rate of businesses. The variables can be human resources, characteristics of the business, the business’s industry environment and strategies or practices that are highly correlated to SME growth (Dobbs & Hamilton, 2007:299; Farouk & Saleh, 2011:4).

However, there are criticisms to this approach. For instance, the approach lacks robust empirical validity, which will mean that applying the deterministic model under different circumstances, such as across different industries or countries may not show a similar outcome (Farouk & Saleh, 2011:4). In addition, “the deterministic models have only been able to provide partial explanations of small business growth rates, leaving considerable unexplained variation” (Dobbs & Hamilton, 2007:299). Despite the criticisms, however, the Deterministic Approach remains the dominant empirical approach in the study of SME growth. Consequently, numerous studies (Altinay & Altinay, 2006; Barbero, Casillas & Feldman, 2011; Becchetti & Trovato, 2002; Carpenter & Petersen, 2002; Davidsson & Henkerson, 2002; Glancey, 1998; Kangasharju, 2000, Reichstein & Dahl, 2004; Wiklund, Davidsson & Delmar, 2003) have been conducted to identify the determinants of business growth. Further discussion of determinants of SME growth will be presented in section 2.8 of this chapter.

#### 2.6.4 Learning Approach

In the Learning Approach, it is argued that learning equips SME owners or managers with the critical resource for growth, which is knowledge. The availability and application of knowledge has the ability to determine the growth of a business (Pitelis, 2002). The growth of SMEs, in the Learning Approach, can be linked to their learning ability. The growth path of SMEs is, to an extent, assumed to be the reflection of the dynamics of learning within the business (Dobbs & Hamilton, 2007). That is, the learning ability of SMEs is considered to provide them with vital knowledge necessary for the next growth phase (Phelps, Adams & Bessant, 2007). Dobbs and Hamilton (2007) also propose that “the growth path of each business will mirror to some extent the dynamics of learning within the business”. Therefore, the main objective of the Learning Approach is to identify how and when SME owners can learn most effectively to be able to obtain and apply the “knowing” or “absorptive capacity” (Dobbs & Hamilton, 2007).

Nonetheless, like the deterministic models of growth, the Learning Approach can only provide partial explanations of small business growth. The Learning Approach is mainly concerned with explaining SME growth by analysing their learning capabilities. This, however, can have a potential shortcoming. By placing too much emphasis on the learning aspect of growth, the model does not take other external and internal factors into consideration that can presumably affect growth.

In summary, this section presented the concept of SME growth. In doing so, approaches to understanding SME growth were identified and discussed. The approaches vary in the way they portray the process of SME growth as well as the determinant they deem to be important for growth. This study approached SME growth from a deterministic perspective. The Deterministic Approach focuses on identifying characteristics, strategies and practices that can explain the growth of SMEs. As this study analysed the role of networking in the growth of SMEs, the Deterministic Approach was applied. Networking is examined as a momentous determinant of SME growth. In addition to networking, growth intention has also been considered as a determinant of growth in the study of SMEs. A discussion on growth intentions is presented in the following section.

## 2.7 Growth intentions

Growth intentions can be defined as “the entrepreneur's goals or aspirations for the growth trajectory she or he would like the venture to follow” (Dutta & Thornhill, 2008:308). Growth intention is relevant in the discussion of SME growth. This is because growth will not take place in SMEs without the owner’s desire or vision to grow the business (Nieman, 2006). The concept of growth intention has been explained in literature by using the theory of planned behaviour. The theory was first proposed by Icek Ajzen in the 1980’s (Wiklund & Shepherd, 2003). The central point of this theory rests on the study of intention and more specifically on a person’s intention to carry out certain behaviour. Under normal circumstances, this theory assumes that strong intention of engaging in behaviour leads to performance (Ajzen, 1991:181). This is because intentions are known to “capture the motivational factors that influence a behaviour, they are indications of how hard people are willing to try, of how much of an effort they are planning to exert, in order to perform the behaviour” (Ajzen, 1991:181). Krueger, Reilly and Carsrud (2000) also acknowledge that intentions have a great ability to predict planned behaviour.

Intentions have important implication on business growth. The likelihood that a certain business will grow decreases if the business owner has no intention of growing it (Levie & Autio, 2013). Empirical studies that have been conducted to test this role have also confirmed the relationship between growth intention and actual growth. For example, Hoxha and Capelleras (2013), by conducting face to face interviews with 500 entrepreneurs, found growth intention to be a strong determinant of small business growth. Morrison, Breen and

Ali (2003) have also found that growth intentions are one of the preconditions of small business growth. Furthermore, Wiklund, Patzelt and Shepherd (2009) have also concluded that intention is significant for growth. Therefore, the intention of business owners plays an important role in determining the actual growth of their business.

There is a considerable variation amongst business owners in their intentions to grow their business. After starting a business, the next logical step may appear to be to grow that business; however this is not always the case (Nieman *et al.*, 2003). Some business owners envision their business to attain ample growth, whilst other business owners have no intention of growing their business or might even deliberately refrain from pursuing growth (Greenbank, 2001; Gundry & Welsch, 2001; Walker & Brown, 2004). There are various reasons why some business owners lack the intention to grow their business. For instance, Nieman *et al.* (2003:232) identified risk as a factor that causes SME owners to refrain from growing their business. According to Nieman *et al.* (2003:232), there is a certain risk that results from business growth. Therefore, the risk that comes from growth affects the growth intention of SME owners. One risk factor associated with growth is business's ability to survive a severe crisis. In their study, (Wiklund *et al.*, 2003) found that SME owners' presumption of their business's ability to cope with the consequent changes that follow growth, influences their growth intention. Growth can result in an increase in the size of the business, thereby reducing its flexibility. The increase in size and lower flexibility can be perceived by SME owners to have a negative effect on the business's ability to survive a severe crisis (Wiklund *et al.*, 2003). Furthermore, growth results in a change in the structure of the business such as an increase in the size of the business. The increase in size of the business can be perceived by owners as a change that can affect their ability to keep full control over the operations of the business. In addition, the changes that occur may not be in the interest of the business owner as they might contradict the owner's initial interest of starting the business for personal independence (Wiklund *et al.*, 2009). Therefore, another non-economic factor that was found to have an influence on growth intention is the owner's perception of decrement in degree of independence and control of the business that results from growth. Moreover, growth can necessitate the increment of capital through additional loans, sharing equity or dominating customer, which might reduce the independence and the control level the owner has on the business in relation to external stakeholders (Wiklund *et al.*, 2003). Thus, the perceived loss of independence and control can also influence growth intention. A study by Neneh and Vanzyl (2014) established the influence procedural

requirements for business registration influence growth intention. Neneh and Van Zyl (2014) further found that business owner’s locus of control, prior family business exposure, entrepreneurship education, level of education, need for achievement, and tolerance of ambiguity significantly impact the growth intentions of business owners in South Africa. The study (Neneh & Van Zyl, 2014) also analysed the impact which growth intention has on actual growth of businesses in South Africa and found growth intentions to be significantly related to actual growth.

The influence of growth intentions for actual growth is especially true when discussing SME growth. SME owners have an influential role on their business. Thus, the ultimate power in deciding whether or not to grow their business lies in the hands of the SME owners. Scholars (Morrison *et al.*, 2003; Peck, Makepeace & Morgan, 2006) acknowledge that growth in small businesses does not just happen; it results from the intention of the owner to pursue growth. Thus this study will examine the relationship between growth intention and actual growth.

This section explored the influence which growth intention has on actual growth. In addition to growth intention, there are other factors that have an influence on the growth of SMEs. The following section will look at the determinants of SME growth.

## 2.8 Determinants of SME growth

The factors that determine the growth of SMEs mostly fall into four categories (Smallbone & Wyer, 2000). They are management strategies, characteristics of the entrepreneur, characteristics of the business, and environmental/industry specific factors. Table 2.7 below provides a highlight of the main growth factors found under the four categories.

**Table 2-7 Determinants of SME growth**

<b>Categories</b>	<b>Growth factors</b>
<b>Management strategies</b>	Growth objectives, employee recruitment and development, product market development, marketing strategies, business collaboration, networking, financial resources.
<b>Characteristics of the entrepreneur</b>	The entrepreneur’s profile, such as his/her motivation, gender, age, educational background, previous experience.
<b>Characteristics of the business</b>	Size, location, ownership, age of the business.
<b>Environmental/industry specific factors</b>	Demand-side variations, supply-side variations, the size of the industry and access to external finance.

As noted in Table 2.7, the first categories of SME growth determinants are management strategies. Management strategies refer to the operational and developmental strategies followed by SME owners or managers. These strategies can be growth objectives, employee recruitment and development, product market development, financial resources, internationalization and business collaboration, and flexibility. Management strategies can significantly influence the growth of SMEs. Reijonen and Komppula (2007) explain that growth is something that needs to be set as an objective and actively pursued. Thereafter, the strategy which SMEs follow in different areas of their business, such as the recruitment of employees and product market development, have to be aligned with the growth objective of the business. In addition to the management strategies followed within the business, the strategies which SMEs follow in collaborating with their external environment also influence the growth of a business. Collaborations refer to relationships of a business such as networks, alliances and trade associations (Dobbs & Hamilton; 2007:307). Participation in networks, and alliances can assist an SME's growth by providing access to a broader base of resources (Dobbs & Hamilton; 2007:307). Whereas trade associations provide an easy access to important information, as well as an opportunity for SMEs to get access to form network with their industry peers (Robson & Bennett, 2000).

The second category is the characteristics of an entrepreneur. Entrepreneurial characteristics such as the entrepreneur's motivation, educational background and previous experience can also give an important indication for SME growth. In many cases, SMEs are managed by their owners. In other cases, the owners exert a high level of control over the business operations (Dobbs & Hamilton; 2007:307). Therefore, the characteristics of the SME owners are deemed to have a major influence on the growth of the businesses. A study on small business growth, by Krasniqi, Shiroka-Pula and Kutllovci (2008), found that the age of an entrepreneur and his previous employment history had an impact on small business growth.

In the third category, characteristics of the business that influence the growth of SMEs are classified. These include the size and age of the business. The size and age of a business have important implications for the growth of SMEs. SMEs that are smaller in size and younger in age are assumed to grow more rapidly than older and larger SMEs (Dobbs & Hamilton; 2007:311; Smallbone & Wyr, 2000). The argument is that the smaller and younger SMEs are more likely to accumulate resources that can enable them to withstand unforeseen external incidents (Dobbs & Hamilton; 2007:311; Smallbone & Wyr, 2000).

Finally, environmental or industry specific factors can also influence the growth of SMEs. The environment of a business, such as social factors, culture, and family have implications on SME growth (Gupta, Guha & Krishnaswami, 2013). Industry specific factors can either be external constraints or opportunities that arise in the market. They can be variations in demand or supply as a result of change in the industry. Another main industry factor that can influence business growth is the availability of external finance, such as bank loans. Additionally, supply side variation such as variations in the cost and availability of resource can also influence the growth of a business positively or negatively (Smallbone & Wyer, 2000).

An important point to note, however, is that none of these factors can determine the growth of a business by themselves. The growth of an SME requires the balanced combination of the determinants of growth discussed above. Širec and Močnik (2010) stress that without the right alignment between growth intention, internal growth factors, and external growth factors, business growth will be difficult to achieve. As discussed in section 2.6.1 of this study, growth intentions have a significant influence on the actual growth of SMEs. In addition, external growth factors, which are factors beyond the control of the enterprise, also determine the growth of SMEs. Examples of external factors include: economic environment, legal and regulatory environment, competition, socio-cultural conditions, political environment, as well as technological and demographic environment of the industry (Gupta *et al.*, 2013). Conversely, internal factors refer to factors that are within the control of the business. Internal factors constitute capital, human resource, business strategies, and a business's operational, functional, financial, marketing and technical capabilities (Gupta *et al.*, 2013), which also determine the growth of SMEs. Shaw and Conway (2000) also agree that the growth of SMEs result from a summation of factors such as: ambition of the owner, internal resources and external relations and networking.

From the above discussion, it can be seen that there is a variety of factors that determine the growth of SMEs. Among these determinants, this study will focus on the role which networking plays on the growth of SMEs. There many ways of measuring small business growth. This will be reviewed in the next part of this chapter.

## 2.9 Measurement of SME growth

In order to regard a business as growing, Nieman (2006) identified five categories of growth indicators. They are financial, strategic, structural, organisational and image. The growth measures along with their implications are illustrated in Table 2.8 below.

**Table 2-8 Growth indicators**

<b>Growth indicators</b>	<b>Implications</b>
<b>Financial</b>	An increase in: <ul style="list-style-type: none"> <li>• Turnover</li> <li>• Costs</li> <li>• Investment</li> <li>• Profits</li> <li>• Assets</li> <li>• Value</li> </ul>
<b>Strategic</b>	Changes taking place in the small business through: <ul style="list-style-type: none"> <li>• Mergers or acquisitions</li> <li>• Exploiting new markets</li> <li>• New product development</li> <li>• Becoming self-sustainable</li> <li>• Change in organizational form</li> <li>• Obtaining competitive advantage</li> </ul>
<b>Structural</b>	Changes taking place in the business in terms of: <ul style="list-style-type: none"> <li>• Managerial roles</li> <li>• Increasing responsibility of employees</li> <li>• Reporting relationships</li> <li>• Communication links</li> <li>• Internal systems utilised</li> <li>• Increase in number of employees</li> </ul>
<b>Organizational</b>	Changes taking place in the small business such as: <ul style="list-style-type: none"> <li>• Processes utilised</li> <li>• Organizational culture</li> <li>• Attitudes of management towards staff</li> <li>• Entrepreneur's role</li> <li>• Leadership style</li> </ul>

<b>Image</b>	<p>Changes taking place in the small business such as:</p> <ul style="list-style-type: none"> <li>• Becoming more formal e.g. having formal business premises</li> <li>• Moving to newly built premises</li> <li>• Redecorating premises</li> <li>• Moving to new environment</li> </ul>
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Source: Nieman (2006:189)

According to Nieman (2006), from the growth indicators depicted in Table 2.8 above, the most significant indicator for small businesses growth is the financial indicator. This is because financial growth is a prerequisite to the other growth indicators (Nieman, 2006). Previous studies (Dobbs & Hamilton; 2007; Reijonen & Komppula, 2007; Wiklund & Shepherd, 2003; Wiklund *et al.*, 2009) have used different indicators to measure growth. The indicators include sales, number of employees, asset value, physical output, profit, market share and changes in turnover. Depending on the area of focus of the study, a researcher can choose the variable that is most applicable for his/her study. Isaga (2012:23) points out that “there is no consensus on the appropriate measures of the growth of SMEs and as a result, researchers are free to choose one best indicator, create a multiple indicator index or use alternative measures separately”.

Amongst the listed measures of growth, the most commonly used ones are sales and number of employees (Delmar, Davidsson & Gartner, 2003; Freel & Robson, 2004; Robson & Bennett, 2000). This is due to the ease with which data can be gathered on these two indicators. Additionally, sales and number of employees are also assumed to be a less controversial method of measuring growth (Delmar *et al.*, 2003; Freel & Robson, 2004; Robson & Bennett, 2000). Moreover, employment is given special attention as a measure of SME growth in research studies conducted by governments for the creation of policy measures or studies related to development (Chaganti, Cook & Smeltz, 2002; Hoogstra & Van Dijk, 2004; Shepherd & Wiklund, 2009). This is because the growth of small businesses is recognized as a vital tool for the reduction of unemployment (Isaga, 2012). Robson and Bennett (2000) also note that employment growth is a measure that has most relevance to many government policy makers due to the assumption that SME growth is seen as vital solution to reduce unemployment. However, number of employees is not a measure that can be applied to measure growth in all industries. Industries that are highly capital intensive tend to replace human labour with machines, thus growth in these sectors can only be reflected by an increase in sales and assets whilst no change occurs in the number of employees (Delmar

*et al.*, 2003). Hence, the growth measure of number of employees should be used with caution in studying sectors that are highly capital intensive.

With regard to this study, growth was measured using increase in net profit, total amount of sales, equipment or assets, number of customers, number of employees and growth in market share. Employment growth was given special attention in measuring business growth. Fatoki (2013) argues that employment growth is very important in measuring SME growth, especially in countries like South Africa, which are in a desperate position for the creation of new jobs. As such, this study will use the increase in the number of employees to measure SME growth. This method was also selected due to its ease in collecting data.

## 2.10 Chapter summary

The chapter reviewed the literature on SMEs. The chapter commenced with a discussion on entrepreneurs and entrepreneurship. After reviewing different definitions of entrepreneurs, the following definition was adopted for this study. Entrepreneurs are individuals who first identify opportunities, gaps or unsatisfied needs in the market and try to meet these identified needs by creating a new business. In order to understand entrepreneurs better, two individual approaches to entrepreneurship were reviewed. The first approach was the Personality Traits Approach. The personality approach argues that there are certain common traits that are common amongst entrepreneurs and thus focuses on identifying these traits in order to create an entrepreneur profile. The second approach, the Demographic Approach, on the other hand, assumes that the demographic background of an individual is important in predicting entrepreneurial intentions as well as future performance.

Next, the chapter focused on SMEs. The SME sector is viewed worldwide as an engine for economic growth. This is also the case in South Africa, where the SME sector contributes to more than half the GDP and the employment of the country. Furthermore, SMEs in South Africa are expected to provide solutions to the country's socio-economic problems such as unemployment, poverty and unequal wealth distribution. The SME sector's distinctive ability to employ young and uneducated individuals makes it ideal for the great number of unskilled-youth job-seekers in South Africa. However, in order for the SMEs to absorb the unemployed labour force, they first need to grow. In this regard, the growth of SMEs becomes a deep concern in relation to the eradication of the socio-economic problems of South Africa. In light of this argument, the chapter discussed approaches to SME growth. The stochastic-, descriptive-, deterministic- and learning approaches of SME growth were discussed. From

the listed approaches, this study used a Deterministic Approach in analysing SME growth, as networks were examined as factors that impact growth. The last two sections of this chapter focused on determinants of SME growth and measurement of SME growth.

In the next chapter, a discussion on networking will be presented.

## Chapter 3 Networking

### 3.1 Introduction

The previous chapter discussed key concepts relating to SMEs. From the review of previous literature, it is evident that the growth of the SME sector is vital to the economic growth of a country. It was also highlighted that, when discussing the growth of the sector, the concept of networking remains relevant. This is due to the fact that “no business is an island” (Snehota, 2011:4), meaning that businesses do not exist in isolation. It is therefore important to understand the wider set of relationships which businesses are embedded in. Furthermore, the networking activities that SMEs engage in have important implications in determining their growth. It is therefore in light of this background that this chapter will explore previous literature on networks.

This chapter will commence by providing an overview of networking, followed by definitions of networks and networking. This will be followed by a discussion on the different types of networks. As one of the objectives of the study is to assess to what extent ethnic networks affect SME growth, a discussion on ethnic networks will then follow. Thereafter, theories on networking will be reviewed. A discussion on factors that influence the networking of SMEs will then be presented. The last two sections of this chapter will focus on networks and SMEs and the impact of networking on the growth of SMEs.

### 3.2 Overview of networking

The concept of networking in businesses comes from the idea that no businesses operates alone. All businesses interact with numerous other entities in the business environment, such as customers, competitors, banks and creditors. Thus, business owners are forced to transact with one another to conduct their business. In addition, business owners and their employees form networks through the different personal interactions they have with the outside world. It is these relationships, therefore, that lay the foundation for the formation of networks. Moreover, business owners often prefer to engage in a more stable exchange relationship that provides some sort of predictability (Bowey & Easton, 2007:274). Bowey and Easton (2007:274) further note that networks provide a more predictable environment for social and economic exchange activities. Thus, business owners also engage in networking to have a more stable and predictable business transaction.

### 3.3 Defining networks and networking

At its core, network refers to a set of elements or members that are connected to each other (Casson & Giusta 2007:224). Seibert, Kraimer and Liden (2001:221) 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 2007:224). 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 2007:224). 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. However, as it can be observed in Table 3.1, these two concepts appear interchangeably in previous literature.

**Table 3-1 Definitions of networks and networking**

<b>Authors</b>	<b>Definition of network</b>	<b>Authors</b>	<b>Definitions of networking</b>
Halinen and Törnroos (1998:189)	Networks are structures of exchange relationships among business actors, firms as well as individuals - structures which emerge, evolve and dissolve over time in a continuous and interactive process.	Sawyer <i>et al.</i> (2003:270).	Networking is the link between a business, its owner or its employees with other individuals or businesses, that involves exchanging of resources.
Das and Teng (2002)	Networks are relationships that create connections between two or more independent entities.	Chipika and Wilson (2006:971)	Networking is a set of connected sustained relationships, that involves cooperation and collaboration which is mutually beneficial to all members.
Premaratne (2002:5)	Networks are long-term contacts between small business owners and external actors (persons or organizations) in order to obtain information, moral supports and other resources.	Nieman (2006:194)	Networking can be defined as purposefully striving to make formal and informal contacts and to form relationships.

Nieman (2006:254)	Networks can be defined as patterned, beneficial relationships between individuals, groups or organizations that are used to secure critical economic and non-economic resources needed to start and manage a business.	Scalera and Zazzaro (2009:3)	Networking can be formal and informal links that are created to allow its members to have cost-effective economic transactions.
Zain and Ng (2006: 184)	A network is the relationships between a firm's management team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities.	Lama and Shrestha (2011:21)	Networking is defined as the process of building long-term contacts with the motive to have access towards information and resources.
Cooper, Hampton, and McGowan, (2009:195)	Networks are defined by interactive relationships or alliances that individuals have, or may seek to develop between them and others, in pursuit of some enterprise in which they have a particular interest.		
Rietveldt and Goedegebuure (2014:5)	Networks are relationships that are linked together by exchange transactions.		

From Table 3.1, it is clear there are many definitions of networks and networking. It is also evident that both terminologies essentially refer to the relationships of a business and are used interchangeably in previous literature (Chipika & Wilson, 2006; Leroy, 2012; Premaratne, 2002; Sawyerr *et al.*, 2003; Scalera & Zazzaro, 2009, Zain & Ng, 2006). Therefore, in order to avoid confusion, the following definition that combines the key concepts of both terms has been adopted for this study. Network or networking refer to any relationship or tie which a business, the employees of the business or the owner has with its competitors, other businesses, customers, suppliers or other organizations, which involves cooperation and collaboration which is mutually beneficial to all members. From this definition it is evident that there are many relationships which a business can be a member of, therefore, the types of

networks vary accordingly. The next section of this chapter will discuss theories on networking to further examine the concept.

### 3.4 Theories on networking

There is a lack of a general framework to explain networking. Premaratne (2002) notes that, theories on networking have been guided by a number of theoretical perspectives such as transaction cost (Coase, 1937; Williamson, 1985), resource dependence (Pfeffer & Salanick, 1978), relational exchange (Dwyer, Schurr & Oh, 1987) agency (Bergh, 1995; Fama, 1980), Social Network Approach (Aldrich & Zimmer, 1986; Birley, 1990; Birley & Cromie, 1988; Johannisson, 1987; Uzzi, 1997) and international business and marketing (Beije & Groenewegen, 1992).

However, the aim of this section is to review theories of networking within SMEs. Therefore, from the various theories surrounding the concept, this study will only discuss the theories that are most relevant to SMEs. These theories look at networking from different perspectives and provide insight into the causes as well as the structure of small enterprise networking.

#### 3.4.1 Transaction Cost Approach (TCA)

Transaction costs refer to costs which are incurred whilst undertaking transactions; they include costs related to research and information, bargaining costs and monitoring-enforcement costs of implementing a transaction (Rao, 2003). Transaction costs arise due to the inefficiencies experienced in the production- and distribution processes of a business (Kenny, 2009:80). Premaratne (2002:34) explains that transaction costs are too costly for businesses. This is particularly true in the case of SMEs. Transaction costs can be too expensive and prohibitive for SMEs to overcome individually (Leroy, 2012). The Transaction Cost Approach argues that businesses can minimize transaction costs by creating, integrating together and forming networks.

The Transaction Cost Approach is among the most commonly used theoretical approaches in the study of business networking (Premaratne, 2002:34). It was particularly dominant in the study of business networks in the 1980s. The theory was developed by Commons (1934) and reinforced by Arrow (1974), Coase (1937) and Williamson (1985) (Leroy, 2012:71). Before discussing the theory, however, it is important to identify and define what transaction costs are.

Despite its popularity, however, there have been some criticisms on the Transaction Cost Approach. One major criticism of this approach is that by giving too much attention to cost minimization, it fails to emphasise the value-creation aspect of a transaction (Wu & Choi, 2004). Another criticism of the Transaction Cost Approach is that it does not take into consideration the influence which social structure has on economic life (Uzzi, 1997). Social Structure refers to formal and informal interpersonal interactions amongst actors that are relatively stable and recurring (Hamon, 2003). Even though social structure has the ability to facilitate or derail economic transaction (Uzzi, 1997), it is not considered under the Transaction Cost Approach.

From the above discussion, it is observed that transaction costs are costs incurred in the process of transferring goods or services. The theory of transaction cost is based on the notion that networking provides cost-efficient ways of undertaking transactions. Through networking, SMEs can distribute transaction costs amongst members, thereby reducing the cost that each business incurs.

#### 3.4.2 Resource Dependence Approach (RDA)

The Resource Dependency Theory was first formalised by Pfeffer and Salancik (1978) in their book “The External Control of Organisations: A Resource Dependence Perspective”. Pfeffer and Salancik (1978) argue that the success of a business is highly influenced by the interaction of a business with its environment. Therefore, the central aim of Resource Dependency Theory is to explain the behaviour of an organization using its external environment (Premaratne, 2002:36). As a result, the theory places great emphasis on the continuous influence which external factors have on a business.

The theory contends that businesses are resource-deficient (AbouAssi, 2013:4; Hillman, Withers & Collins, 2009; Lama & Shrestha, 2011:47) to overcome the external influences on their own. Hence, they have to rely on each other and their environment to acquire the resources such as financial, physical and human resources which they do not have. The interdependence which businesses have amongst each other and with their environment explains the concept of the need for networks and network formation. The networks allow for the exchange of resources and information (Premaratne, 2002) which are highly valuable for the growth of a business. In this regard, the survival as well as the growth of a business highly depends on the networking which the business engages in.

The Resource Dependency Approach of businesses being resource-insufficient and being highly influenced by their external environment specially holds true for SMEs (Wincent, Anokhin & Ortqvist, 2010:265). Premaratne (2002:36) also emphasises that resources and supports that are of special importance for SMEs are controlled by outside entities. Consequently, SMEs rely on networks to receive the necessary resources and information to withstand competition as well as changes that occur in their industry.

In conclusion, the Resource Dependency Approach emphasises the notion that businesses may not have all the necessary human, physical and financial resources to overcome changes and influences from the external environment. Therefore, businesses have to depend on one another by creating networks in order to access the resources they lack to stay in competition as well as to grow their business.

### 3.4.3 Social Network Approach (SNA)

The Social Network Theory was developed and formalized by Moreno (1937). Social networks are maps that show all relevant ties among actors (Lama & Shrestha, 2011). The social relationship that exists amongst the actors is the main area of focus in the study of the social network theory. Therefore, the Social Network Approach explains social relationships by narrowing them down to the basic individual interaction among 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. Consequently, networks are created as a result of these interactions. The ties or relationships amongst actors (Hazzard-Robinson, 2012) can result from conversations, affection, friendship, kinship, economic exchange, information exchange, or other forms of social interaction (Jaafar, Abdul-Aziz & Sahari, 2009). Additionally, the social network theory argues that the value individuals receive when they are involved in a network that is highly fragmented is very low. Thus, 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, 2013:114).

According to Premaratne (2002:38), the logic of understanding the Social Network Approach, with regard to SMEs, begins at the point where a 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. Thus, the interactions end up creating a relationship which is very important for business owners (Steier & Greenwood, 2000). Hence, the theory of social network is important for understanding the influence which the social relationships of businesses have on the outcome of the business (Jones, Hesterly & Borgatti, 1997). The Social Network Approach, unlike Transaction Cost Approach and Resource Dependency Approach, focuses on the interaction among actors. It takes into account the social relationships which business owners come across in running their businesses, as well as the potential which such interactions have for the formation of networks.

This section has discussed the theoretical understanding of networking. Accordingly, the three most relevant theories in the discussion of SME networking, which are Transaction Cost Approach, Resource Dependency Approach and the Social Network Approach, have been discussed. A summary of these three types of networking approaches is presented in Table 3.2 below.

**Table 3-2 Comparison of major aspects of Transaction Cost Approach, Resource Dependency Approach and the Social Network Approach**

<b>Theory</b>	<b>Transaction Cost Approach</b>	<b>Resource Dependency Approach</b>	<b>Social Network Approach</b>
<b>Key concepts</b>	Governance structure of transactions	Relations to a firm's external environment	A relation or transaction between two people
<b>Basic characteristics</b>	Uncertainty, high asset specificity, small number bargaining	(a) Resource dependency (b) Interdependence (c) Inter-organizational power	(a) Mutual relationships (b) Smallness and loneliness
<b>Basic problems</b>	High transaction costs	Interdependence and uncertainty	Smallness → Lack of resources
<b>Solution</b>	Hierarchy	Networking and alliances (trade association, cartels, coordinating council, joint venture, and so forth)	Entrepreneurial networks

<b>Purpose of relationships</b>	Minimize transaction cost	<ul style="list-style-type: none"> <li>• A channel for information</li> <li>• Commitment of support</li> <li>• Ensuring favorable resource exchange</li> <li>• Reducing uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>• Communication or passing information</li> <li>• Exchange (goods and services)</li> <li>• Normative</li> </ul>
<b>Key authors</b>	Coase (1937); Williamson (1975, 1985, 1991)	Pfeffer and Salancik (1978)	Aldrich and Zimmer (1986); Birley (1985, 1990); Birley and Cromie (1988); Johannisson (1987); Uzzi (1997)

Adopted and modified from: (Premaratne, 2002)

### 3.5 Types of networks

There are different criteria that can be used to differentiate networks into various types. The classification of networking by different scholars is summarized in Table 3.3 below.

**Table 3-3 Types of networks**

<b>Authors</b>	<b>Classification of networks</b>	<b>Description of networks</b>
Möller and Halinen (1999)	Horizontal networks	Networks with competitors, research institutions, non-governmental- and governmental organizations (NGOs).
	Vertical networks	Networks with suppliers and customers.
Littunen (2000)	Formal networks	Consist of networks with venture capitalists, banks, accountants, creditors, lawyers, and trade associations.
	Informal networks	Consist of personal relationships, families, and business contacts.
Ngoc and Nguyen (2009)	Official networks	Networks with government officials.
	Managerial networks	Networks with top managers of supplier and of customer firms.
	Social networks	Networks with friends and family, and with members of social associations and clubs.
Nieman and Nieuwenhuizen	Personal networks	Networks with family and friends that are centred on the business owner.

(2009) and Nieman (2006)	Social networks	Networks that are created on the basis of conformity to community ties or collective values.
	Extended networks	Patterned networks that are formed with other organizations.
Gellynck and Kühne (2010:123)	Horizontal networks	Cooperation among firms which are primarily competitors.
	Vertical networks	Cooperation among partners belonging to the same chain.
Leroy (2012)	Social networks	Networks that are created as a result of the social interactions business owners have in their social life, such as networks with friends, family, relatives and social clubs.
	General business networks	Networks which businesses have with other businesses as well as with governmental and non-governmental organizations.
	Managerial networks	Networks which managers of a business have with suppliers, customers and similar businesses (competitors).

From Table 3.3 above, it is clear that there are various classifications that can be used to categorize networks. It is also clear that, at times, some of the classifications overlap with one other. This means that a certain type of network categorized under a certain group in one study can be found classified under a different group with a different name in another. For instance, Littunen (2000) classifies a business's personal networks, such as networks with family members, as informal networks, whilst Ngoc and Nguyen (2009) categorizes them under social networks. Therefore, it is important to choose a certain categorization of network to avoid ambiguity. By taking this factor into consideration, this study has chosen one classification of networks, which is the classification of networks into social, general business and managerial, as made by Leroy (2012). The categorization by Leroy (2012) was also chosen because it is a more recent classification, made for the study of networks used by SMEs. The following discussion will entail these networks.

### 3.5.1 Social network

Social networks are formed by social bonds which are based on community ties and conformity to collective values (Nieman, 2006). An individual's social network is generally made up of family members, relatives, friends and acquaintances (Allen, 2000). In these networks, there are ties which link one member of the network to others (Kristiansen, 2004). Therefore, social networks are a combination of social ties that are created by business owners through social interactions. 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, 2000:264). Social networks are assumed as vital structures in which economic transactions are embedded. Social networks influence the initial self-employment choice (Allen, 2000).

Business owners obtain information from various sources before starting their businesses. They begin with ideas to test and look for information and knowledge to start the business (Salaff, Greve, Wong & Li ping, 2002:3). They draw upon their social networks to obtain information and knowledge. By using social networks, business owners can identify information on viable business opportunities and act on them (Nichter & Goldmark, 2005). Additionally, at the initial stage of the businesses, social networks serve as a crucial asset to operate in competitive markets by giving the businesses access to resources and opportunities otherwise unavailable to them (Carter & Jones-Evans, 2000; Konchellah, 2013:45; Kristiansen, 2004). In addition to information and knowledge, business owners need complementary resources to start operating. For instance, they need to raise money, receive training, locate materials, hire workers, find markets and shape the product to fit their clients' needs (Salaff *et al.*, 2002:3). Business owners can receive these essential resources from their social network (Salaff *et al.*, 2002:3). In short, new business owners can benefit from social capital by using social networks (Salaff *et al.*, 2002:3). Social capital here refers to the interpersonal resources which people have that help them achieve their goals (Salaff *et al.*, 2002:3). If new businesses, which tend to have insufficient financial and non-financial resources, do not have access to resource-rich social networks, they will struggle to overcome their initial disadvantages (Zain & Ng, 2006). As a result, business owners use social networks extensively when starting a new business (Light & Gold, 2000).

Social networks are also essential for business growth. As mentioned above, through social networks business owners can access necessary resources. Social networks can provide two

major types of social support, which are emotional and material (Allen, 2000). Emotional support refers to the type of support that protects someone from the negative effects of stressful situations (Allen, 2000). Material support, on the other hand, involves a more objective support that is directed at finding solutions to specific problems (Allen, 2000). Material resources can be financial- or human resources. Social networks also play a role in helping SMEs to overcome challenges related to transaction costs, and difficulty obtaining important contacts in the market environment (Nichter & Goldmark, 2005). Additionally, by participating in social networks, SME owners can receive critical advice and moral support. Furthermore, the benefits which business owners receive from social networks can increase their aspiration to grow their business (Amorós & Bosma, 2014). Social networks serve as a signal of reputation. Social networks spread knowledge about businesses, which facilitates their access to external financing (Ngoc & Nguyen, 2009).

However, despite the above-mentioned advantages of social networks, there are downsides to these networks. For instance, costs associated with engaging in social networks can be too expensive for small scale businesses at times. Moreover, the networks can be biased in that they may exclude- or provide unequal access to some members (Nichter & Goldmark, 2005). In addition, Yu and Chiu (2010) found out that when the social networks of a business owner become too many, business performance will start to decrease.

### 3.5.2 General business networks

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 them facilitate the success of their business. In the context of this study, general business networks refer to networks which SMEs have with governmental/non-governmental organizations 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 growth on a business. This view is supported by Chittithaworn, Islam, Keawchana and Yusuf (2011) who pointed out that business networks play an important role in helping businesses gain organizational legitimacy and in helping them build a good reputation. The relationships formed in business networks create an opportunity where businesses 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). Thus, in these countries, managers' ties with government officials have special advantage (Chung, 2006; Li & Zhang; Nguyen *et al.*, 2005, Peng & Luo, 2000). Networks with officials assist SMEs in enhancing their performance by providing them with scarce resources and helping them enter into highly regulated industries (Chung, 2006; Peng & Luo, 2000). Furthermore, SMEs' prominent role in economic growth has elevated their chance to get support programs from governmental and non-governmental organizations that provide financial and non-financial support (Smallbone & Welter, 2000). However, the support programs mostly are constrained (Heshmati, 2013). This results in SMEs that network with government being the only beneficiaries of these supportive programs (Ngoc & Nguyen, 2009).

In conclusion, general business networks are linkages between a business and other organizations. These can be governmental- or non-governmental organizations that provide assistance for SMEs and business consultants. Alternatively, business owners or managers can also have another type of network, known as managerial networks. Managerial networks are discussed in the section below.

### 3.5.3 Managerial networks

Panda (2014:5) describes managerial networks as “the structure in which top managers of firms connect with others who are directly or indirectly connected with the organization”. Ngoc and Nguyen (2009:872) emphasise that managerial networks are relationships 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 other businesses. Hence, managerial networks are directly related to the managers of a business. They are the networks which are created and maintained by managers. Moe (2005:280) adds that managerial networks require managers to perform certain activities that can help them build and sustain an ongoing relationship with other parties. Managerial networks thus refer to the networks which managers or business owners have with their suppliers, customers and other similar businesses (competitors).

Networks with customers have the potential to improve customer satisfaction and retention (Li, 2005). By creating networks with customers, businesses can easily get information on customer preferences and needs. Networks with suppliers help businesses receive quality

materials, good services, and timely delivery (Li, 2005). Networks with managers of similar businesses often smooth the progress of possible inter-firm collaboration (Peng & Luo, 2000). Inter-firm collaborations can serve as a solution to reduce transaction costs. In addition, networking with other managers can help businesses grow by assisting them in ways such as creating credibility. For instance, networking between businesses creates credibility and a name for members of the network (Cooney & Flynn, 2008), which is important in receiving external finance. Recommendation from respected business managers creates a positive image of a business (Ngoc & Nguyen, 2009; Nguyen, Le & Freeman 2006; Peng & Luo, 2000). This becomes relevant when firms apply for bank loans. This is especially important in developing countries where bankers in order to mitigate the lack of public data have to rely on informal channels to get information about borrowers (Ngoc & Nguyen, 2009). Banks are more likely to give loans for SMEs that have positive recommendation (Heshmati, 2013). Also, managerial networks help business owners learn appropriate business behaviour (Heshmati, 2013) which also increases the businesses' ability to access bank loans (Ngoc & Nguyen, 2009; Peng & Luo, 2000). Thus, managerial networks are important in assisting businesses with financial access.

Managerial networks also improve the business's strategic position, help them focus on its core business, enter international markets, learn new skills, and helps them adapt to the rapid technological changes (Chittithaworn *et al.*, 2011). Moreover, within managerial networks, managers can engage in business transactions, social interactions or exchange of information (Moe, 2005:280). These interactions are vital for business growth. Furthermore, the networks which a manager engages in have a vital role in predicting the types of resources the business can access. Côté (2011) also posits 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. For these reasons, managers have to cultivate and maintain the right networks for their businesses.

### 3.6 Ethnic networks

Ethnic networks are links among individuals of the same ethnic background, as a way of narrowing the gap in information, cost, risk and uncertainty to trade by building trust and substituting for difficulty of enforcing contracts internationally. Ethnic networks can be defined as a set of interpersonal relations that link individuals with similar ethnicity through the bonds of kinship, friendship, and shared community origin (Vipraio & Pauluzzo, 2007;

Volery, 2007). The foundation of the ethnic network concept is based on the notion that individuals in general are more likely to associate with other individuals based on their similarity (Duanmu & Guney, 2013:217). The similarity can be based on factors such as ethnic identification, race or culture. In this regard, the process of ethnic networks creation involves people identifying each other based on similarity of ethnicity. Individuals use food, dress, language and ethnicity as cultural markers to draw on others that are culturally similar.

Association of individuals with others who are similar to themselves is also evident in the networking amongst businesses. Bowles and Gintis (2004), as well as Guiso, Sapienza and Zingales (2009) argue that although the global market is rapidly changing into a modern market-based liberal society, the effect of in-group networks still widely exists. As a result, businesses can be found embedded in ethnic networks. Ethnic networks are especially common among foreign businesses. According to Yuan, Cain and Spoonely (2013), the importance of networking is very profound in businesses owned by foreigners, since they have scarce local resources. According to Epstein and Gang (2006:85), “ethnic networks are a way of overcoming informal barriers (information costs, risk and uncertainty) to trade by building trust and substituting for the difficulty of enforcing contracts internationally”. Foreign business owners face a lot of disadvantages when starting and operating their business in a foreign country. A study by Teixeira and Lo (2012) revealed that there is a difference between the experience which foreigners and locals have in establishing their businesses. Compared to local entrepreneurs, foreign entrepreneurs faced more barriers in establishing and maintaining their businesses (Teixeira & Lo, 2012).

One challenge faced by foreign owned business owners is lack of information. According to Cooney and Flynn (2008), foreign business owners face a more serious challenge with regard to the lack of information on their business environment. This lack of access results from operating in a new environment. Also, foreign business owners may find themselves blocked out of the important indigenous networks that are important in information assimilation. Cooney and Flynn (2008) concede that foreigners lack important business connections due to their initial outsider status. Foreign business owners also face challenges with regard to financing their businesses. According to Kalitanyi (2007), most foreigners do not have access to finances and credit and encounter problems with opening bank accounts. The reason why banks and other financial institutions tend to limit their services towards foreigners is due to the absence of a track record for most foreigners, lack of language barriers and discrimination (Volery, 2007). Moreover, foreign business owners can face difficulties in establishing and

running their businesses in the host country due to language- and cultural barriers. Foreign business owners can also experience wariness and hostility from the mainstream business environment on account of their distinct nationality, race and religion (Cooney & Flynn, 2008). Thus, the challenges they face push foreigners to rely on one another for support. They create ethnic networks amongst themselves in order to overcome the challenges and compete successfully with the locally owned businesses in their new environment.

One advantage of ethnic networks is that they provide easy access to information. Bandyopadhyay, Coughlin and Wall (2008) establish that ethnic networks play a significant role in mitigating informal barriers which foreign entrepreneurs come across when operating in a foreign country by providing information on market demand, language and business practices. Through engaging in ethnic networks, businesses can also receive information on custom laws and traditions about their host country. Additionally, ethnic networks provide efficient information that is based on knowledge and trust (Vipraio & Pauluzzo, 2007). This reduces the economic risks related to the creation of a new business and thereby pushing individuals to start a new business (Salaff *et al.*, 2002). Volery (2007) adds that the support individuals receive from their ethnic networks gives individuals the requisite impulse to start a new business by providing moral and resource support. Also, foreign owned businesses can use the information to form contact with important suppliers and customers in the market.

Furthermore, ethnic networks provide foreign business owners with access to important resources, such as labour (Devarajan, 2006; Light & Gold, 2000). Foreign business owners depended on members of their ethnic networks to recruit employees (Agnoletto, 2011; Salaff *et al.*, 2002). Employees that belong to the same ethnic group as the owner can easily be located through the networks. The personnel recruited from ethnic networks tend to be inexpensive and, in some cases, free (Menzies & Brenner, 2000). The lower labour cost provided by the ethnic networks is an important competitive advantage in labour-intensive small businesses (Agnoletto, 2011). In addition, having employees that are of the same ethnicity is advantageous in that they speak the same language or dialect and are part of the same culture as the business owner, which eases communication. Also, if the business provides products or services that are ethnically specific, hiring employees of that ethnic group might be important as customers are drawn to employees they can relate to (Menzies & Brenner, 2000) and also because they are already familiar with the ethnic product or service. Hence, ethnic networks also assist businesses owned by foreigners with labour resources.

In addition, ethnic networks provide foreign business owners with financial capital (Devarajan, 2006; Light & Gold, 2000). Borrowing and saving services are easily facilitated through ethnic networks. Ethnic networks create trust amongst members by which they can borrow money from one another with or without interest in an informal way (Light & Gold, 2000). Members can also save money using the networks. A popular method of saving money using ethnic networks is rotating savings and credit associations (ROSCAs). “ROSCAs are locally organized groups that meet at regular intervals; at each meeting members contribute funds that are given in turn to one or more of the members” (Gugerty, 2007:251). They are made up of a voluntary group of members who mutually agree to contribute a certain amount of money at uniformly spaced time frame towards the creation of a fund (Volery, 2007). Afterwards, each member then takes turn in receiving the accumulated fund in certain periodic intervals in accordance with some prearranged principle (Volery, 2007). The members, upon receiving the accumulated cash, can spend it in any way they want. Once a member has received a fund, they will be excluded from the distribution of future funds until each member receives the fund and the cycle starts again, but will have to continue paying until the end of the ROCA period (Volery, 2007). ROCAs are found to be common and beneficial informal financial institutions amongst many ethnic groups, including ethnic groups from China, Korea, Kenya, Somalia, Ethiopia and Mexico (Gugerty, 2007; McMichael & Manderson, 2004; Rajzman & Tienda, 2003; Volery, 2007). Ethnic networks, thus, have a crucial role in the initiation and growth of foreign owned businesses. They are compensating for the drawbacks and disadvantages which foreigners face when operating their business in a new environment.

Despite the advantages which ethnic networks have, however, over-reliance on the networks can have a negative impact on business. According to Cooney and Flynn (2008), by relying too much on their ethnic networks, business owners can neglect developing contacts and networks in the mainstream business. Cooney and Flynn (2008) explain that foreign owned businesses need to engage with networks in the mainstream and the indigenous business environment in order to recognize and act on business opportunities. Thus, over reliance on ethnic networks can impede growth potential. In addition, the behaviors and practices which businesses develop when interacting with each other in ethnic networks, tends to be informal in nature. Consequently these learned practices can be deemed inappropriate when conducting their business in the mainstream business environment (Cooney & Flynn, 2008:41). Moreover, in certain cases ethnic networks can be obstacles to women. Ethnic

networks are mainly made up of men and women's access to the networks is often mediated through the men (Anthias & Mehta, 2003). In other cases, ethnic networks may discourage women from starting their own business by refraining them from using moral and financial support that is available to their male counterparts (Anthias & Mehta, 2003). Thus, women are forced to tackle the resistance they face from within their own ethnic networks.

### 3.7 Factors influencing networking of SMEs

The aim of this section is to discuss factors that can influence a business's networking. There are numerous factors that influence the networking of a business, such as necessity, reciprocity, efficiency, stability, number of suppliers, market strategy, political influence, internationalization personal characteristics, business characteristics and firm characteristics (Farinda, Kamarulzaman, Abdullah & Ahmad, 2009; Lama & Shrestha, 2011; Leroy, 2012; O'Donnell, 2004). However, by looking at their relevance in the discussion of SME networking, three factors were selected for this study. They are personal characteristics, business characteristics, and firm characteristics. The motivation behind studying personal characteristics of the SME owner is that SME owners are the dominant figures in their businesses (Leroy, 2012:78). As a result, it is essential to analyze the influence which the personal characteristics of the SME owner have on networking. In addition, business characteristics and firm characteristics directly affect SMEs. Thus, it was also important to analyze the influence business characteristics and firm characteristics have on networking. Business characteristics reviewed in this study are market orientation and competitive intelligence of SMEs. Under firm characteristics of SMEs, inherent characteristics of the SMEs, that is SME's size and age, are reviewed.

#### 3.7.1 Personal characteristics of the SME owner

Networks, in most cases, result from the personal interactions of businesses. Several scholars (Chetty & Eriksson, 2002; Chetty & Holm, 2000; O'Donnell, Gilmore, Carson & Cummins, 2001) explain networking as the relationships that emanate from the owner or manager. This is especially true when discussing networks from SME perspective. The networks are formed as a result of the owners' normal interactions and activities with their surroundings (Gilmore, Carson and Grant, 2001).

When studying social interactions of people, however, it can be noted that the networks people interact in are highly characterized by homophily (Hanson & Blake, 2009). Homophily is described as the tendency of individuals to associate with others who are

similar to them on the basis of characteristics such as age, gender or profession (Hanson & Blake, 2009). Hence, networks tend to exist amongst individuals who share certain characteristics, such as education, geographic location, race/ethnicity, social class or gender. Therefore, personal characteristics of the business owner influence networking.

Consequently, it becomes important to study the influence these factors have on the networking of a business. The influence of each of these characteristics on the networking of a business is discussed below.

#### 3.7.1.1 Gender

According to Hanson and Blake (2009), the argument that gender has an influence on the networking of a business is based on the assumption that the very nature of networks is based on interaction. The gender of the business owner often times dictates the networks which the owner interacts in. Consequently, Hanson and Blake (2009) note significant gender differences in the composition and functioning of networking. Conforming to this, Watson (2012:538), after reviewing previous research on the difference in networking between genders, commented that female SME owners mostly use informal networks whilst male SME owners, on the other hand, tend to use formal networks. Orhan (2001) also argues that male and female business owners differ in the networks they pursue when seeking advice about their business. Male business owners, at first, turn to professional experts within their general business networks, then turn to their social network. Women business owners, on the other hand, look at their social networks as a first resort when seeking advice. The findings from research by Watson (2012) also revealed that female business owners make frequent use of family and friends, whereas males mostly rely on banks, solicitors, industry associations, and business consultants. Contrary to this, Klyver and Grant (2010) contend that female business owners often do not engage in social networks, which explain why they face difficulty in starting their own business. There is also a contradiction with regard to the level of networking between the genders. Daniel (2004) reported that females engage in networks more than their male counterparts, whilst Klyver and Grant (2010) insist that men engage in networks more than women. Thus, it is not clear what influence gender has on networking.

#### 3.7.1.2 Age

Age here refers to the age of the business owner. Hoang and Antoncic (2003) note that age of business owners influences networking. However, empirical research (Greve & Salaff, 2003; King, Townsend & Ockels, 2007; Leroy, 2012) on how age of a business owner influences

networking have shown inconsistency. For instance, research by Greve and Salaff (2003) revealed that the older the SME owner, the more networking activities he/she will engage in. The findings of Greve and Salaff (2003) can be explained by the notion that as the age of the owner increases, his/her networks will also increase as the result of the numerous contacts and relationships developed over the years. According to Renzulli, Aldrich and Moody (2000:529), business owners add more and more contacts and social support all through their life through their involvement in work, associations and family activities. On the contrary, Premaratne (2002:127) found SME owners' age to have a significantly negative effect on social networking, implying that younger SME owners have more social networks than older SME owners. Premaratne (2002:127) further explains that the reason for the difference in social network usage can be explained by the relative work experience of the SME owners. According to Premaratne (2002:127), younger SME owners have less business experience than older SME owners and thus rely on social networks to discuss their business matters with family, relatives and friends.

Conversely, King *et al.* (2007) argue that there is no difference between younger and older business owners in their usage of networks. Leroy (2012:79) also explains that the "digital evolution" of this century has allowed sharing profound communication of information. Therefore, Leroy (2012:79) argues that even though older business owners have advantage over younger owners due to their accumulated contacts, the younger business owners also benefit from the extended social networks that resulted from digital evolution. Hence, the literature on the influence which SME owners' age has on networking is also inconsistent. As a result, the relationship between SME owners' age and networking is not clear.

### 3.7.1.3 Education

Education refers to the highest level of schooling attained by the SME owner. A study by Premaratne (2002:216) revealed that the educational level of business owners has a significant impact on their networks. Premaratne (2002:127) found that educated business owners are more likely to be a member of a professional association and to maintain relationships with other business owners, whilst they are less likely to discuss issues regarding their business with family and friends. The findings of Greve and Salaff (2003), and Machirori and Fatoki (2013), also demonstrated that SME owners with higher education were more involved in networking activities when compared to SME owners with lesser educational background. Moreover, based on the concept of homophily, which is the

tendency of individuals to associate with others who are similar to them, business owners with the same educational background may be inclined to form their own network. Previous studies have not shown disagreement with the notion that education has an influence on networking (Leroy, 2012).

From the above discussion, it is clear that there are some inconsistencies in literature on the influence which the personal characteristics (gender, age and education) have on the networking of SMEs. Therefore, this study will also examine the influence of personal characteristics on networking of SMEs, to see if the results conform or contrast with prior studies.

### 3.7.2 Business characteristics

In addition to personal characteristics, business characteristics can also have an influence on the networking of a business. Business characteristics include innovativeness, market orientation, business human capital, competitive intelligence, production orientation, product orientation, and sales orientation (Ashe-Edmunds & Media, 2015; Blankson & Cheng, 2005; Fairlie & Robb, 2007; Goedhuys & Veugelers, 2012). By looking at business characteristics that may have a significant influence on the networking of SMEs, two business characteristics have been chosen for this study. They are: market orientation and competitive intelligence. The characteristics are discussed below.

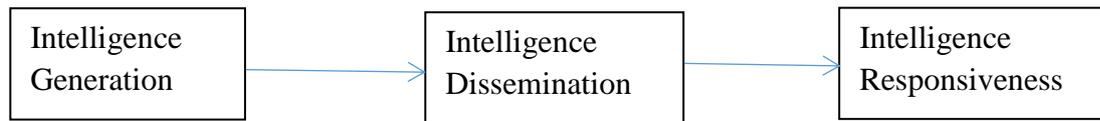
#### 3.7.2.1 Market orientation

“Market orientation can be defined as a form of organizational culture where employees throughout the organization are committed to continuously create superior customer value, or as a sequence of marketing activities that lead to better performance” (Schalk, 2008:7). The concept of market orientation was coined by Kohli and Jaworski (1990) and Narver and Slater (1990). Narver and Slater (1990) focused on the behavioural perspective of market orientation. According to Narver and Slater (1990:21), market orientation refers to an organizational culture of creating behaviours that lead to the creation of superior value for customer in the most effectively and efficiently way, and thereby helping businesses attain continuous superior performance. Market orientation is made up of three constructs, namely customer orientation, competitor orientation, and their inter-functional co-ordination (Narver & Slater’s, 1990). Customer orientation refers to the practice of modern marketing concepts at the individual level through the creation of customer-driven value that results in long-term

relationships with customers (Macintosh, 2007). In order to create value for customers, businesses need to understand who their present and future potential customers are, what they want now and what they may want in the future as well as what they perceive now as well as what they may perceive in the future as relevant satisfiers of their wants (Narver & Slater, 1990). In the second market orientation component, competitor orientation, businesses must identify, analyse and use the strengths, weaknesses, opportunities and capabilities of both current and future competitors. In the competitor orientation component, businesses strive to understand their competitors. It is through competitor orientation that businesses understand the strengths, weaknesses and capabilities of their current and future competitors (Schalk, 2008). The inter-functional coordination component states that employees under all units of a business have the capacity to contribute towards the creation of value for buyers (Narver & Slater, 1990). Businesses are therefore recommended to continuously draw upon, integrate effectively and utilize all their human and capital resources to create superior value for customers (Narver & Slater, 1990). In summary, Narver and Slater (1990) discuss market orientation using three behavioural dimensions of customer orientation, competitor orientation and inter-functional coordination. The components interact with one another to foster an overall business understanding of customer needs and competitor's strategies to create organizational focus on providing superior value to customers (Alhakimi & Baharun, 2009).

Kohli and Jaworski (1990:13), on the other hand, forwarded a philosophical perspective of market orientation by placing emphasis on business activities that generate, disseminate and respond to market intelligence. Kohli and Jaworski (1990) developed a process-driven model of market orientation. Kohli and Jaworski (1990:13) explain that "market orientation is an organisation-wide generation of market intelligence through decision support systems, marketing information systems, marketing research efforts, dissemination of the intelligence across company departments, and organisation-wide responsiveness to the changes taking place in the environment". Therefore, the process of market orientation consists of three elements. They are intelligence generation, intelligence disseminating, and responding to market intelligence. The process of market orientation is illustrated in Figure 3.1.

**Figure 3-1 Process of market orientation**



Source: Kohli and Jaworski (1990)

The first process of intelligence generation requires gathering information either formally or informally about customers' needs and preferences. In addition, intelligence generation also includes an analysis of factors that might affect the fulfilment of customer needs, such as government regulation, competitors, technology and other exogenous factors (Kara, Spillan & DeShields, 2005; Zebal, 2003). The second step of market orientation entails intelligence dissemination. In this step, the information gathered is disseminated across individuals in the organization through both formal and informal channels (Kara *et al.*, 2005). Intelligence responsiveness is the final process of market orientation. This is a step at which businesses respond to customers' needs by developing, designing, implementing, and altering products and services (Zebal, 2003).

The market orientation frameworks of Kohli and Jaworski (1990) and Narver and Slater (1990) are similar in that they both emphasise the importance which market orientation has towards improving competitive advantage. Each of the frameworks also proposes three equally important components that constitute market orientation. Both frameworks agree that business intelligence on customers as well as competitors and the coordination of business units in satisfying customer needs is a key prerequisite to market orientation. The Kohli and Jaworski (1990) framework has been chosen for this study, because it is the less frequently studied framework in the context of small businesses (Kara *et al.*, 2005:107).

Market orientation is important for the growth of a business. It promotes the identification of customer needs and preferences as well as the delivery of superior goods and services that are superior to that of competitors (Blankson & Cheng, 2005:318). Hence, market-oriented businesses satisfy the need of their customers better than their competitors, by tracking customers' preferences and acting on them. Therefore, market orientation can increase the competitive position of a business and, as a result, contribute to business growth. In addition, market-orientation has a positive relationship with business performance (Green, Inman,

Brown & Willis, 2005). Studies (Becherer, Halstead & Haynes, 2003; Kara *et al.*, 2005; Pelham, 2000) have shown a positive relationship between market orientation and business growth.

The first step of market orientation entails gathering of information about customers and overall market conditions. In this step, SMEs have to rely on external sources to gather information. This is because SMEs often times have weak marketing practices due to time constraints (Gilmore *et al.*, 2001), financial shortage (Carson & Gilmore, 2000) and lack of long-term perspective (Laforet, 2008). As a result, SMEs may have to develop networks to access market information. Furthermore, SMEs may need the support of networks to respond to customers' needs at times. A study by Inoguchi (2011) found that in order to respond to the complex needs of customers that are beyond their resource capacity, SMEs coordinate and form networks with one another. In this regard, SMEs' level of market orientation can have important implications on the networks they have.

#### 3.7.2.2 Competitive intelligence

Competitive intelligence is a concept that was derived from marketing, economics, military theory, information science, and management disciplines (Juhari & Stephens 2006). Competitive intelligence is defined as the process through which businesses collect information about their competitive environment as well as their competitors and use the information in the planning and decision-making process of their business in order to increase their performance (Brody, 2008). From this definition, it is clear that competitive intelligence has two components. The first one involves the scanning process, through which a business collects the necessary information about its competitors. The second component requires the business to use the information gathered in the planning and decision-making of the business.

From the discussion above, it can be seen that both of the business characteristics discussed necessitate businesses to gather information. On the other hand, networking is an important tool that can be used as a source of information. In addition, Mitchell (2003) argues that by easing the difficulty of obtaining information, networking expands the intelligence of the business owner. Conversely, it can also be argued that the more market-oriented a business is and the more it practices competitive intelligence, the more likely that business will realise the importance of networking to access information. Therefore, the market orientation as well as competitive intelligence of a business can have an important influence on the networking activities of a business. Due to the financial- and resource constraints faced by SMEs, the

businesses often have to rely on networks to receive information with regard to their business environment. Therefore, the study will analyse the influence of these two characteristics on the networking of SMEs.

### 3.7.3 Firm characteristics

Firm characteristics are the characteristics of the business "...that are inherent in the business or firm and may include, but are not limited to, the age of the SME, the size of the SME, the industry the SME operates in and the legal status of the SME" (Leroy, 2012:80). Among these characteristics, business size and business age have been chosen for this study and will be discussed below. The motivation behind selecting these two characteristics of age and size is due to their special relevance in the study of growth (Dobbs & Hamilton, 2007:310).

#### 3.7.3.1 Business size

The size of a business has an important influence on its networking. Andreosso-O'Callaghan and Lenihan (2008:570) found out that larger businesses were more likely to use networks compared to small and medium businesses. Callaghan and Lenihan (2008) note that large businesses network more than medium businesses, whilst medium businesses network more when compared to small businesses. The reason larger businesses network more than smaller businesses can be because larger businesses could afford the costs associated with networking compared to smaller businesses. Another factor that can lead to larger businesses having more networks is that larger businesses are more inclined to have more distribution and supplier channels and thereby have the opportunity to create more networks.

Moreover, a study by Leroy (2012) and Wincent (2005) also showed that business size was one of the important factors that influence networking. Wincent (2005) further reported that smaller businesses tend to rely more on social networks, as opposed to formal networks, whilst larger businesses conversely use formal networks. However, another study by Harvie, Narjoko and Oum (2010) reported that there was no relationship between business size and networking. Therefore, based on the inconclusiveness of previous literature on the impact which SME size has on networking, this study will investigate that relationship.

#### 3.7.3.2 Business age

Business age refers to the length of time a business has been in existence. Studies (Andreosso-O'Callaghan & Lenihan, 2008; Dowling & Helm, 2006; Huang *et al.* 2003) have shown that the age of a business has an influence on its networking. Andreosso-O'Callaghan and Lenihan (2008:571) argue that older and more established businesses have more financial

and time resources that they can use for networking activities when compared to the younger businesses. This can explain the findings of Huang *et al.* (2003) that reported a positive link between networking activities and the age of a business.

In addition, Andreosso-O'Callaghan and Lenihan (2008:571) and Huang *et al.* (2003) established that older businesses have shown a high tendency to exchange knowledge and information compared to businesses that were relatively new. Andreosso-O'Callaghan and Lenihan (2008:571) argue that older or more established businesses may feel more secure than the new businesses to actively participate in networks to share information and knowledge. King *et al.* (2007), on the other hand, contend that newly established SMEs use networking more than older businesses, whilst Leroy (2012) found no relationship between the age of a business and its networking activities.

In this section, factors that have an influence on networking were identified. The factors were then discussed, after being categorized into three constructs, namely personal characteristics, business characteristics and firm characteristics. The next section of this chapter will discuss the importance of networking in the growth of SMEs.

### 3.8 Impact of networking on SME growth

SMEs face a number of challenges in growing their business. Amongst such challenges are financial constraints, as well as difficulties with regards to competition from larger and well-established companies (Leroy, 2012). Consequently, SMEs have to use different tools in order to overcome these challenges and grow their business. Networking is an important tool by which SMEs can overcome such challenges. One way in which networking can do this is by helping them achieve economies of scale. 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 network formed will help SMEs take advantage of economies of scale that would have been impossible for them to achieve if they were to operate individually. For instance, SMEs can buy raw materials in bulk and distribute it 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 serve 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, more than ever, need 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 *et al.*, 2011). Gulati and Higgins (2003) add that networks help businesses access information in a timely and economical manner. The information gathered, in turn, will help the businesses make sense of the complex developments that occur in the industry and make informed decisions. Mitchell (2003) explains this process by pointing out that in easing the difficulty of obtaining information, networking expands the intelligence of the business owner. As the intelligence of the owner increases, he/she will be able to rationally judge the opportunities that exist in the market. Moreover, networks provide a space where SMEs can exchange and evaluate their ideas. Network serve as learning habitat, from which SME owners gain understanding regarding the opportunities they have and the resources that are available to them (Bowey & Easton, 2007). It can therefore be concluded that by networking, SMEs are able to gain information that will help them grow their business (Strömberg & Bindala, 2013:17).

In addition to providing information, networks provide advice to SMEs that is valuable to them in decision making. Networks provide business owners with advice that can help them understand their options and make decisions accordingly. Nieman (2006:256) notes that the advice business owners receive from their networks helps them understand how to best act on the information they have received. Furthermore, the information provided in networks helps SMEs improve their competitive position. As business owners become more aware about the developments that occur in the industry, they will be able to recognize and act on their competitive advantages (Mitchell, 2003). Another way in which SMEs can use networks to improve their competitive position is by maintaining a relationship with their suppliers. Networks which SMEs form with their suppliers can retain or even improve their competitive position and enhance their growth (Ford, Gadde, Håkansson & Snehota, 2006; Hobohm, 2001; Walter, Auer & Ritter, 2006). Furthermore, networking helps SMEs access newer markets, increase their product range, utilize their labour force and capital which will improve their competitive position (Havnes & Hauge, 2004, cited in Lenihan, O'Callaghan &

Hart, 2010:52). Moreover, it is pointed out by Wincent *et al.* (2010:265) that networks act as facilitators of innovation, which gives SMEs competitive advantage over their competitors. Also, by integrating SMEs together, networks put these businesses in a position where they can be stronger and less vulnerable to competition from larger businesses.

Additionally, the high level of competition in today's business environment requires businesses to be equipped with the necessary resources. However, often times SMEs have the disadvantage of lacking essential resources (Akande, 2012:347; Wincent *et al.*, 2010:265). Thus, SMEs can access resources that are external to the business by using networking (Havnes & Senneseth, 2001; Narula, 2004; Okten & Osili, 2004; Premaratne, 2002; Zhou, Wu & Luo, 2007) such as finance. SMEs experience difficulties in obtaining finance (Altenburg & Eckhardt, 2006). This presents a great hindrance for business growth as finance is "the life-blood of any business enterprise" (Leroy: 2012:2). Networking has the ability to enhance access to finance for SMEs (Atieno, 2009; Fatoki & Odeyemi, 2010; Premaratne, 2002). One of the ways in which networks can do this is by improving the legitimacy of a business (Fatoki & Garwe, 2010). This means that networks provide the necessary information to trade creditors (Ngoc & Nguyen, 2009). A study by Nguyen *et al.* (2006) on bank financing to SMEs reported that creditors refer to their social networks at times for information on the creditworthiness of a credit applicant. Hence, networks have the ability to positively impact the business's access to external financing (Fatoki & Garwe, 2010). In addition, networks can also provide capital to SMEs through informal methods such as from family and friends (Ngoc & Nguyen, 2009).

In addition, another area in which networking benefits SMEs is in their marketing activities. SMEs often lack the necessary finance and other resources to launch their own marketing activities. Hence, in the absence of an effective marketing programme, SMEs can use networking to spread information about the existence of their business, as well as about goods and services they provide (Ngoc & Nguyen, 2009). Therefore, by serving as marketing agents, networking allows SMEs to gain customers. Networking also helps SMEs reduce transaction cost. Business owners create networks amongst themselves to reduce transaction costs (Leroy, 2012). Other benefits of networking for SMEs include access to external division of labour. Networking with other smaller or larger businesses creates an opportunity for SMEs to access external division of labour, which in turn will give them a chance to specialize in their specific market niche (Hobohm, 2001).

By taking the above advantages into consideration, researchers (López-García & Puente, 2009; Organisation for Economic Co-operation and Development, 2002; Stam & Schutjens, 2005) have identified networking as one of the characteristics of high-growth firms (HGFs). On the other hand, lack of networking has also shown to be among the reasons for the failure of SMEs (Fatoki & Garwe, 2010). However, empirical evidence on the impact which networking has for the growth of SMEs has not been consistent. Hakansson and Ford (2002) ascertain that the impact which networking has on performance of a business has been researched by many scholars with the results showing a positive relationship between networking and business performance (Bandiera *et al.*, 2008; Chen, Tzeng, Ou & Chiang, 2007; Eisingerich & Bell, 2008; Thrikawala, 2011). On the contrary, Rowley *et al.* (2000) found a negative relationship between networking and business growth and performance. Eggers, Kraus, Hughes, Laraway and Snyckerski (2013), on the other hand, found no significant or positive relationship between networking and SME growth. Therefore, given this discrepancy of studies on the topic, the main objective of this study is to determine which types of networks SMEs are engaged in, with specific objective of determining the types of networks that are essential for the growth of SMEs.

### 3.9 Chapter summary

This chapter discussed networking as a key instrument which can be used to grow a business. The chapter first explained the definition of networks and networking. From the discussion it was evident that there are various definitions forwarded on the concepts. Therefore, it was important to define what networks and networking are, in the context of this study. Accordingly, the following definition was chosen. Networks or networking refers to any relationship or tie which a business, the employees of the business or the owner has with its competitors, other businesses, customers, suppliers or other organizations, which involves cooperation and collaboration which is mutually beneficial to all members. The chapter also elaborated on three theories of networking. In the Transaction Cost Approach of networking, it is argued that the need for networking emanates from the idea that businesses want to reduce transaction costs by integrating themselves and creating networks. On the other hand, the Resource Dependency Approach contends that SMEs are resource-deficient and as a result they have to rely on one another by creating networks to overcome resource related challenges. The social network theory explains networking by focusing on social interactions.

The theory reasons that social relationships between individuals inside and outside SMEs lay the foundation for the creation of networks.

Next, three major types of networks were discussed. The first network type discussed was social networks. 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. General business networks, on the other hand, are networks which businesses have with organizations, governmental or non-governmental, that provide assistance as well as networks with business consultant firms. The third type of network discussed in this chapter was managerial networks. Managerial networks refer to networks created and maintained by managers or business owners with suppliers, customers and other similar businesses (competitors). Furthermore, the chapter discussed ethnic networking. Ethnic networks were defined as links among individuals of the same ethnic background as a way of narrowing the gap in information, cost, risk and uncertainty to trade by building trust and substituting for difficulty of enforcing contracts internationally. 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 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 and firm characteristics. From the literature review, it was observed that the impact which these factors have on networking is not clear. Thus, this study analysed the impact which personal, business and firm characteristics have on networking.

The final section of the chapter discussed the impact which networking has on SME growth. Networks provide SMEs various assistances, such as reduction of costs, access to external resources, access to information and advice. Accordingly, the assistance SMEs receives from networking allows them to growth their business.

In the next chapter, the research methodology implemented for this study is discussed.

## Chapter 4 Research Methodology

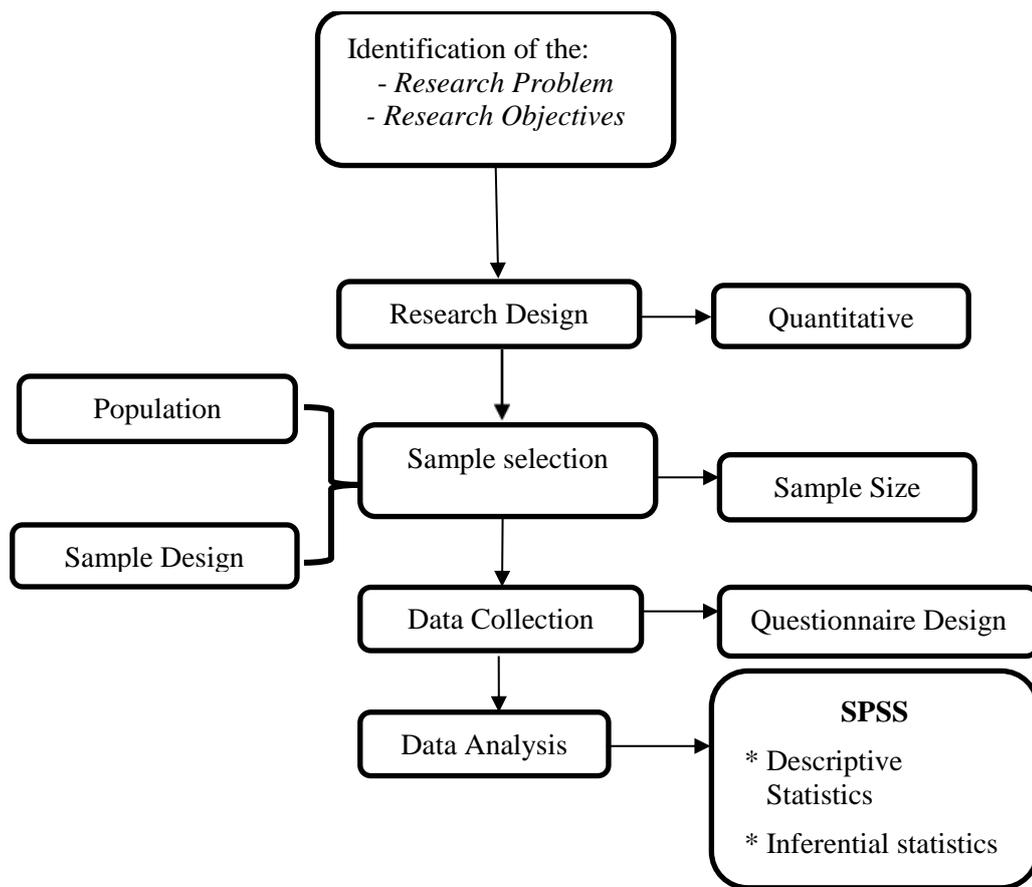
### 4.1 Introduction

The main objective of this study was to determine the role which networks have in the growth of SMEs. Accordingly, the literature review on networking was discussed in the previous chapter. This chapter explains the methodology used in this study. First, the research process is illustrated in five steps. The research process served as a blueprint for the discussions of this chapter. In the first step, the research problem and the research objectives are presented. Secondly, the research design is discussed. In the third step, the process of sample selection is explained. The data collection method used in this study is explained in step four. The last step discussed the data analysis process. The limitation of the study and ethical considerations were discussed in the last section of this chapter.

### 4.2 Business research process

Business research process refers to the sequence of steps in the systematic collection and analysis of information by making use of acceptable analysis method to draw conclusions (Bryman & Bell, 2003; Cooper and Schindler, 2003:64). The business research process provides an explanation on the design and implementation of a research study. The research process of this study is illustrated in Figure 4.1 below.

**Figure 4-1 Research process**



Source: Adapted and modified from Neneh (2011).

### 4.3 Step one: Research problem and objectives

In this section, a recap of the research problem and research objectives is presented.

#### 4.3.1 Research problem

Small businesses in South Africa do not grow (Fatoki, 2013; Kesper, 2001; Fatoki & Garwe, 2010; Smit & Watkins, 2012). The lack of growth of SMEs coupled with the alarming failure rate and low entrepreneurial activity has resulted in the high rate of unemployment. SMEs in South Africa are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development. With South Africa having one of the highest unemployment rates and the biggest disparities in incomes and living standards in the world, creating sustainable jobs is central to economic growth and political stability in the country. Maas and Herrington (2006) point out that the creation of new SMEs was seen as a vital component of the solution to South Africa's developmental issues. Fatoki and Garwe (2010) stress that without the sustainability and growth of SMEs in South Africa, the country risks

economic stagnation. Hence, encouraging the creation, growth and sustainability of SMEs becomes vital to the economic prosperity of South Africa. Consequently, it becomes essential to research factors that enable the growth of SMEs.

#### 4.3.2 Research objectives

The primary objective of this research study was to find out what role networks play in the growth of SMEs.

Secondary objectives:

- To establish the determinants of SME growth
- To determine which type of networks are essential to the growth of SMEs
- To assess to what extent ethnic networks affect SME growth
- To establish a conceptual framework linking key networks that can enhance SME growth

#### 4.4 Step two: Research design

Research design forms the framework or blueprint of the research. It structures the research to illustrate how all of the major components of the research, such as sampling, data collection and data analysis will address the research objectives. It deals with four main issues, namely what questions to study; what data is relevant; what data to collect; and how to analyse the results (Marczyk, DeMatteo & Festinger, 2005).

There are three types of research designs, namely qualitative, quantitative, and mixed research designs. The selection of the appropriate research design for a study depends on the objective of the research, the availability of data, the urgency of the decisions, and the costs of collecting data (Zikmund, 2000).

This study has made use of a quantitative research design. Quantitative research involves measuring concepts by using scales that result in numeric values; these values in turn are used for statistical computations (Zikmund *et al.*, 2003). This method involves the collection of primary data samples with the intention of projecting the results on a wider population (Tustin, Ligthelm, Martins & Van Wyk, 2005). This method was selected because it uses numerical data to collect information that can, in turn, be used to explain as well as determine the connections amongst variables. The method can also be used to test cause-and-effect

interactions amongst variables (Leedy & Ormrod, 2005). Therefore, this research design approach was suitable to examine the relationship between networks and SME growth.

Furthermore, there are three types of research that can be used in quantitative research or qualitative research or both, namely exploratory, descriptive, and casual research. In this study, a descriptive research design was used. Descriptive research is a formal method of research, which tends to be well-structured with well-defined research questions and objectives (Cooper & Schindler, 2008). Thus, to conduct descriptive research, the research problem as well as the underlying relationships of the research problem has to be well understood (Cooper & Schindler, 2008). The method was deemed appropriate for this study as the research objectives, as well as the research problems for this study are clearly defined.

#### 4.5 Step three: Sample selection

This section presents the sample size determination, population, and sampling design techniques used to collect data.

##### 4.5.1 Population

Population can simply be defined as the total number of people or entities from which information or data is required (Tustin *et al.*, 2005). Given that studying all the elements within the populations is not feasible because of time and cost constraints, the researcher has to choose a sample (Bhattacharjee, 2012). The population of this study comprises of local (South African) and foreign (West African and East African) entrepreneurs in the Mangaung Metropolitan Municipality (Botshabelo, Thaba 'Nchu and Bloemfontein), in the Free State Province.

##### 4.5.2 Sample size determination

According to Bryman and Bell (2011:187), “the decision about sample size is not a straightforward one as it depends on a number of considerations, and there is no one definitive answer”. As such, these authors are of the opinion that when determining a sample size, the following things should be taken into consideration:

- Absolute and relative sample size: A researcher has to take into consideration that as sample size increases, sample error decreases.
- Time and cost: Although larger sample size increases precision, it also increases the time and cost associated with collecting information. Therefore, decisions about

sample size involves a compromise between precision and constraints of time and cost.

- Non-response: In most cases, surveys have a certain amount of non-response. Consequently, the likelihood that not all the respondents would agree to participate in the research was taken into account.

By taking all these factors into consideration, a sample of 500 entrepreneurs was identified for this research study. Three hundred questionnaires were distributed in Bloemfontein and the remaining 200 questionnaires were equally divided amongst entrepreneurs in Botshabelo and Thaba 'Nchu. The reason a larger number of questionnaires was distributed in Bloemfontein was because it is the economic hub, the provincial- and commercial capital of the Free State. Bloemfontein constitutes the larger proportion of the economic activities in the Mangaung Metropolitan Municipality (Free State's Regional Steering Committee, 2010). Another factor that was taken into consideration with regard to the distribution of questionnaires was the heritage of the entrepreneurs. 200 questionnaires were distributed to South African (local) entrepreneurs, and the remaining 300 were distributed evenly amongst West African and East African entrepreneurs. This was done to ensure a good representation of both groups so that the different ethnic networks in the sample area are included in the sample.

#### 4.5.3 Sampling design

The main purpose of sampling is to select a few elements from a population so that conclusions can be drawn about the entire population (Cooper & Schindler, 2008). There are two types of designs that can be used to identify samples. They are probability and non-probability sampling (Bryman & Bell, 2003). In probability sampling, every element of the population has an accurately determined chance of being selected in the sample. Some examples of probability sampling are simple random sampling, systematic sampling, stratified random sampling, and multi-stage cluster sampling.

In this study, stratified random sampling and snowball sampling were used. Stratified random sampling is a sampling technique that first divides the sample into sub-sections of groups that are relatively homogeneous in one or more characteristics and then draws a random sample from each stratum (Onwuegbuzie & Collins, 2007). This method helps to ensure that all parts of the population are represented in the sample in order to increase their efficiency. Snowball sampling is a type of sampling where the researcher is assisted by respondents to identify the

sample for the study (Grinnell & Unrau, 2005). Bryman and Bell (2003) ascertain that in snowball sampling, the researcher identifies and contacts a small group of people from the population and then uses them to establish contact with others. Stratified random sampling was used to ensure that specific groups of SMEs and managers, which are represented from the chosen sample, have an equal chance of being selected in the sample. Snowball sampling was then applied to these initial respondents as they referred the researcher to SME owners and managers operating in the Mangaung Metropolitan Municipality. “In snowball sampling, you start by identifying a few respondents that match the criteria for inclusion in your study, and then ask them to recommend others they know who also meet your selection criteria” (Bhattacharjee, 2012). This sampling method procedure was selected because it is difficult to identify SMEs owned by foreigners.

#### 4.6 Step Four: Data collection

This section describes the data collection process of the study. Data can be collected by both primary and secondary methods. Detailed explanations are provided below.

##### 4.6.1 Secondary Data

The initial step in research is the analysis of studies completed by other researchers for their own purpose or secondary data (Cooper & Schindler, 2008; Zikmund *et al.*, 2003). The main advantage of using secondary data is the availability. Also, secondary data is fast and less expensive to obtain (Zikmund *et al.*, 2003).

The researcher used articles, journals, text books, dissertations, internet sources and other research documents to obtain secondary data. Some of the key words that were used are SMEs, business networks, and SME growth. The secondary data has also helped the researcher develop the questionnaire that was used in the primary data collection.

##### 4.6.2 Primary data

“Primary data is data that is observed or collected directly from first-hand experience” (Leroy, 2012:97). According to Gerber-Nel, Nel and Kotze (2005), the primary data collection method is divided into three types, namely survey, observation, and experiment. The survey method of collecting primary data was used in this research. A survey is a quick, inexpensive, efficient and accurate means of assessing information from a representative sample of a population (Zikmund *et al.*, 2003). This method is chosen for the study since it is not feasible to get the entire population (entrepreneurs in the Mangaung Metropolitan Municipality) to participate in the research. Data was collected by distributing self-

administered questionnaires. Self-administered questionnaires are research questionnaires delivered personally by the researcher to the respondents and the questionnaires are completed by a respondent without an interviewer (Cooper & Schindler, 2003). This method was selected because it is a cost-effective method of collecting data (Babbies, 2008). Another reason for the use of self-administered questionnaires is that this method allows respondents to remain anonymous and as such enables them to be more candid and honest with their responses (Cooper & Schindler, 2003).

- **Questionnaire**

The study mainly used closed-ended (structured) questions to collect the necessary response from respondents. Closed-ended questions better suit the study since most of the respondents' primary language is not English, hence structured questionnaires ease the communication. Wheather and Cook (2000) argue that closed-ended questions state the responses that are acceptable or in other words make information available to the respondents. In addition, open-ended questions were included in the questionnaire, to find out relevant opinions of the respondents on some issues.

*The questionnaire was distributed to several identified local and foreign business owners. The researcher was responsible for collecting and analysing data. Field workers were also used to collect data when necessary.*

- **Items included in the questionnaire**

Section A of the questionnaire used in this study focused on the personal characteristics of the business owner, whilst section B focused on firm characteristics of the SMEs and section E focused on business characteristics of the SMEs. Questions under section A, B and C were necessary to assess whether the personal, firm and business characteristics have an impact on SME networking. Section D, on the other hand, focused on the various types of SME networks as well as the benefit of each of the networks. Section E focused on growth intention of SMEs. The questions under this section were relevant to test the role which growth intention plays on actual growth of SMEs. The last part of the questionnaire was section F. The main objective of the questions under section F was to identify the growth of SMEs. The section was pertinent to testing the relationship between networks and growth intentions and the effect which it has on SME growth.

## 4.7 Step five: Data Analysis

Data analysis is the process of breaking down the accumulated research data to a manageable format and forming summaries using statistical techniques (Cooper & Schindler, 2003). The data collected using questionnaires was analysed using Statistical Package for the Social Science (SPSS) Software. SPSS is 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, 2005:5). This software has aided the researcher in statistically analysing the questionnaires used for this study. Descriptive statistical- as well as inferential tools were used to interpret and present data.

### 4.7.1 Descriptive statistics

Descriptive statistics are used to describe raw data in quantitative terms (Zikmund, 2003). Additionally, descriptive statistics can also be used to provide simple summaries about general characteristics of respondents (Zikmund, 2003). Descriptive statistical tools such as frequency distributions, and graphs such as pie charts and bar charts have been used to interpret and present data in this study.

### 4.7.2 Inferential statistics

Inferential statistics explain the deeper relationship between the variables. It helps the researcher test and subsequently explains the relationship amongst variables (Bhattacharjee, 2012). Inferential statistics used in this research are cross tabulation, correlation, and Pearson's Chi-Square.

#### ➤ **Cross-tabulation**

Cross-tabulation is used to test two or more variables simultaneously (Michael, 2002:1). Cross-tabulation tables were used to analyse the relationships between variables.

#### ➤ **Pearson's product-moment correlation coefficient**

Pearson's product-moment correlation coefficient is a statistical measure that tests the relationship between variables. The result of a correlation test is referred to as Correlation coefficient( $r$ ). Correlation coefficient ranges from +1 to -1, with +1 being a total positive correlation and vice versa (Coakes, 2005:18). Thus, a Correlation coefficient of two variables that is closer to +1 indicates a strong positive correlation. Conversely, a Correlation coefficient close to -1 indicates a strong negative correlation, between variables. A

Correlation coefficient that is closer to 0 shows weak or no relationship. P-value is a measure of significance level. A 5% level of significance was used in this study.

#### ➤ **Pearson's Chi-Square**

Pearson's chi-squared test measures the likelihood of any observed difference between variables arising by chance (Cooper & Schindler, 2008). It is the most widely used chi-square test.

#### 4.7.3 Reliability

The analysis involved summing up the items used to measure variables. In order to do that however, one needs to test the items' reliability to measure the given variable. This study used Cronbach's alpha coefficient to determine the reliability of the items. Cronbach's alpha is a reliability metric used to evaluate the extent to which item responses derived from a scale correlate with each other (Shelby, 2011:142). In addition, correlation matrix was also used to measure the extent to which the items that measure a variable correlate to each other.

#### 4.7.4 Validity

Validity can be defined as the degree to which a certain measure correctly represents the concept of a study (Hair, Black, Babin & Anderson, 2011). To insure the validity of the study, a comprehensive review of literature was conducted for theoretical constructs and empirical conclusions. The researcher then used measures drawn from previous research, which have been proven to be valid, to measure variables. In addition, the researcher approached statisticians and also conducted a pilot study to make sure that the questionnaire developed measured what it was intended to measure.

#### 4.8 Limitations of the study

Due to time and financial constraints, it was not feasible to conduct the study on the entire population, thus, a sample had to be drawn. The sample for the study consisted of SME owners and managers in the Mangaung Metropolitan Municipality (Botshabelo, Thaba 'Nchu and Bloemfontein). Also, given that not all SME owners and managers identified by this study would have the time to complete the questionnaires, and seeing as foreign business owners are often suspicious of people wanting to ask them questions, resulting in some not being willing to cooperate, a sample size of 500 was chosen so as to enable the researcher to have a larger sample size with fully completed questionnaires by the end of the data collection process. Also, micro enterprises or businesses with five or less employees

(Atkinson, 2012) were not included in this study. The reason for excluding micro enterprises was that they lack formality in terms of registration (Falkena *et al.*, 2002), which makes it difficult to get information on them. Furthermore, since the population of the study is not primarily English speaking, problems with regard to communication were faced during the data collection process. To overcome this problem, the researcher used translators when needed.

#### 4.9 Ethical consideration

Ethics in research is the code of behaviour which a researcher uses to conduct a study (Sekaran, 2003). Ethical codes are particularly necessary when a research study deals with humans (Marczyk *et al.*, 2005). In this study, the identified respondents were given an introductory letter explaining the purpose of this study and its importance. The respondents were also given the option to not only participate in the survey but also to refuse to answer questions that made them uncomfortable. The information gathered from the questionnaires was only used for this study. Objectivity was maintained by the researcher during data collection. During data analysis, ethical codes were used. All findings of the research were reported. Confidentiality and anonymity of all the respondents that participated in this study was strictly adhered, in order to protect their rights. Furthermore, all sources that were used in this study have been acknowledged.

#### 4.10 Chapter summary

The chapter discussed the methodology used for this study. The methodology was discussed using the five steps of the research process. They are research problem and objective identification, research design, sample selection, data collection, and data analysis. After the research problem and research objective were identified, methods of conducting the last four steps were discussed along with which specific method had been chosen for the study. The rationale for using the selected methods was also discussed. In the discussions, it was seen that the study used a descriptive, quantitative research design. The population of the study was identified as Mangaung Metropolitan Municipality (Botshabelo, Thaba 'Nchu and Bloemfontein). A sample of 500 SMEs was drawn, using a combination of stratified random sampling and snowball sampling. Structured questionnaires were used to collect data. The data obtained from the respondents was then analysed using SPSS software. Descriptive statistical tools, such as percentages, frequency tables and charts were used to interpret the data. Furthermore, inferential statistical tools, such as Correlation, Cronbach's alpha and

Pearson’s Chi-Square were also used to analyse the data. Moreover, the study adopted correlation matrix and Cronbach’s Alpha ( $\alpha$ ) measures of reliability, when necessary, to test the reliability of the questions contained in the questionnaire. The chapter concludes by presenting the limitations and ethical considerations of the study.

In the next section, chapter five will be presented. The chapter presents the results from the data analysis along with discussions on the results obtained from the empirical study.

## Chapter 5 Research results

### 5.1 Introduction

The previous chapter discussed the methodology used in this research. The research process was divided into five main sections and the method implemented in each section was then discussed accordingly. This chapter presents the fifth section of the research process, which is the data analysis. The data for the study was collected by using questionnaires. The questionnaires consisted of five main sections. Section A focused on personal characteristics of the SME owner, section B on firm characteristics, section C on business characteristics, section D on networking, section E on growth intentions, and section F on business growth. When applicable, the results of this study are compared with results from previous studies. Response rate, also known as completion rate, refers to the ratio of the number of respondents who answered the survey to the total number of respondents in the sample (Leroy, 2012:122). Table 5.1 depicts the response rate of the sample. The table illustrates the distribution of questionnaires across the three regions of Motheo district along with the response rate.

**Table 5-1 Response rate**

Details	Motheo District			Total
	Bloemfontein	Botshabelo	Thaba’Nchu	
Approximate formal population (Businesses in areas)	7123	196	137	7456
Number of questionnaires issued	300	100	100	500
Percentage of questionnaires issued	60%	20%	20%	100%
Number of questionnaires received back	173	51	57	281

<b>Number of questionnaires received that were fully completed</b>	144	29	33	206
<b>Percentages of questionnaires received that were fully completed</b>	28.8%	5.8%	6.6%	41.2%

## 5.2 Reliability of the questionnaire

The data analysis of this study involved summing up of scale of items used to measure single variables. Before doing that, however, a Cronbach's alpha coefficient was calculated to determine the reliability of the items. Cronbach's alpha is a reliability metric used to evaluate the extent to which item responses derived from a scale correlate with each other (Shelby, 2011:142). There is no universally accepted scale of Cronbach's alpha. Consequently, a minimum Cronbach's alpha score that ranges from 0.4 to 0.9 has been used in previous studies (George & Mallery, 2003; Gregory, 1999; Houser & Bokovoy, 2008; Kline, 2000; Makhitha & Dlodlo, 2014; Nunnally, 1978; Nunnally & Bernstein, 1994). A Cronbach's Alpha score of 0.5 and above was chosen as the acceptable reliability coefficient. The results of the Cronbach's alpha test are presented below in Table 5.2.

**Table 5-2 Reliability of the questionnaire**

<b>Variable</b>	<b>N of Items</b>	<b>Cronbach's Alpha (<math>\alpha</math>)</b>
<b>Market orientation</b>	13	0.705
<b>Competitive intelligence</b>	15	0.771
<b>Growth intention</b>	5	0.812
<b>Business growth</b>	9	0.782
<b>General Networks</b>	4	0.689
<b>Managerial Networks</b>	3	0.575
<b>Social Networks</b>	3	0.608
<b>Ethnic Networks</b>	3	0.740
<b>Networking</b>	13	0.709

The results in Table 5.2 show the variables, the number of items used to measure the variables (N) and the Cronbach's alpha ( $\alpha$ ). The Cronbach's alpha for all the scales used to

measure the variables was found to be above 0.5, hence the scales are acceptable. However, the alphas of general networks, managerial networks, and social networks were found to be poor with 0.689, 0.575 and 0.608 respectively. The reason for the low score might be the low number of items used to measure the variables. As can be seen from Table 5.2, the variables with lower Cronbach's Alpha were measured with a lower number of items when compared to the variables with higher Cronbach's alpha. Tavakol and Dennick (2011) explain that very few questions can result in low value of alpha.

In addition to Cronbach's alpha, a correlation matrix was constructed, when applicable, to test the correlation amongst items that measure the same variable. The results showed that the items were significantly correlated. The correlation matrix tables can be seen in the addendum 2 section of the study.

### 5.3 General characteristics of the sample

This section describes the general characteristics of the sample used in this study. Thus, descriptive statistics of the data are presented using percentages, frequency distribution tables, and charts.

#### 5.3.1 Personal characteristics

In this section, three personal characteristics of the respondent SME owners were probed. The motivation behind designing the questions in this section was to find out the implication which the personal characteristics have on networking.

##### 5.3.1.1 Gender

The first personal characteristic analysed in this study is gender of the SME owners. This was done in order to obtain information with regards to whether the respondents were male or female. The result was then used to establish whether or not gender has any influence on networking. The result is illustrated in Figure 5.1.

**Figure 5-1 Gender**

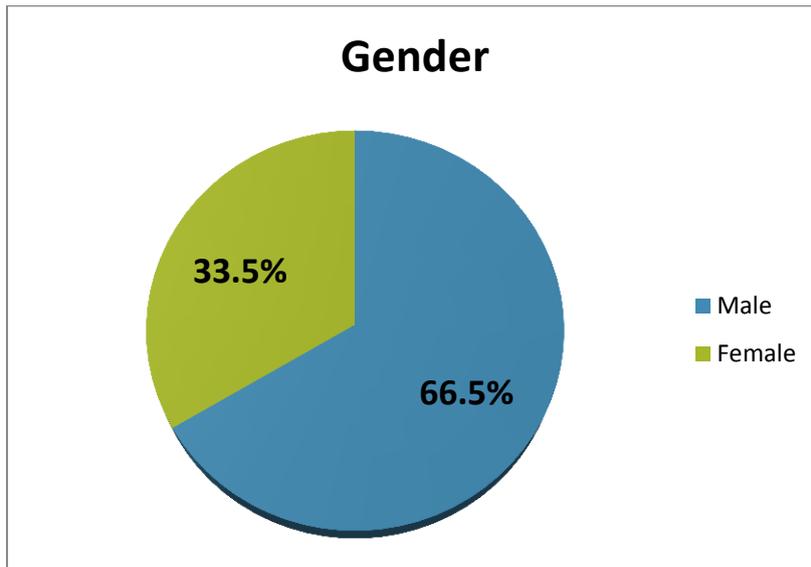
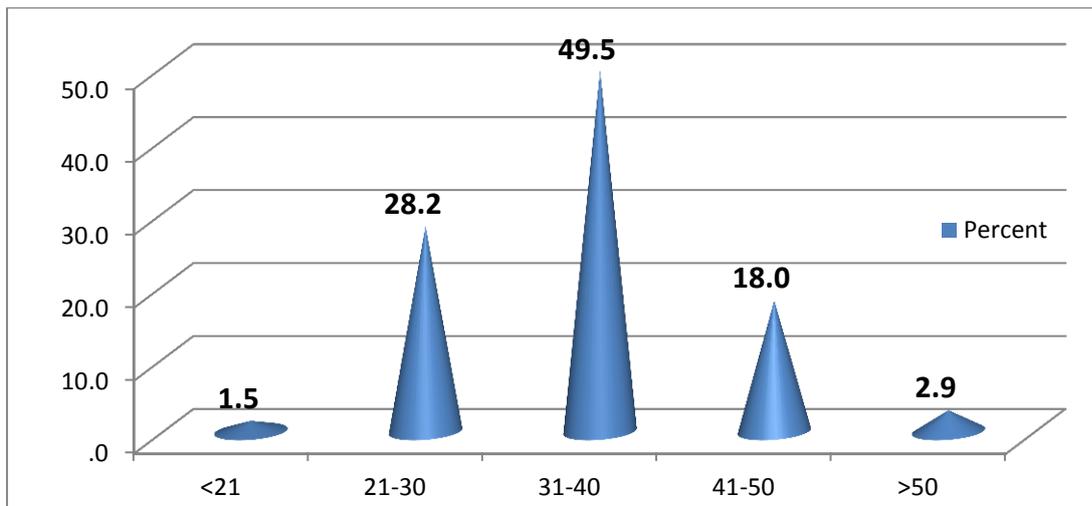


Figure 5.1 gives a clear indication that the preponderance of SMEs is owned by males. Out of the 206 respondents, 137 (66.5 %) were males whilst 69 (33.8%) were females. This finding is similar to previous findings of a study by Dzansi (2004) on SMEs in South Africa. Dzansi (2004) also reported that the majority of the SMEs (55%) in South Africa are owned by males. Also, another study on SMEs in South Africa, by Sha (2006), established that 80% of the SMEs in the study were owned by men. A study by Leroy (2012) on the impact of networking on access to finance for SMEs also reported that most (66%) SME owners in the study were male, whilst the rest (34%) were female. It can therefore be concluded that the sample in the current study is very similar to that of other studies in terms of gender composition.

#### 5.3.1.2 Age of respondents

In this section of the study, the age of the respondents is presented. The respondents' age was used for further analysis, later, to establish whether it has any influence on networking. Figure 5.2 highlights the percentage of the respondents in each age group.

**Figure 5-2 Age**



According to Figure 5.2, almost half of the respondents 102 (49.5%) were between the ages of 31-40 years, whilst 58 (28.2%) were in the age group of 21-30 years. The age group of 41-50 years represented 37 (18%) of the respondents, whilst 6 (2.9%) of the respondents were above 50 years of age. The remaining 6 (1.5%) of the respondents were below 21. These results are consistent with previous findings by Rungani (2009), who also reported that most SME owners/managers in South Africa are between the ages of 31 and 45 years. Additionally, Fatoki (2011) found that almost 60% of all SME owners/managers in South Africa are between 31 and 40 years of age. A study by Leroy (2012) also found that the predominance of the SMEs in the study (44%) were between the ages of 31-40 years.

### 5.3.1.3 Nationality

This section of the questionnaire queried respondents to identify their nationality by place of birth. The motive behind asking this question was to later analyse if there was any difference in network usage among the different nationalities. Table 5.3 illustrates the frequency and percentage for the nationality of the respondents.

**Table 5-3 Nationality**

Nationality	Frequency	Percent
Nigeria	9	4.4
Ghana	13	6.3
Senegal	12	5.8
South Africa	98	47.6
Ethiopia	40	19.4
Eritrea	8	3.9
Somalia	26	12.6

<b>Total</b>	206	100.0
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From Table 5.3 it is clear that South Africans make up the highest number of respondents with 47.5% or 98 of the respondents. The second large respondents were Ethiopians with 40 (19.4%), followed by Somalians who made up 26 (12.6%) of the respondents. Ghanaian respondents accounted for 13 (6.3%), whilst Senegalese made up 12 (5.8%) of the respondents. Nigerians and Eritreans were the smallest on the list with 9 (4.4%) and 8 (3.9%) respectively. Therefore, respondents from East and West Africa accounted for 35.9% and 16.5% of the total respondents respectively. Thus, foreign SME owners make up 108 (52.4%) of the total respondents, whilst the remaining 98 (47.6%) of the respondents were South African SME owners. This shows that there was close to an even distribution of respondents between foreign SME owners and local SME owners.

#### 5.3.1.4 Education

This section probed the education level of the respondents. Respondents were asked to identify the highest level of educational qualification they have. The results are illustrated in Figure 5.3 below.

**Figure 5-3 Education**

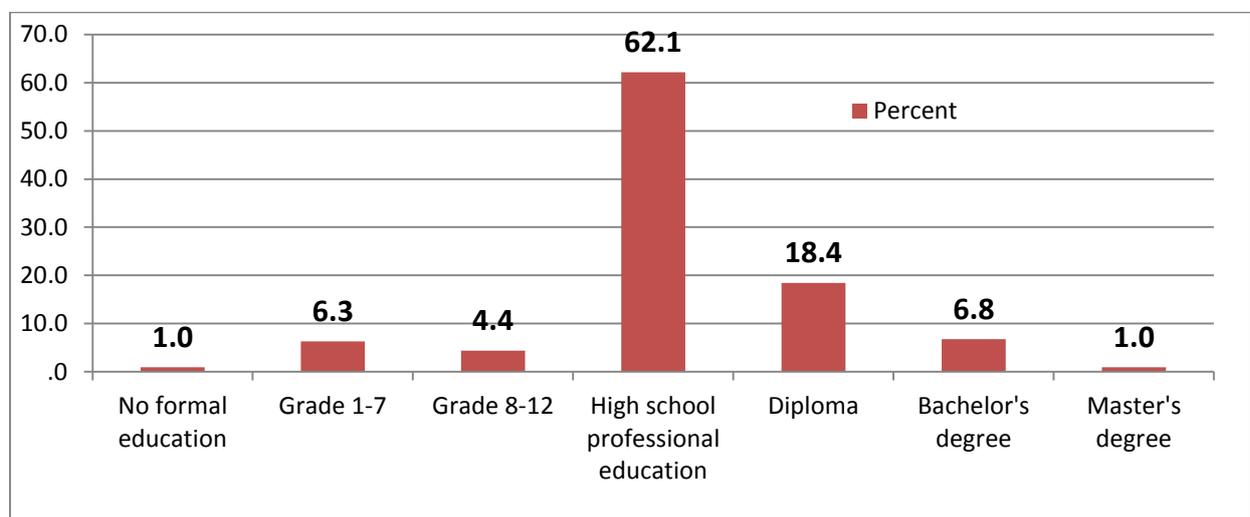


Figure 5.3 shows that the educational backgrounds of the respondents range from no formal education to a master's degree. The majority of the respondents, 128 (62.1%), have a high school professional education or have completed high school. On the other hand, 38 (18.4%) of respondents have diplomas, whilst 14 (6.8%) of the respondents have undergraduate degrees. This is followed by 13 (6.3%) of the respondents who received some formal

education, that is from grade 1 to grade 7, then by 9 (4.4%) of the respondents who completed grades between 8 and 12. Only 2 (1%) of the respondents have Master's degrees, whilst another 2 (1%) of the respondents do not have any formal education. None of the respondents had doctoral degrees. Therefore, the highest educational qualification obtained by the predominance of the respondents is a high school professional education. This creates a concern because SME owners have a predominant role in managing their business. Thus, the results give an indication that the SMEs are being run by individuals who lack the right professional skill to manage the business. This result is similar to the findings of a study on SMEs by Neneh (2011), which found that most (32%) SME owners in the study had a matric qualification.

This section looked at personal characteristics of the business owners. Accordingly, the respondents' gender, age, nationality and education were presented. The preponderance of the respondents (66.5%) were male, whilst the rest (33.5%) were female. The age of the business owners ranged from less than 21 years of age to above 50 years. The majority (49.5%) of owners were between the ages of 31 and 40. The rest of the SME owners are within the age-groups of less than 21, 21-30, 41-50 and above 50 years of age with 1.5%, 28.2%, 18% and 2.9% respectively. In this study, seven nationalities that own SMEs were taken into consideration. Respondents from Nigeria, Ghana, Senegal, Ethiopia, Eritrea, Somalia and South Africa were identified. The preponderance of the respondents were South Africans, who made up 47.6% of the respondents. Collectively, foreign SME owners made up 54.4% of the surveyed SME owners. In terms of education, 62.1% of SME owners who participated in the study, have a high school professional education and 1% have no formal education, 6.3% only had grade 1 to 7 level of education, 4.4% completed education level between grade 8 to 12, 18.4% have diplomas, 6.8% have a bachelor's degrees, and 1% of the respondents have a master's degree. The next section will present the analysis on the firm characteristics.

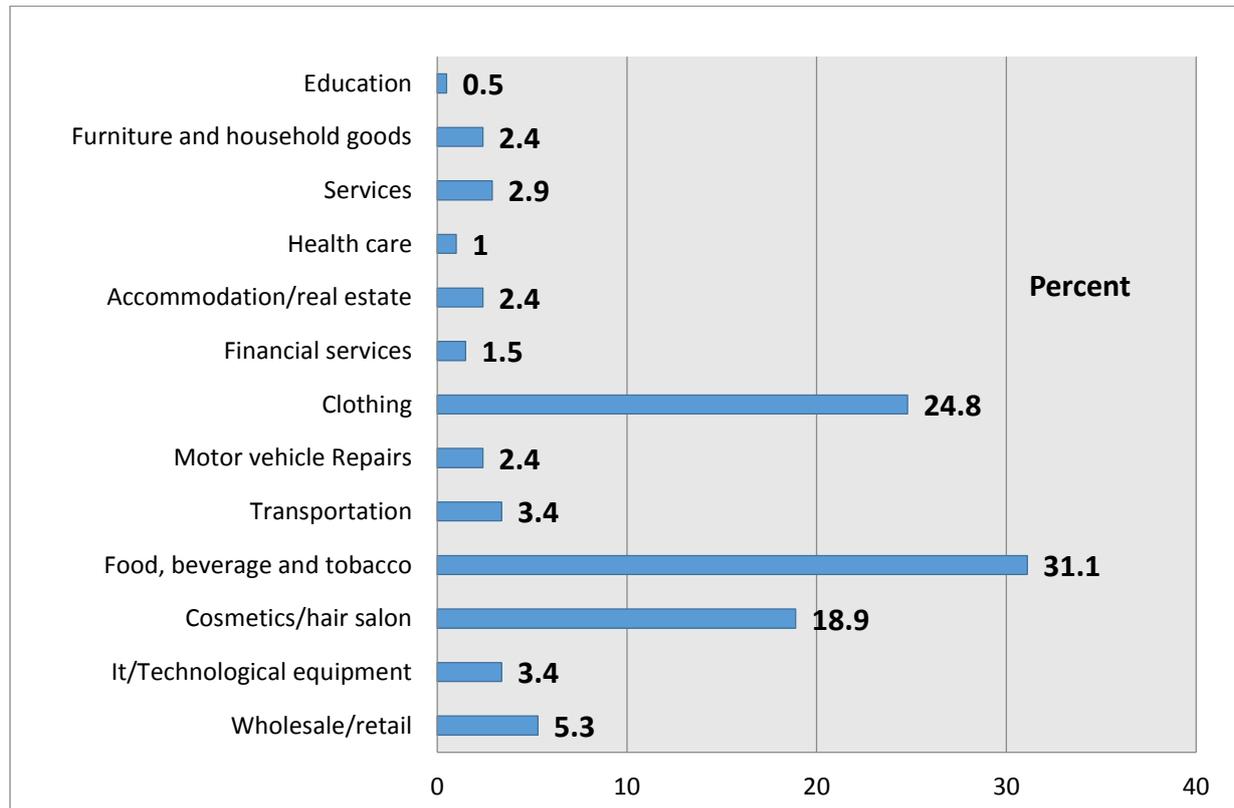
### 5.3.2 Firm characteristics

In this section of the questionnaire, the characteristics of the firm were explored. Particularly, firm characteristics like the age of the SME, size of the SME, location of the SME, and the business sector in which the SME operates were examined. The findings are presented below.

### 5.3.2.1 Business sector of SMEs

This section observed the type of business activity which the SMEs were involved in. The activities of the SMEs were then grouped into their respective sector. The results are presented in Figure 5.4 below.

**Figure 5-4 Business sector**



The results, as illustrated in Figure 5.4 above, indicate that most of the respondents, 64 (31.1%), of the SMEs in the study operate in the food, beverage and tobacco sector, followed by 51 (24.8%) of the SMEs in the clothing sector. The third largest sector was the cosmetics/hair salon which accounted for 39 (18.9%) of the SMEs, whilst wholesale and retail encompassed 11 (5.3%) of the responding SMEs. SMEs under the IT/Technological equipment and Transportation sector each constituted 7 (3.4%). Almost 3% or 6 of the SMEs were involved in the services sector. Motor and vehicle, furniture and household goods, as well as accommodation and real estate sector each encompassed 5 (2.4%) of the SMEs. Only 3 (1.5%) of the SMEs operated under the financial sector, whilst 2 (1%) in healthcare and the remaining 1 (0.5%) operated in the education sector.

### 5.3.2.2 Business age

In this section, the researcher asked the age of the SMEs. The information collected from this section was later used to test if the age of a business has any influence on networking. The ages of the SMEs included in this study are presented in Table 5.4 below.

**Table 5-4 Business age**

Age	Frequency	Percentage
<b>1-3</b>	71	34.5
<b>4-6</b>	56	27.2
<b>7-9</b>	54	26.2
<b>10-12</b>	17	8.2
<b>&gt;13</b>	8	3.9
<b>Total</b>	<b>206</b>	<b>100</b>

The results show that the majority of SMEs, 71 (34.5%), have been in operation between 1 and 3 years. Whereas 56 (27.2%) have been in operation between 4 and 6 years. On the other hand, 54 (26.2%) have been in operation for 7 to 9 years, whilst 17 (8.2%) have been in operation for 10 to 12 years. Only 8 (3.9%) of the SMEs have been in operation for more than thirteen years.

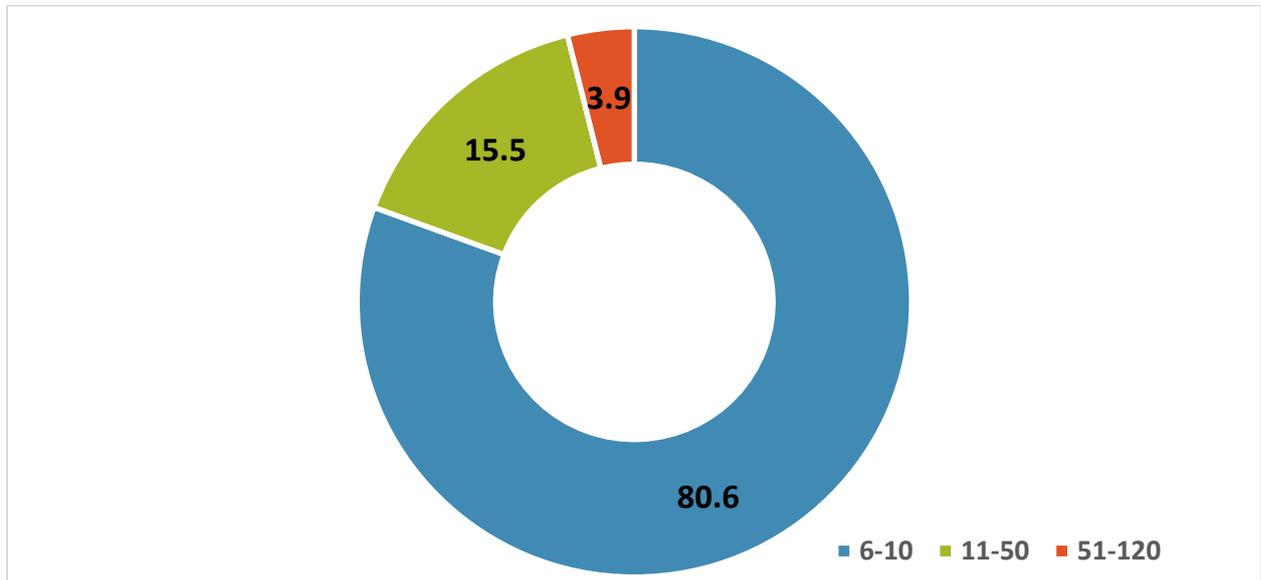
The results of this study are similar to previous studies by Leroy (2012) and Rungani (2009). Leroy (2012) also found that in South Africa, most SMEs (42 %) are between the ages of 1 and 4 years. Rungani (2009) found that most SMEs (70%) in South Africa are between the ages of 0 and 5 years. As per the result, most of the SMEs are less than three years old. A possible implication of this result might be that only a small number of newly established SMEs are likely to survive beyond their first few years. Similar to the implications of this study, Herrington (2010) reported that only 1% of SMEs grow and survive more than the first year of their establishment. Additionally, there appear to be less and less SMEs that are above the age of 9 years. The situation becomes alarming as SMEs in South Africa need to perform well to address the economic issues the country is facing, such as the high rate of unemployment.

### 5.3.2.3 Number of employees

Here, the SME owners identified the number of workers that are currently employed in their business. This question was important in order to analyse the job creation capacity of SMEs. Number of employees was also important in determining the size of the SMEs, as it was later

tested to see whether it impacts networking or not. The results on the number of employees of the SMEs are presented in Figure 5.5 below.

**Figure 5-5 Number of employees.**



The results, as presented in Figure 5.5, show that the majority 166 (80.6%) of the SMEs in the study have between 6 and 10 employees. A relatively smaller number of SMEs, 32(15.5%), have 11 to 50 employees, whilst the remaining 8 (3.9%) employ between 51 and 120 employees. None of the SMEs employed more than 120 employees. In terms of the National Small Business Amendment Act (2003), the results show that approximately 198 (96.1%) of the SMEs have less than 50 employees and thus are considered small businesses. Only 8 (3.9%) have between 51 and 200 employees, falling under the category of medium businesses. Therefore, the small business sector is responsible for a significantly high number of job creations. The results are consistent with a study by Isaga (2012:92), who found that majority of the SMEs (74.3%) in his study fell under small businesses.

In this section of the study, the firm characteristics of age of the SME, size of the SME and the business sector in which the SME operates were analysed and presented accordingly. The results showed that the majority of the SMEs (31.1%) operated in the food, beverage and tobacco sector. With regard to the age of the SMEs, most of them (34.5%) have only been in operation between 1 and 3 years and thus are very new. In addition, a great number of SMEs (80.6%) were found to employ between 6 and 10 employees and, thereby, were found to be small businesses. In the following section, the result analysis of the questionnaire on business characteristics is presented.

### 5.3.3 Business characteristics

Here, the respondents were asked questions pertaining to their practice of market orientation and competitive intelligence. This enabled the researcher to test if market orientation and competitive intelligence influence networking.

#### 5.3.3.1 Market orientation

This section presents a descriptive analysis on market orientation practices of the respondents. The study used was constructed using a 20-item Likert scale MARKOR questions, originally developed by Kohli, Jaworski and Kumar (1993), to analyse market orientation. The MARKOR scale is widely accepted in the market orientation literature (Cervera, Molla and Sanchez, 2001; Kara *et al.*, 2005; Pulendran, Speed & Widing, 2000; Zebal, 2003). The scale is made up of intelligence generation, intelligence dissemination and intelligence responsiveness dimensions. A total of thirteen questions that address the three dimensions of market orientation and were most applicable to SMEs were chosen for the study. Respondents were asked to select the extent to which they agree or disagree with the statement from a five point Likert scale, where 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree. The descriptive statistics of the market orientation is presented in Table 5.5.

**Table 5-5 Descriptive statistics of market orientation**

	<b>Statements</b>	<b>Mean</b>	<b>Standard deviation</b>
<b>Intelligence Generation</b>	We meet with customers at least once a year to find out what products or services they will need in the future	2.13	1.03
	We collect industry information by informal means (e.g., lunch with industry friends, talks with trade partners)	2.16	0.93
	We often talk with or survey those who can influence our end users' purchases (e.g., retailers, distributors)	2.38	0.95
	We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers	2.28	0.92
	<b>Average</b>	<b>2.24</b>	<b>0.96</b>

<b>Intelligence Dissemination</b>	Our business unit periodically circulates documents (e.g., reports, news- letters) that provide information on our customers	2.51	1.14
	When something important happens to a major customer of market, the whole business unit knows about it within a short period	2.73	1.08
	Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis	2.58	1.11
	We have interdepartmental meetings at least once a quarter to discuss market trends and developments	2.72	1.28
	<b>Average</b>	<b>2.64</b>	<b>1.15</b>
<b>Intelligence responsiveness</b>	We are quick to respond to significant changes in our competitors' pricing structure	3.06	1.12
	We periodically review our product development efforts to ensure that they are in line with what customers want	2.91	1.13
	Our business plans are driven more by technological advances than by market research	3.22	1.07
	If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately	2.66	1.12
	When we find out that customers are unhappy with the quality of our service, we take corrective action immediately	2.91	1.05
	<b>Average</b>	<b>2.95</b>	<b>1.10</b>
<b>Market orientation</b>		<b>2.61</b>	<b>1.07</b>

Table 5.5 shows the mean standard deviation of the respondents' answers. The mean represents the average of the respondents' answer. A mean that is low shows that most respondents disagreed with the statements and vice versa. In the case of overall market orientation, the mean was 2.61. This indicates that most of the SME owners disagreed with the statements, and therefore most of the SMEs do not practice market orientation. Standard deviation represents the variation in the answers given by the SME owners. The standard deviation of market orientation was found to be 1.07.

Regarding each market orientation attribute, intelligence generation, intelligence dissemination and responsiveness, it can also be observed that most of the SME owners do

not have such practice. The mean scores of intelligence generation, intelligence dissemination and intelligence responsiveness, with 2.24, 2.64 and 2.95 respectively, show that most respondents disagreed with the statements. Thus, most SMEs in the study have poor practice of intelligence generation, dissemination and responsiveness and ultimately poor market orientation practices.

The findings of this study are in line with previous findings of Gellynck, Banterle, Kühne, Carraresi and Stranieri (2012) and Neneh (2014). Gellynck *et al.* (2012), after evaluating the market orientation capabilities of SMEs in three European countries, concluded that most SMEs lack marketing management capabilities that lead to market orientation. Neneh (2014) also found that most SMEs in South Africa are not market-oriented. The lack of market orientation practice in the SMEs means that the SMEs are not reaching their full growth potential as market orientation is identified as a key tool for business growth (Dauda & Akingbade, 2010; Grönroos, 2006). However, it is important to mention that although it might not be adequate, most SMEs have their own implicit marketing strategy that is embedded in their business operation, as well as in the minds of their owners or managers (Keskin, 2006). That is, all businesses are market-orientated to some degree (Keskin, 2006).

### 5.3.3.2 Competitive intelligence

The descriptive analysis on the competitive intelligence of the SMEs is presented in this section. Likert scale questions were adopted from Nenzhelele (2012) to analyse competitive intelligence. A total of fifteen questions were used. Respondents were asked to select the extent to which they agree or disagree to the statement from a five-point Likert scale, where 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, and 5 = strongly agree. The descriptive statistics of competitive intelligence is presented in Table 5.6.

**Table 5-6 Descriptive statistics of competitive intelligence**

<b>Statements</b>	<b>Mean</b>	<b>Standard deviation</b>
We gather information about our competitors and the competitive environment and use it in our planning processes and decision-making in order to improve the performance of our business.	3.14	1.19
Our employees understand what competitive intelligence is.	2.92	1.22
We practice competitive intelligence in our business.	2.92	1.20
We know the prices of our competitors' products or services.	3.19	1.00
We gather competitive intelligence for decision making.	2.88	1.15

We know who our competitors' customers are.	3.34	1.15
We know our competitors' strengths and weaknesses.	3.00	1.18
We know who our competitors' suppliers are.	3.44	1.15
We hire people or other businesses to collect information on our behalf.	2.58	1.08
We have competitive intelligence professionals in our business.	2.64	1.23
We have a computerized competitive intelligence system.	2.67	1.21
Competitive intelligence provides us with competitive advantage over our rivals.	2.71	1.04
We have a formalized competitive intelligence process.	2.75	1.26
We collect information about our competitors and analyze it.	2.88	1.27
Our managers support competitive intelligence practices.	2.86	1.19
<b>Average</b>	<b>2.93</b>	<b>1.17</b>

From Table 5.6, it can be observed that the average competitive intelligence of the respondents is 2.93. This indicates that a majority of the SMEs in this study disagreed with the statements and thus do not have competitive intelligence practices. The standard deviation, which indicates the spread of the responses or the level of agreement amongst the respondents, was 1.17.

Thus, much like market orientation, competitive intelligence is also not widely practiced among the SMEs. Yet, competitive intelligence is important for SMEs to survive in the current highly competitive global economy (Mendlinger, Miyake & Billington, 2009). Therefore, the lack of competitive intelligence observed in the SMEs can be problematic, especially since SMEs have a high failure rate. Similar to the findings of this study, Murphy (2006) and Xinping, Cuijuan and Youfa (2011) caution that competitive intelligence is not being practiced optimally in SMEs. On the contrary, Nenzhelele (2012) found that, although informally, most SMEs in South Africa practice competitive intelligence. Nenzhelele (2012) further pointed out challenges which SMEs face in implementing competitive intelligence as lack of time; lack of human resources; budgetary constraints; and creating a participatory environment and awareness of competitive intelligence.

This section presented the descriptive statistics of the two business characteristics analysed in this study, which are market orientation and competitive intelligence. From the results it is observed that most SMEs practice neither market orientation nor competitive intelligence. The small size of SMEs may not hinder them from having the necessary human or financial resources to implement such practices. The lack of adequate resources to conduct a systematic market orientation and competitive intelligence does not mean that SMEs do not

have market orientation or competitive intelligence at all. SMEs might still have informal ways of analysing their market and their competitors such as using networks they are engaged in order to get necessary information. This leads to the next analysis of the study, which focuses on networks.

## 5.4 Networks

This section focused on the networking of SMEs. The section identified the types of networks which SMEs are engaged in and also the importance of each type of network. The questions under the section were also used later to identify the types of networks which are significant for SME growth.

### 5.4.1 Types of networks

The purpose of this section was to analyse the network participation of the SMEs in different types of networks and also to identify the strength of their network. Respondents were asked to point out which types of networks they are engaged in from general networks, managerial networks, social networks and ethnic networks. The respondents were also asked to rank the strength of their relationship with the networks. The results are given in Table 5.7 below.

**Table 5-7 SME network participation**

<b>Network type</b>		<b>Relationship</b>		<b>Strength of the relationship (as a percentage)</b>				
		<b>Yes</b>	<b>No</b>	<b>Very weak</b>	<b>Weak</b>	<b>Adequate</b>	<b>Strong</b>	<b>Very strong</b>
<b>General business networks</b>	<b>Professional association</b>	46 (22.33%)	160 (77.67%)	39.13%	8.70%	8.70%	43.48%	0.00%
	<b>Governmental agencies</b>	48 (23.3%)	158 (76.7%)	47.92%	6.25%	10.42%	31.25%	4.17%
	<b>Non-governmental agencies</b>	7 (3.4%)	199 (96.6%)	85.71%	14.29%	0.00%	0.00%	0.00%
	<b>Business consultants</b>	34 (16.50%)	172 (83.50%)	55.88%	17.65%	26.47%	0.00%	0.00%
<b>Managerial networks</b>	<b>Competitors or similar businesses</b>	95 (46.11%)	111 (53.88%)	27.37%	10.53%	33.68%	11.58%	16.84%
	<b>Suppliers</b>	125 (60.7%)	81 (39.3%)	19.20%	7.20%	19.20%	26.40%	28.00%
	<b>Customers</b>	116 (56.3%)	90 (43.7%)	9.48%	8.62%	12.07%	24.14%	45.69%
<b>Social networks</b>	<b>Friends</b>	140 (68%)	66 (32%)	10.71%	13.57%	23.57%	18.57%	33.57%
	<b>Family and relatives</b>	130 (63.1%)	76 (36.9%)	10.00%	13.08%	30.77%	13.08%	33.08%
	<b>Social associations or clubs</b>	46 (22.3%)	160 (77.7%)	26.09%	21.74%	21.74%	6.52%	23.91%
<b>Ethnic networks</b>	<b>Associations or clubs formed on the basis of cultural group</b>	68 (33%)	138 (67%)	80.88%	0.00%	13.24%	2.94%	2.94%
	<b>Financial institutions formed on the basis of cultural group</b>	64 (31.1%)	142 (68.9%)	39.13%	8.70%	8.70%	43.48%	0.00%
	<b>Business-to-business relations formed on the basis of cultural group</b>	127 (61.7%)	79 (38.3%)	47.92%	6.25%	10.42%	31.25%	4.17%

#### 5.4.1.1 General business networks

Out of the 206 respondents, 46 (22.33%) of them have Professional association relationship whilst the remaining 160 (77.67%) do not have this form of relationship. In terms of the strength of the relationship, for those that maintain professional association relationship; 39.13% have a very weak relationship, 8.70% weak, 8.70% adequate, 43.48% strong and 0.00% have very strong relationship. That is, none of the SMEs have very strong relationship with professional association. The strength of the relationship seemed to clump into two extremes either very weak or strong since the preponderance of the respondents belonged to those two extremes. Among the general business networks, seeing governmental agencies relationships with the business owners which resulted 48 (23.3%) of the respondents have that relationship, whilst the remaining 158 (76.7%) do not. When looking at the strength of the relationship, out of the 48 respondents that have relationships with governmental agencies, 47.92% of them have very weak relationships, 6.25% weak, 10.42% adequate, 31.25% strong and 4.17% of them have very strong relationships. Out of the 206 total respondents, only 7 (3.4%) of them have relationships with non-governmental organizations and the remaining 199 (96.6%) have no relationship with non-governmental organization. Out of the very low number of 7 (3.4%) respondent who have relationships with non-governmental organizations, 85.71% have very weak relationships and 14.29% have weak relationships, and none (0%) of the respondents rated their relationship as adequate, strong or very strong. Finally, more than half of the respondents do not maintain relationships with business consultants. According to the figures explained in Table 5.7, only 34 (16.50%) have relationships with business consultants, whilst the rest of the respondents, 172 (83.50%), do not have that form of relationship. Among the 34 (16.50%) respondents that have relationships with business consultants; 55.88% have very weak relationships, 17.65% weak, 26.47% adequate and none showed more degrees of relationships, with the result of 0.00% for strong and very strong relationships with business consultants.

Overall, the results show that SME owners do not seem to have a good level of relationships with professional association, governmental agencies, non-governmental agencies and business consultants. The results imply that the SMEs are not benefiting from the support that is available to them from the organizations which could have contributed towards their growth and development. In like manner, Ferreira, Li and Serra (2008) established that most SMEs do not have a relationship with professional associations, whilst Ngoc and Nguyen (2009) found that only a few private SMEs in Vietnam maintain relations with government

agencies. A study conducted in South Africa by Radipere (2013) also confirmed the lack of support which SMEs receive from governmental agencies. Furthermore, another study conducted in South Africa by Leroy (2012), found that the majority of SMEs do not have networks with professional associations, governmental agencies and business consultants.

#### **5.4.1.2 Managerial networks**

Based on the results obtained from Table 5.7, although not the majority, a high number of SMEs, 95 (46.11%), have relationships with their competitors or similar businesses. The remaining 111 (53.88%), on the other hand, do not have that relationship. Out of those who have the relationship (46.11%), 27.37% have very weak relationships with their competitors or similar businesses, 10.53% weak, 33.68% adequate, 11.58% strong, and 16.84% have very strong relationships in terms of its degree of relationship. The relationship between the SME owners with suppliers was observed to be more common. Out of the 206 respondents, 125 (60.7%) have relationships with their suppliers and the remaining 81 (39.3%) respondents do not have that relationship. In terms of the degree of relationship, among the 125 (60.7%) respondents that have relationships with their suppliers, 19.20% have very weak relationships, 7.20% weak, 19.20% adequate, 26.40% strong, and 28.00% have very strong relationships. Lastly, the relationships between the owner and the customer have been observed from Table 5.7 and as a result, 116 (56.3%) respondents maintain relationships with their customers, but the other remaining 90 (43.7%) have no relationship with their customers. Those who maintain this relationship, 116(56.3%), showed different levels of relationships and as a result, 9.48% have very weak relationships, 8.62% weak, 12.07% adequate, 24.14% strong, and the other 45.69% have very strong relationships with their customers. Generally, SMEs owners have a better relationship with managerial networks as opposed to general business networks.

The results are similar to Leroy (2012), who established that a significant number of SMEs maintain relationships with competitors, suppliers and customers. Ngoc and Nguyen (2009) also found that SMEs actively participate in managerial networks. The participation of SMEs in managerial networks is beneficial to SMEs. The more SMEs develop managerial networks, the more likely they are to attain business alliances (Leroy, 2012). Business alliances allow the SME owners to run their business smoothly by providing them with relevant and up-to-date information and also by helping the SMEs avoid extreme competition, such as price wars. Managerial networks are also important for SMEs in that they help them form business alliance and also help them learn appropriate business behaviour.

### 5.4.1.3 Social networks

Under social networks, the SMEs owner's relationships with friends rated the highest. According to the results, 140 (68%) SME owners have relationships with friends and the remaining 66 (32%) out of 206 total respondents have no relationships with friends. Out of those who have relationship with friends (68%); 10.71% of them have very weak relationships, 13.57% weak, 23.57% adequate, 18.57% strong, and 33.57% have very strong relationships. SME owners' relationships with family and relatives was also the second highest rated relationship under Table 5.7. The result showed 130 (63.1%) of the respondents maintain relationships with family and relatives, whilst the rest of 76 (36.9%) respondents do not have that network relationship. The strength of the relationship for those who maintain relationship with family and relatives networks that is out of 130 (63.1%), 10.00% of the respondents have very weak relationships, 13.08% weak, 30.77% adequate, 13.08% strong, and 33.08% have rated very strong relationships with family and relatives. Under the social network types, SME owners have shown relatively less relationship with social associations or clubs. According to Table 5.7, 46 (22.3%) of the respondents have relationships with social associations or clubs, but 160 (77.7%) do not maintain that relationship out of 206 total respondents. The 46 (22.3%) respondents that have relationships with social associations or clubs are classified in degree of relationships; among which 26.09% of the respondent have very weak relationships, 21.74% weak, 21.74% adequate, 6.52% strong, and 23.91% very strong level of relationship has been observed. Generally, most of the SME owners seemed to have relationships with social networks. More specifically, networks with family or relatives and friends appeared to be most common amongst the respondents. However, a very low number of respondents indicated having networks with social associations or clubs.

More than any other types of networks, most of the SME owners in this study appear to have networks with friends followed by networks with family or relatives. The finding is in line with Robinson and Stubberud (2010), who established that SMEs network more with their friends and families than with professional associations. Leroy (2012) also found that SMEs participate intensively in social networks.

### 5.4.1.4 Ethnic networks

The results (Table 5.7) show that the majority of the respondents do not have ethnic network relationships, particularly with associations or clubs and financial institutions formed on the basis of cultural group. Out of the total of 206 respondents, 68 (33%) have relationships with associations or clubs, formed on the basis of cultural group and 64 (31.1%) of them have

relationships with financial institutions, formed on the basis of cultural group. In other words, the remaining 138 (67%) and 142 (68.9%) of the respondents do not have those relationships respectively. In terms of degree of relationships, the 68 (33%) respondents that formed relationships with cultural group based associations or clubs have shown different levels of relationships. As a result, 80.88% of them have very weak relationship, 0.00% has weak, 13.24% adequate, 2.94% strong, and the remaining 2.94% have very strong relationships. In terms of networks with financial institution formed on the basis of cultural group, out of the 64 (31.1%) that already have this relationship, 39.13% of the respondents have a very weak relationship, 8.70% weak, 8.70% adequate, and the remaining 43.48% have strong relationships with such networks. None of the respondents indicated having very strong relationships with financial institution formed on the basis of cultural group. Compared to the other ethnic networks, business-to-business relations formed on the basis of cultural group were by far widely common amongst the respondents. Among the 206 total respondents, 127 (61.7%) have culture-based business-to-business relations, whilst the remaining 79 (38.3%) do not. Out of 127 (61.7%) that already have relationships, a rate of 47.92% respondents have very weak relationships, 6.25% weak, 10.42% adequate, 31.25% strong, and 4.17% of them have very strong relationships. Overall, SME owners have low participation in culture-based associations or clubs and culture-based financial institutions. Meanwhile, the SME participation in cultural-based business-to-business relations was found to be much better. The propensity of SME owners to form networks based on their ethnicity has been noted in literature (Bowles & Gintis, 2004; Duanmu & Guney, 2013; Guiso *et al.*, 2009; Vipraio & Pauluzzo, 2007; Volery, 2007). This was also evident in the study of Dini (2009), whose study focused on the benefits of networking across Australia. Dini (2009) found that ethnic networking was common amongst businesses in Australia.

In conclusion, SMEs in this study are more participative in managerial- and social networks than general business networks and ethnic networks. The result is similar to the findings of Leroy (2012), which illustrated that the majority of SMEs greatly use managerial and social networks. In addition, Robinson and Stubberud (2010) and Davidson (2010) found that most SMEs network more with their family, relatives and friends than with professional associations. The reason for the active participation of SMEs in social and managerial networks can be the ease of participation in the networks, meaning that social and managerial networks result from interactions that are more frequent than the other types of networks. Thus, this might result in the networks forming effortlessly. General business networks, on

the other hand, might be more difficult for the SMEs to form and participate in. Unlike social networks and managerial networks, general business networks and ethnic networks do not result from the SME owners' day-to-day interaction with his/her environment. General business networks and ethnic networks require the SME owners' deliberate effort to participate and might even at times require financial investments, such as membership fees.

Next, the Pearson's Chi-Square test was run to see if there is a significant difference in usage of the different types of networks between foreign- and locally-owned businesses. The Pearson's chi-squared test is used to measure the likelihood of any observed difference between variables arising by chance (Cooper & Schindler, 2008). A Pearson's chi-square value ranges from 0 to 1. A value of less than or equal to 0.05 indicates that the difference observed among the variables did not occur by chance and is therefore significant and vice versa (Cooper & Schindler, 2008). Table 5.8 shows the results of the Pearson's Chi-square test along with the difference between local- and foreign-owned SMEs in network participation.

**Table 5-8 Difference between local and foreign owned SMEs in network participation**

Network type		local owned		Foreign owned		Pearson's Chi-Square p-value
		Frequency	Percent	Frequency	Percent	
<b>General business networks</b>	Professional association	36	36.73%	10	9.26%	<b>0.000</b>
	Governmental agencies	40	40.82%	8	7.41%	<b>0.000</b>
	Non-governmental agencies	7	7.14%	0	0.00%	<b>0.005</b>
	Business consultants	31	31.63%	3	2.78%	<b>0.000</b>
<b>Managerial networks</b>	Competitors or similar businesses	41	41.84%	54	50.00%	0.240
	Suppliers	56	57.14%	69	63.89%	0.322
	Customers	67	68.37%	49	45.37%	<b>0.001</b>
<b>Social networks</b>	Friends	65	66.33%	75	69.44%	0.632
	Family or relatives	55	56.12%	75	69.44%	<b>0.048</b>
	Social associations or clubs	23	23.47%	23	21.30%	0.708
<b>Ethnic networks</b>	Ethnic associations or clubs	19	19.39%	49	45.37%	<b>0.001</b>
	Ethnic financial institutions	18	18.37%	46	42.59%	<b>0.004</b>

	Ethic based business to business relations	43	43.88%	84	77.78%	<b>0.000</b>
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From Table 5.8 above, the Pearson's Chi-Square value of professional association, governmental agencies, non-governmental agencies, business consultants, customers, family or relatives, ethnic associations or clubs, ethnic financial institutions and ethnically-based business-to-business relations are 0.000, 0.000, 0.005, 0.000, 0.001, 0.048, 0.001, 0.004 and 0.000 respectively. These values are all less than 0.05. Therefore, there is a statistically significant difference in usage of the listed network types among foreign-owned businesses and locally-owned businesses.

More locally owned SMEs (36.73%) network with professional associations compared to SMEs owned by foreigners (9.26%). There are also more local SMEs that network with governmental agencies (40.82%) and non-governmental agencies (7.14%) when compared to foreign-owned SMEs, with 7.41% and 0.00% respectively. Locally-owned SMEs were more likely to network with business consultants (31.63%) and customers (68.37%) more than foreign-owned SMEs with 2.78% and 45.37% respectively. On the other hand, more foreign-owned businesses network with ethnic associations or clubs (45.37%) when compared to locally-owned businesses (19.39%). Additionally, more foreign-owned SMEs were found to have networks with ethnic financial institutions (42.5%) than locally-owned SMEs (18.37%). Business-to-business networks that are based on ethnicity were also found to be more common among foreign-owned SMEs (77.78%) relative to local owned SMEs (43.88%). The difference in network usage of non-governmental agencies, competitors or similar businesses, suppliers, friends, social associations and clubs were not found to be statistically significant.

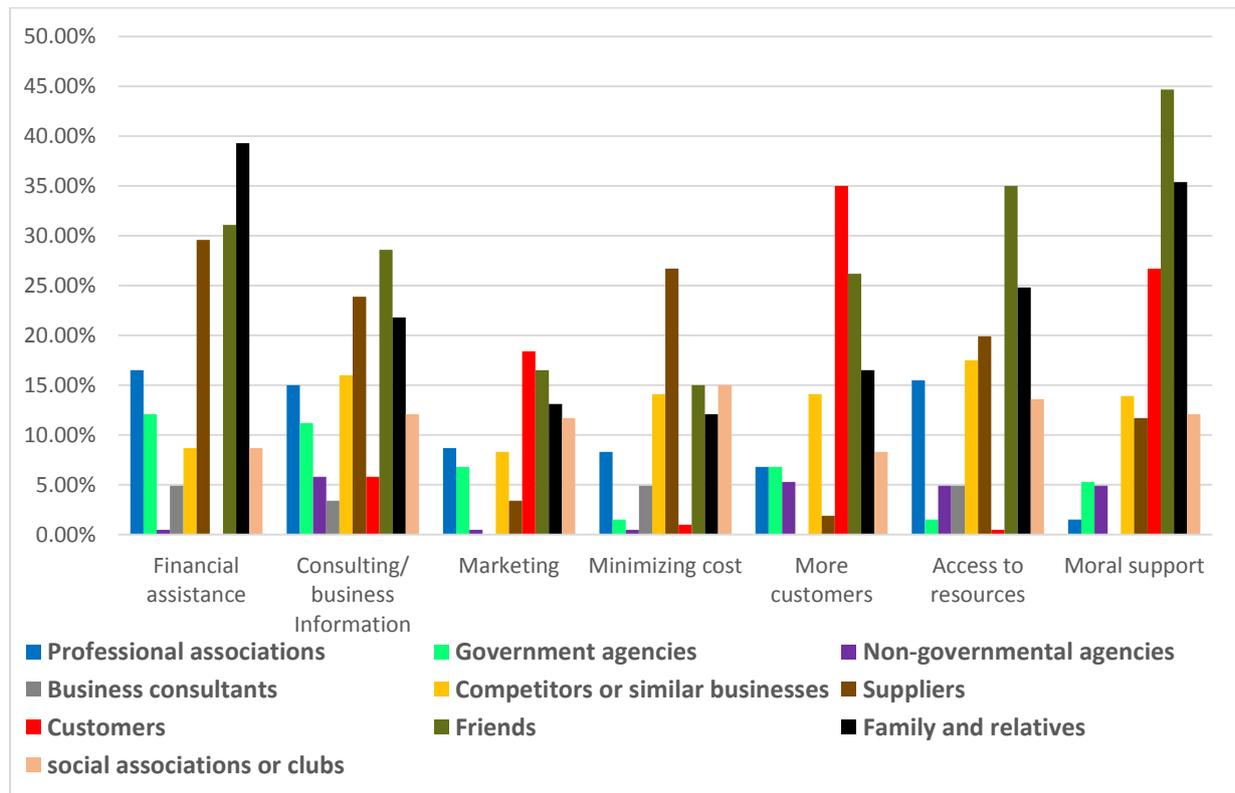
In conclusion, a statistically significant difference was observed between locals and foreigners in their networks with all four general business networks. General business networks were found to be more common amongst local SMEs. The lack of information on business caused by operating in an unfamiliar environment can cause the observed difference. Also, locals are the focus of most business support programs, thereby explaining the slightly enhanced relationship with general business networks when compared to foreigners. Radipere (2013:187) also reported that more locally-owned SMEs received government support when compared to foreign-owned SMEs. Radipere (2013) further explained that most government assistance packages only target locals. Regarding managerial networks, the only statistically

significant difference was observed on networking with customers, with more locals responding to have such networks. Of the analysed social networks, statistical difference was observed when it comes to networking with family or relatives. More foreigners maintain business networks with their family or relatives. Foreign SMEs heavily rely on their network with their family for support, such as human resources and financial resources. This phenomenon is observed by Mitchell (2013), who noted that family relationships are at the heart of foreign businesses in that it is vital for the development of the businesses. Lastly, ethnic networks were found to be used more by foreign businesses than local businesses. The barriers faced by foreign SMEs, including cultural-, language-, financial- and resource barriers push foreign SMEs to turn to their ethnic groups for financial and non-financial support.

#### **5.4.2 Comparison of networks by their perceived ability to offer resources**

Networks differ in the support and resource facilitation which they offer business owners (Davidson, 2010). And so, in this section, the respondents were asked to identify if general business networks, managerial networks and social networks have provided them with financial assistance, consultation or business information, marketing activities, cost minimization, getting more customers, access to resources and with moral support. Respondents were asked about the above-listed particular resources and support as the literature suggested that they are benefits offered in networks (Atieno, 2009; Chittithaworn *et al.*, 2011; Fatoki & Odeyemi, 2010; Gulati & Higgins, 2003; Premaratne, 2002; Mitchell, 2003; Uden, 2007). The results are illustrated in Figure 5.6.

**Figure 5-6 Comparison of networks by their perceived ability to offer resources**



From Figure 5.6, it can be concluded that family and relatives are identified by the majority of the respondents (39.3%) as important with regards to financial assistance, followed by friends (31.1%), then suppliers (29.6%). Networks with friends was indicated as helpful by majority (28.6%) of the SMEs with regards to consultation or business information, followed by networks with suppliers (23.9%) and family/relatives (12.1%). Similarly, Anderson and Park (2007) reported that social networks are the main sources of information for SMEs. In terms of marketing, networks with customers (18.4%), friends (16.5%) and family/relatives (11.7%) were identified by the majority of the respondents as helpful. In helping SMEs minimize cost, networks with suppliers (26.7%), as well as networking with friends (15%) and social associations/clubs (15%) were indicated as greatly important. Networks formed with customers (35%), networks with friends (26.2%) and networks with family and relatives (16.5%) were found to be important by a higher number of the respondents in helping SMEs increase their number of customers. This finding is similar to the findings of Davidson (2010), who reported that networks with customers are highly important for providing referrals to customers and ultimately helping businesses get more customers. Networks with friends (35%) was indicated as having highly significant networks in providing SMEs with access to resources, followed by networks with family and friends (24.8%) and suppliers

(19.9%). Lastly, networks with friends was further indicated by most respondents (44.7%) as an important source for moral support, whilst networks with family and relatives (35.4%) and networks with customers (26.7%) were regarded as important by the second and third largest number of respondents respectively. The findings are similar to the findings of Davidson (2010), who found that networks with family and friends are the most important types of networks in providing businesses with moral support.

From the results, it is clear that SMEs receive an immense amount of support from social networks, especially from their friends and family. The second most important network identified by the SMEs as helpful in many arenas are managerial networks. Social networks and managerial networks were found to assist SMEs with financial assistance, moral support, information, minimization of costs and access to resources. Likewise, Davidson (2010) and Premaratne (2002) found that business owners found networks with family, friends and business contacts as the most valuable ties in providing them with resources, information and support.

Nevertheless, the results show the heavy reliance which SMEs have on their social and managerial networks whilst not using the resource and support provided by general business networks such as professional associations and governmental and non-governmental agencies. One reason for the results can be the fact that the personal nature of interaction found in social and managerial networks makes them more attuned to the needs of the owners (Davidson, 2010). Therefore, the networks can attend to the SMEs' needs in a personalized manner in a way general business networking cannot. Moreover, business owners in South Africa are often not aware that there are institutions put in place in order to assist them with their needs (Maas & Herrington, 2006). Thus, due to lack of awareness, SMEs could be missing out on the opportunity to receive the necessary assistance provided for them.

#### **5.4.3 Role networks play in the growth of SMEs**

This section intended to identify the respondent's view on whether or not networks have played a role in their growth, and if so, what their contribution was. In order to do this, however, it was first important to identify which of the SMEs have shown growth since their initial start-up. This is depicted in Table 5.9.

**Table 5-9 Growth since start-up**

	<b>Foreign-owned businesses</b>	<b>Locally-owned businesses</b>	<b>Total</b>
<b>Yes</b>	75 (69.4%)	49 (50%)	<b>124 (60.2%)</b>
<b>No</b>	33 (30.6%)	49 (50%)	<b>82 (39.8%)</b>
<b>Total</b>	<b>108</b>	<b>98</b>	<b>206</b>

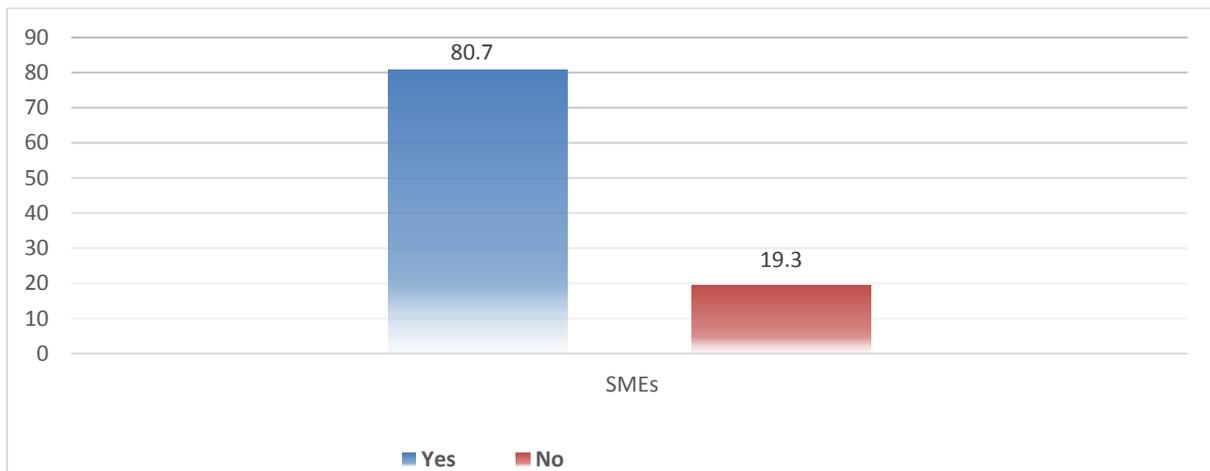
Table 5.9 illustrates that the number of SMEs that have shown growth since their initial start-up is 124 (60.2%), whilst 82 (39.8%) of the SMEs responded that their business has not shown any growth. Afterward, the response was examined by splitting it into SMEs owned by foreigners and SMEs owned by locals. Table 5.9 distinguishes that 75 (69.4%) of the foreign-owned SMEs have shown growth since their start-up, whereas 33 (30.6%) have not. On the other hand, 49 (50%) of the locally-owned businesses reported growth in their businesses, whereas the other half, that is 49 (50%), responded that their business has not shown growth.

Table 5.9 gives an indication that the foreign SMEs might be growing compared to their local counterparts. A Pearson's Chi-Square test was used to test if the difference in growth observed was statistically significant. The result showed a p-value of 0.04, which is less than 0.005, indicating that the difference in growth observed between locally-owned and foreign-owned SMEs is significant. Reginald and Millicent (2014), in their study on Key Success Factors of African descent foreign-owned SMES in South Africa, have noted that SMEs owned by foreigners outperformed their local counterparts. Relating to the issue of foreign-owned businesses outperforming their local counterparts, a study was conducted by The Sustainable Livelihoods Foundation (2012) in Cape Town, South Africa. The study pointed out that the main reasons why foreigner-run shops do better than local counterparts are attributed to the strength of their networks. The networks which foreigners have provide them with access to labour and capital, and also enables them to benefit from collective purchasing, which lowers prices of goods (The Sustainable Livelihoods Foundation, 2012). The research further highlights that foreign shops are successfully using supply chain networking. By doing so, the foreign businesses benefit from price discounts that will allow them to procure goods more cost-effectively. In addition, when operating in networks, the foreign businesses are likely to secure premium terms from suppliers and ensure that shops within the network receive an uninterrupted supply of merchandise (The Sustainable

Livelihoods Foundation, 2012). Thus, more awareness should be created in locally-owned SMEs on the importance which networks have for business growth.

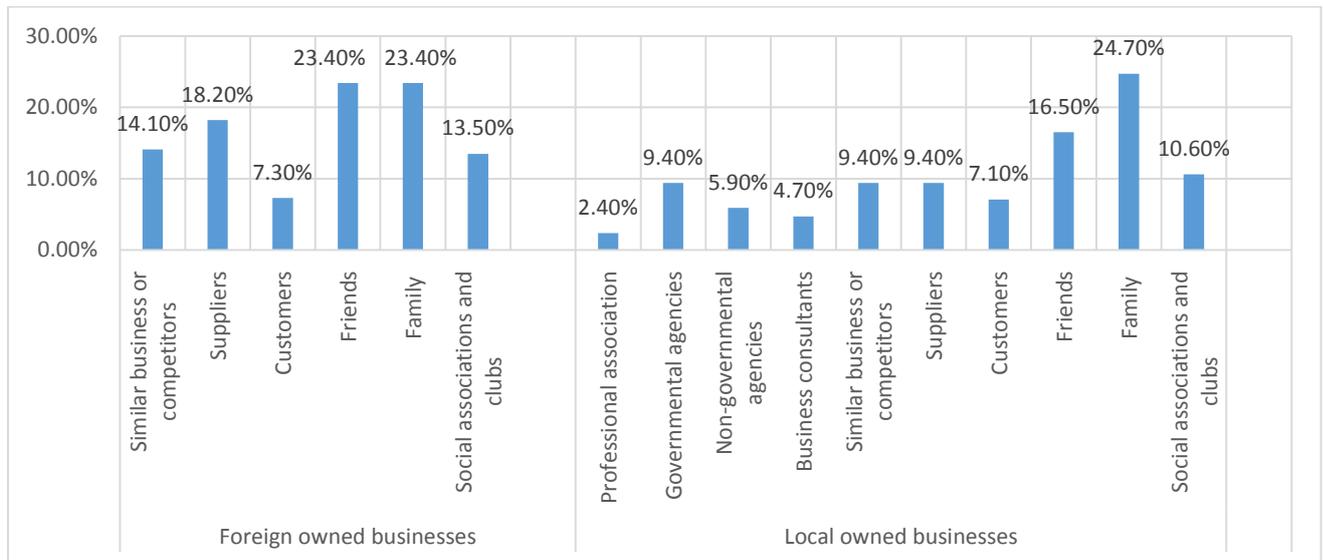
Next, the respondents were asked to identify if networks have played a role in the growth of their businesses. Their responses are presented in Figure 5.7 to follow.

**Figure 5-7 Networking and SME growth**



As shown in figure 5.7, out of the 124 SMEs that have shown growth since their start-up, 100 (80.7%) of them have identified one or more types of network to have helped them grow their business. Out of the 75 foreign-owned businesses that have shown growth, 61 of them (81.3%) indicated that networking has helped them grow their businesses. On the other hand, out of the 49 SMEs owned by locals that have experienced growth, 39 (79.59%) identified one or more types of networks to have helped them grow their business. Furthermore, it was important to assess the areas in which networks help SMEs grow their businesses. Consequently, the respondents were asked to specify the types of networks that have helped them grow their SMEs. The results on the types of networks that assist SME growth are illustrated in Figure 5.8.

**Figure 5-8 Comparison of networks by their perceived ability to help SMEs grow (differentiated between foreign-owned and local-owned SMEs)**



As illustrated in Figure 5.8, the results were examined by dividing the SMEs into locally- and foreign-owned. The foreign-owned SMEs identified networking with family and friends as most important, with 23.4% for each type of network, followed by supplier networks with 18.2%. On the other hand, the majority of the locally-owned businesses identified networks with family/relatives, networks with friends and social associations and clubs, with 24.7%, 16.5% and 10.6% respectively, as the three most important networks that have played a role in their growth. Therefore, both groups perceive networking with family or relatives and networking with friends as the most important networks that helped them grow their business. Next, the respondents' perception of the importance of ethnic networks was analysed.

#### 5.4.4 Importance of ethnic networks

Here, the questionnaire analysed the importance of ethnic networks. The respondents were asked if their cultural group had been helpful in reducing the cost of raw materials, overcoming language barriers, informal banking, as well as forming contact with important suppliers and customers. The respondents were required to rank the level of importance with four scales that range from no help at all to very helpful. The basic data tabulation is presented in Table 5.10 below.

**Table 5-10 Importance of ethnic networks**

	<b>Slightly helpful</b>	<b>Fairly helpful</b>	<b>Very helpful</b>	<b>Not helpful at all</b>
<b>Reduce the cost of raw materials or goods</b>	23.9%	23.9%	40.2%	12%
<b>Overcome language barriers during business transactions</b>	16.2%	27.9%	41.9%	14%
<b>Informal banking</b>	15.6%	21.1%	36.7%	26.6%
<b>Form contact with important suppliers</b>	48.8%	16.4%	9.8%	25%
<b>Form contact with important customers</b>	23.8%	21.3%	13.1%	41.8%

Based on the response in Table 5.10, it is evident that a significant number of SME owners indicated that ethnic networks are important in reducing the cost of raw materials or goods, with 40.2% rating ethnic networks as very helpful in this regard. One way in which ethnic networks can reduce the cost of raw materials is through economies of scale. That is, SMEs in ethnic networks can buy raw materials in bulk and distribute it amongst themselves, thereby benefiting from lower bulk prices. In addition, SMEs can also benefit from lower prices when purchasing raw materials from wholesalers of their own ethnic group. A study by Schoar, Iyer and Kumar (2008) established that when traders of similar ethnic background conduct business with each other, they offer lower prices. Ethnic networks were also found to be important in assisting SME owners overcome language barriers during business transactions. A significantly high percentage of the SMEs also indicated that ethnic networks were helpful in easing language barriers, out of which 41.9% rated the networks as very helpful. Another importance of ethnic networks was in informal banking. Close a third (36.7%) of the respondents found ethnic networks very useful in this regard. Moreover, ethnic networks were found to be slightly important for creating contact with suppliers, at 48.8%. Lastly ethnic networks were found slightly useful in creating contact with important customers, at 23.8%. Next, we looked at the difference in importance of ethnic networks for local- and foreign SME owners. The results are presented in Table 5.11 below.

**Table 5-11 Difference in importance of ethnic networks for foreign and local SMEs**

<b>Importance</b>		<b>Slightly helpful</b>	<b>Fairly helpful</b>	<b>Very helpful</b>	<b>Helpful (Total)</b>	<b>Not helpful at all</b>
<b>Reduce the cost of raw materials or goods</b>	Foreign	21%	29%	47%	97%	3%
	Local	28%	17%	30%	75%	25%
<b>Overcome language barriers during business transactions</b>	Foreign	19%	30%	48%	96%	4%
	Local	12%	26%	33%	71%	29%
<b>Informal banking</b>	Foreign	17%	24%	41%	82%	18%
	Local	16%	13%	29%	58%	42%
<b>Form contact with important suppliers</b>	Foreign	47%	22%	11%	80%	20%
	Local	52%	7%	7%	66%	34%
<b>Form contact with important customers</b>	Foreign	19%	22%	14%	54%	46%
	Local	33%	21%	12%	65%	35%

Based on the response in Table 5.11, it is evident that a significantly higher number of foreign SME owners, 97% when compared to 75%, indicated that ethnic networks are important in reducing the cost of raw materials or goods. A study by Liedeman, Charman, Piper and Petersen (2013), which focused on Somali SME owners in South Africa, revealed that Somali SME owners used ethnic networks to conduct group purchasing that allowed them secure discounts and operational economies of scale. Ethnic networks were also found to be more important for foreign-owned SMEs (96%) than the locally-owned ones (71%) in assisting SME owners overcome language barriers during business transactions. As foreign business owners operate in a culture different from their own, they might face difficulties with regard to language and thereby turn to ethnic networks for support. With regard to providing SMEs with informal banking, ethnic networks were again indicated by more foreign-owned SMEs (82%), than locally-owned SMEs (58%). The reason for the heavy reliance on ethnic networks for funding by the foreign respondents compared to the locals can be the difficulty which they face in accessing formal financial institutions. In most cases, owners of foreign SMEs do not have the necessary documents that will enable them access to formal financial institutions (Chrysostome & Arcand, 2009; Mitchell, 2003; Reginald & Millicent, 2014:66). Additionally, even with the necessary documents, financial institutions are hesitant to offer loans to foreigners for the reason that most foreigners lack collateral

security (Reginald & Millicent, 2014:67). The lack of financial support which they face turns foreigners towards their own ethnic groups for support. Likewise, Liedeman *et al.* (2013) established the importance which ethnic networking has towards facilitating informal micro-finance.

A larger percentage of foreign SME owners (80%) than local SME owners (66%) reported that ethnic networks are helpful to form contact with important suppliers. Again, foreign SME owners have disadvantage over their competitors because they operate in an environment which they are not used to. This causes them to lack information on whom the pre-eminent suppliers are in their industry. Consequently, in an attempt to overcome this advantage, foreign SME owners use the relationships they have in their ethnic networks as referrals. Conversely, although both foreign- and local SME owners indicated the ethnic networks as helpful with regard to receiving contacts with important customers, more local SME owners indicated their importance (65%) compared to foreign SME owners (54%). Nonetheless, the results show that preponderance of the foreign SME owners identified ethnic networks as an important base for reaching main customers. Likewise, Cooney and Flynn (2008) conducted a study on ethnic entrepreneurship in Ireland after which they concluded that ethnic networks were vital sources of obtaining useful business contacts and customers for foreign-owned businesses. Similarly, in a study by Salaff *et al.* (2002) on ethnic entrepreneurship, they found ethnic networks to provide business owners with a growing customer base.

Therefore, from the results of this study, it can be concluded that ethnic networks are important for SMEs to reduce the cost of raw materials or goods, overcome language barriers during business transactions, informal banking, form contact with important suppliers and form contact with important customers. However, ethnic networks were found to be more important for foreign-owned SMEs than locally-owned SMEs. Ethnic networks serve as a bridge for the cultural, economic and social barriers foreigners face when starting and operating SMEs in an unfamiliar country. Relationships within the ethnic networks help foreigners transition into their new environment smoothly by providing them with the necessary resources and support.

In the next section, the respondents were asked if their main suppliers belong to the same ethnic group as themselves. In analysing the respondents' answers, it was first important to see if there were any significant differences in answering this question between the local

SME owners and the foreign SME owners. In order to do so, a Pearson's Chi-Square test was run. The Pearson's Chi-Square test significance value of the test was 0.022, which is less than 0.05, showing that suppliers' belonging to the same ethnicity as the SME owners is related to their nationality. That is, the nationality of SME owners has an influence on whether or not the SME owners have suppliers that are the same ethnicity as they are. This difference can be observed from Table 5.12.

**Table 5-12 Use of ethnic suppliers**

	Yes		No		Total	
	Percentage	Frequency	Percent	Frequency	Percentage	Frequency
<b>Foreign-owned businesses</b>	47%	51	53%	57	100%	108
<b>Locally-owned businesses</b>	32%	31	68%	67	100%	98

From Table 5.12, it can be observed that predominance of the foreign-owned as well as locally-owned SMEs, with 53% and 68% respectively, reported that their main suppliers do not belong to the same ethnic group as them. However, more SMEs with foreign owners indicated that their main suppliers belong to their cultural group (47%), when compared to the SMEs owned by locals (32%). The results are similar to a report by The Sustainable Livelihoods Foundation (2012), which noted the intensive usage of supplier networking by foreign-owned businesses compared to their locally-owned counterparts.

Following this question, the respondents were asked if it was easier to get access from their ethnically similar cultural group. The rationale behind this question was to find out if ethnic networks have easy access to credit. The results show that a substantial percentage of SMEs (84%) reported that it is easier to get credit from their ethnic suppliers, whilst the remaining 16% said that it was not. When analysing this question from foreign- and locally-owned SMEs perspective, a slightly larger number of foreign SME owners (87%) than local SME owners (81%) reported that it was easier to get credit from their own ethnic suppliers. The findings are similar to the findings of another study by Biggs, Raturi and Srivastava (2002) who, after examining the impact ethnic networks have on access to finance in Kenya, concluded that membership in ethnic group is relevant to receiving access to supplier credit. Additionally, a study by Fafchamps (2000) also confirmed that ethnicity influences the probability of accessing supplier credit. In conclusion, networking with ethnic suppliers has a

notable effect on SMEs' access to credit. In the next section, the analyses of questions pertaining to SME growth are presented.

## 5.5 SME growth

The purpose of this section is to analyse the growth of SMEs. Adopting from previous studies (Davidsson *et al.*, 2010; Isaga, 2012; Levie & Autio, 2013; Neneh & Van Zyl, 2014; Shepherd & Wiklund, 2009; Sirec & Mocnik, 2010) parameters that are used to measure SME growth were net profit growth, sales growth, asset growth, customer growth, employee growth and the growth of market share. In addition, since most SMEs do not maintain a proper financial report (Premaratne, 2002), the respondents were asked to rate their business performance in three different periods - current performance (2014) of the SMEs, the performance before five years, and the performance they expect in five years' time. The results of this section, along with the average or aggregated mean for business performance are presented in Table 5.13 below.

**Table 5-13 Performance of SMEs**

Business performance							
	Very poor	Poor	Average	Good	Very good	Mean	Standard Deviation
<b>Current (2014)</b>	23.3%	19.4%	34.0%	15.5%	7.8%	2.65	1.22
<b>Five years ago</b>	10.0%	22.0%	26.7%	28.0%	13.3%	3.13	1.19
<b>Five years from now</b>	9.7%	30.6%	23.8%	23.8%	12.1%	2.98	1.19

In this cohort, 34.0% of the participants ranked their current (2014) performance as average, 19.4% as poor and 23.3% as very poor. Meanwhile, 15.5% of the participants ranked their current performance as good and the remaining 7.8% as very good. Additionally, respondents were also asked to report how their SMEs performed five years ago. Unlike their current performance, greater part of the participants (28%) reported they had a good performance before five years. A little more than one quarter of the respondents (26.7%) said they had average performance before five years, whereas 22% ranked their performance before five years as poor. Relatively fewer participants (13.3%) ranked the performance of their SMEs five years ago as very good and an even fewer percentage of respondents (10%) said that they had a very poor performance. Moreover, with regards to the performance which the participants anticipate to have in five years, the highest number of respondents (30.6%)

expected their SMEs to have a poor performance. On the other hand, 23.8% anticipated their performance to be average, whilst another 23.8% anticipated their performance as good. The other 12.1% expect to have a very good performance, whilst the remaining 9.7% expect to have very poor performance.

The mean result of SME performance shows that most of the SMEs rate their current performance as poor (2.65) and their performance five years ago as average (3.13). Additionally, the majority of the SMEs forecasted the performance they expect in five years as poor (1.19). The result creates a concern, as a significant portion of South Africa's labour force and GDP comes from the SME sector. Government intervention is required to assess and solve the issues that have led the SME owners to have a negative outlook towards the future of their business.

In the next question on growth, the respondents were asked to indicate their business results of the previous year. Later, this question was used as dependent variables to test if networking plays a role on the growth of SMEs. The results are presented in Table 5.14 below.

**Table 5-14 SME growth**

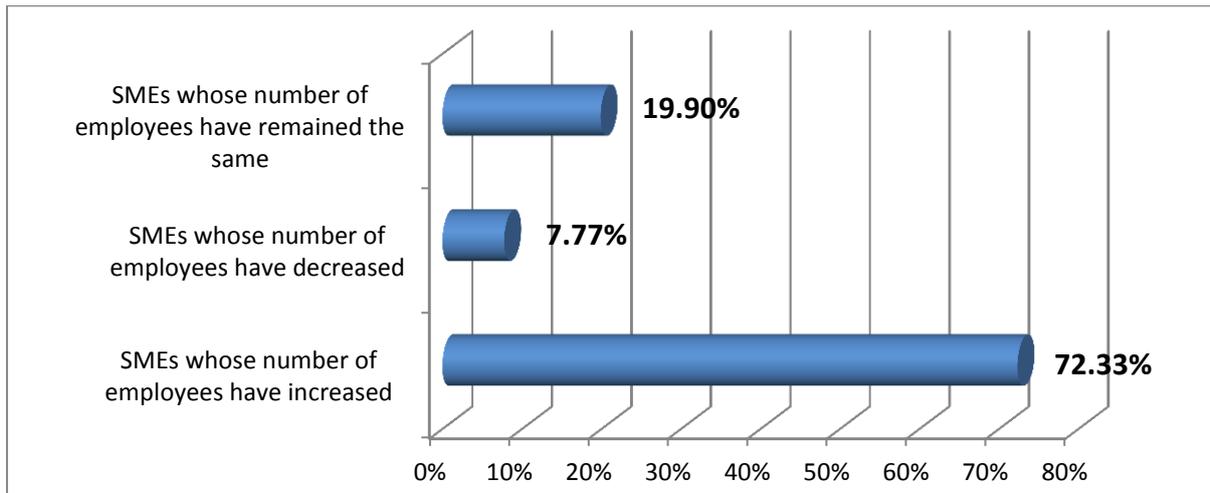
<b>Growth indicators</b>	<b>Decrease &gt;20%</b>	<b>Decrease 10-20%</b>	<b>Stable</b>	<b>Increase 10-20%</b>	<b>Increase &gt;20%</b>
<b>Change in net profit/year</b>	14.1%	34.5%	36.4%	12.6%	2.4%
<b>Change in total amount of sale/month</b>	13.6%	40.3%	29.1%	15.5%	1.5%
<b>Change in number of customers</b>	5.3%	31.6%	46.1%	15.5%	1.5%
<b>Change in equipment/asset</b>	9.7%	30.1%	44.7%	13.1%	2.4%
<b>Change in number of employees</b>	8.7%	36.9%	45.6%	5.3%	3.4%
<b>Growth in market share</b>	8.7%	29.1%	44.7%	16.5%	1.0%
<b>Average growth</b>	10.02%	33.75%	41.10%	13.08%	2.03%

Majority of the businesses (36.4%) indicated their change in profit per year as stable, whilst the second (34.5%) and third (14.1%) majority of the respondents, reported to have

experienced a decrease by 10-20% and greater than 20% respectively. Only 12.6% claimed to have had an increase in net profit per year of 12.6%, with the remaining 2.4% reporting to have had an increase of greater than 2.4%. With regard to change in total amount of sale per month, the majority (40.3%) of the respondents experienced a decline in sale between 10-20%, 29.1% did not experience any change, 15.5% experienced an increase of 10-20%, 13.6% experienced a decline of more than 20% and the remaining 1.5% experienced an increase in sale of more than 20%. Moreover, the greater part of the businesses (46.1%) indicated that there was no change in the number of customers they had in the last year. Conversely, 31.6% experienced a decrease of 10-20% with this regard, whilst 15.5% of the respondents experienced a growth of 10-20%, 5.3% experienced a decrease of more than 20% and 1.5% experienced a growth of more than 20%. Regarding change in number of employees, again the majority (45.6%) reported a stagnant change. An alarming number of respondents (36.9%) reported a decline of 10-20% in employees in the last year, whilst 8.7% reported a decline of more than 20%. Of the respondents who reported positive growth, 5.3% said they had an increase of 10 to 20% in the number of employees they have, with only 1% reporting an increase of more than 20%. Regarding growth in market share, 44.7% of the respondents did not experience an increase or decrease in market share, whilst 29.1% experienced a decline between 10 and 20%. Furthermore, 16.5% of the respondents had a growth in market share of 10 to 20%, 8.7% had a decline of greater than 20%, and only 1% experienced a growth in market share higher than 20%. Lastly, the average of all the growth indicators was calculated to see the overall performance of SMEs. More than a third of the SMEs (41.1%) were found to have experienced no major change in growth. The second largest respondents (33.75%), conversely, were found to experience a decline of 10 to 20%. This was followed by SMEs who had an increase in growth of 10 to 20% and SMEs who experienced a decline in growth of more than 20%. The last 2.03% of the respondents had an overall growth of more than 20%.

Lastly, the questionnaire aimed at finding out how many of the SMEs have shown growth in the number of employment since their initial start-up. The results are presented in Figure 5.9 below.

**Figure 5-9 Change in number of employees**



As illustrated in figure 5.9, the majority (72.33%) of the SMEs have more employees at present than when they first started, whilst 19.9% of the SMEs did not experience any change in this regard. The percentage of SMEs who have experienced a decrease in the number of employees they have amounts to 7.77%. This shows the contribution which SMEs have towards the South African economy through the creation of new jobs.

In the next question, the SME owners were asked to provide a reason for the change, or lack thereof, in the number of employees they have. Responding to this question, the majority of the SME owners indicated business growth for the increase in the number of employees they have. In addition, other reasons provided by SME owners for the increase in the number of employees included workload, difficulty of the job and theft. On the other hand, the highest number of SMEs that have not shown any growth or experienced a decline in the number of employees, they have emphasised that the lack of employee growth is a reflection of the lack of overall growth of the business. Jansen (2009:23) explains that business growth is achieved through an increase in demand for products or services of the business. Consequently, the first indicator of growth is increase in sales. It is after a business experiences increase in sales that it will be able to invest in additional factors of production such as land, capital goods and employees, in order to attend to the new level of demand (Jansen, 2009:23).

In this section, the growth of the SMEs was analysed. The overall results show that although SMEs have an enormous contribution toward the creation of new jobs, their growth rate is highly unsatisfactory. Most of the SMEs seem to be experiencing stagnant growth in recent years. What is more is that the SME owners do not have a positive anticipation for the future of their businesses. The result is in line with previous studies (Fatoki, 2013; Fatoki & Garwe,

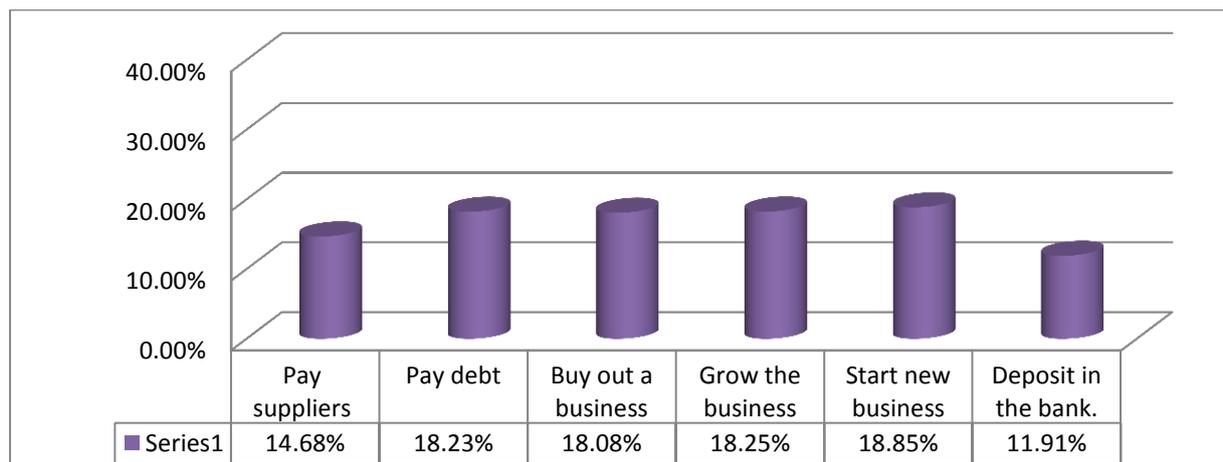
2010; Kesper, 2001; Smit & Watkins, 2012) who also reported the lack of SME growth in South Africa.

## 5.6 Growth intentions

This section in the questionnaire was included to identify the growth intention of the SME owners. The topic was deemed relevant to this study as growth intentions can influence the actual business growth. The intentionality measure was used to determine growth intention of the SME owners. It is when business owners perceive that the necessary resources are available that they can decide on whether or not they will direct the resources towards activities that grow the business (Neneh & Van Zyl, 2014). It is in light of this argument that the study used the intentionality measure by Torres and Watson (2013) to determine growth intention of SME owners.

The intentionality measure determines growth intention by making business owners assume that resources that are essential for growth are available. The respondents were asked to assume they have received a one million rand grant for their business to use at their discretion. Then they were asked to assign percentages of the money they will allocate to six different options. The options were (1) pay suppliers, (2) pay debt, (3) buy out a business, (4) grow the business, (5) start new business, (6) deposit in the bank. The results are presented in Figure 5.10.

**Figure 5-10 Growth intention**



As illustrated in Figure 5.10, SMEs would spend most of the grant money (18.85%) starting a new business. The next greater portion of the grant would be assigned towards growing their current business (18.25%), paying debt (18.23%) and buying out a business (18.08%). Lastly, an average of 14.68% of the grant will be spent towards paying suppliers and the remaining

11.91% would be deposited in the bank. The results show that even when external financial assistance is provided, SMEs do not have much interest in growth. The figure especially becomes a concern when taking into consideration the fact that the SME owners were answering the question under the assumption that financial resources necessary for growth were available. In reality, however, SMEs operate under financial constraints. Thus, when operating under financial constraints, SMEs will be more hesitant to allocate resources toward growth.

Next, respondents were asked to indicate the likelihood that their business will engage in business-growth activities in the following two years. They were asked to indicate the extent to which they agree or disagree with five Likert scale questions by selecting the appropriate level where: 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, and 5 = strongly agree. The results are presented in Table 5.15 below.

**Table 5-15 Descriptive statistics of growth intention**

<b>Statement</b>	<b>Mean</b>	<b>Standard deviation</b>
<b>Adding a new product or service</b>	2.30	1.13
<b>Selling to a new market</b>	2.49	1.25
<b>Adding operating space</b>	2.46	1.18
<b>Expanding its distribution channels</b>	2.32	1.18
<b>Expanding advertisement and promotion</b>	2.55	1.22
<b>Average</b>	<b>2.42</b>	<b>1.19</b>

Table 5.15 presents the mean and standard deviation of the respondents' answer. The mean represents the average answer given by respondents and the standard deviation represents the variations in the answers given. A mean score that is low implies that the highest number of respondents disagreed with the statements and vice versa. The mean score for growth intention was 2.42. This indicates that the preponderance of the SME owners disagreed with the statements. Hence, most of the SMEs do not have intention to grow their business. The variation in the respondents' answers or standard deviation of growth intention was found to be 1.19.

In the third and last question on growth intention, SME owners were asked to choose from a list of alternatives that reflects the future of their business best. The alternatives were that their SMEs will most certainly close down, they will consider closing them down, they will continue in their current mode, they will plan moderate business expansion or they will plan large scale business expansion. The last two alternatives (plan for moderate business expansion and plan for large scale business expansion) are the two indicators that show a positive growth intention of the SME owners. Before analysing this section, however, a Pearson's Chi-Square test was run to see if there was a significant difference between the foreign- and locally-owned SMEs. The result showed a p-value of 0.25, which is greater than 0.05, thus indicating that there is not a significant difference amongst the two groups in answering this question. The results obtained on the SME owners' future intention are presented in Table 5.16.

**Table 5-16 SME owner's expectation on the future of their business**

	<b>Local owned</b>	<b>Foreign owned</b>
<b>Will most certainly close down</b>	10.2%	9.3%
<b>Considers closing down</b>	20.4%	22.2%
<b>Will continue in the current mode</b>	32.7%	50.0%
<b>Plan moderate business expansion</b>	31.6%	13.9%
<b>Plan large-scale business expansion</b>	5.1%	4.6%

As seen in Table 5.16, the majority of foreign- (50%) as well as locally-owned (32.7%) SMEs stated that their business will continue in its current mode for the next few years. Meanwhile, 31.6% of the locally-owned SMEs have plans for a moderate expansion. This is higher than the foreign-owned SMEs (13.9%) who have similar intentions. Only 5.1% of the local SMEs and 4.6% of the foreign-owned SMEs expressed their intention for large-scale expansion. The percentage of SMEs who stated that their business will close down in the near future is 10.2% for local SMEs and 9.3% for foreign SMEs. The percentage of SMEs who consider closing down are significantly high, with 20.4% for local SMEs and 22.2% foreign SMEs. In summing the percentage of respondents that have plans for moderate business expansion and plans for large-scale business expansion, the percentage become 36.7% and 18.5% for locally-owned and foreign-owned SMEs respectively. Thus, only 36.7% of the local SME owners and 18.5% of the foreign SME owners have an intention to grow their

business. The poor growth interest of foreign-owned SMEs observed in this study contradicts the findings of Cooney and Flynn (2008). Cooney and Flynn (2008), in their nationwide study of foreign owned businesses in Ireland, reported a significant majority of the foreign-owned businesses in the study to have intention to grow their business within the following years.

One factor for the higher number of locally-owned SMEs showing growth interest compared to foreign-owned SMEs could be access to financial resources needed for growth. Fatoki (2013) found access to sufficient financial resources as one of the predictors of growth for foreign-owned SMEs in South Africa. However, foreign SMEs struggle to find financial resources. According to Khosa and Kalitanyi (2014:213), although finding funding is not easy for all SMEs, this problem is especially profound for businesses owned by foreigners. Kalitanyi (2007) notes that in many cases, foreign business owners in South Africa face difficulty in opening bank accounts and thus have limited access to financial services offered by the banks. Therefore, foreign-owned SMEs may not have access to the financial resources they need to grow their business. Another factor that can cause the notable difference in growth intention between the two groups is the ongoing xenophobic attacks. In South Africa, the ongoing xenophobic attacks on foreign-owned businesses have a detrimental effect on the SMEs (Khosa & Kalitanyi, 2014:212). The instability caused by the attacks can also explain the lack of interest which the foreign SME owners have toward growth.

This section analysed the growth intention of SMEs. From the results it is evident that not all SMEs are interested in growth. The results of this study are in line with previous studies (Delmar, 1996; Gundry & Welsch, 2001; Wiklund & Shepherd, 2003) on the growth intention of SME owners, which also concluded the little interest SME owners have for growth. Furthermore, a study by Davidson (2010:64) also revealed that that most businesses have no plans for growth. The lack of interest in growth of SME owners coupled with the alarming percentage of owners who predicted their business might shut down in the next few years is an urgent call for concern for a country that is reliant SMEs to create much needed jobs. The next section analyses the impact which growth intention has on actual growth.

## 5.7 Growth intention and SME growth

A linear regression test was used to test the relationship between growth intention and SME growth. In order to test the significance of the regression test, this study used a 95%

confidence level. This means that for the tests to be accepted, the p-value has to be less than 0.05 (Nuzzo, 2014:151). The analysis of the variance test was conducted to see the significance and fits of the model (Table 5-17).

**Table 5-17 Significance of the model on the relationship between market orientation and SME Growth**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>Regression</b>	592.968	1	592.968	43.894	.00
<b>Residual</b>	2755.872	204	13.509		
<b>Total</b>	3348.840	205			

As per the results shown in Table 5.17, the p-value for this model is 0.00 which is less than 0.05. Therefore, the model is statistically fit and significant. Having established that the model is fit and significant, the regression results on the relationship between growth intention and SME growth is presented in Table 5-18 below.

**Table 5-18 Linear regression result- relationship between growth intention and SME growth**

<b>Model</b>	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t</b>	<b>Sig</b>
<b>Growth intention</b>	.413	.060	.463	6.909	.00

The results of the linear regression show that there is a significant ( $p=0.00$ ) relationship between growth intentions and SME growth. Consequently, the growth intention of an SME owner determines actual growth. Furthermore, the result indicates  $b=4.13$  indicating a positive relationship between growth intention and SME growth. This shows that as growth intention of SMEs increases, their growth potential also increases. The results are similar to previous studies (Hoxha & Capelleras, 2013; Morrison *et al.*, 2003; Wiklund *et al.*, 2009) that found that growth intention has a significant influence on SME growth. Wiklund *et al.* (2009), after examining different factors that can influence small business growth, found growth intention to have a strong influence on actual growth. Morrison *et al.* (2003) also concluded that growth intention is amongst the key distinguishing features that have to be in place for a small business to grow. In addition, a study on determinants of small business growth by Hoxha and Capelleras (2013), reported that growth intentions are not only important for growth, but also essential for businesses to achieve fast growth.

Growth intention is a determinant of actual growth. SME owners have to first have an intention to grow their business in order for them to act by aligning financial and non-financial resources necessary for actual growth. Without growth intention, however, it is hard for businesses to experience any growth as growth is not something that naturally happens to all businesses. Thus, the lack of growth intention of SME owners in South Africa can be amongst the factors that attribute to the stagnant SME growth in the country. In the next section, factors that influence networking are analysed and presented.

### 5.8 Factors influencing networking of SMEs

This section of the questionnaire attempted to identify if personal characteristics, firm characteristics and business characteristics have an influence on networking. A Pearson's correlation test was used in order to find out which of the variables should be considered as factors that have an influence on networking. After running the test, it is first important to determine if there is a significant relationship between the variables. The p-value measures the level of significance. A 5% level of significance was used in this study. In other words, the p-value of the results is compared with a significance level of 0.05. If the p-value is less than or equal to 0.05 it was concluded that a relationship exists between the variables. Afterwards, the correlation coefficient (r) was examined to see if there is a strong or weak relationship between the variables. A correlation coefficient (r) closer to -1 or +1 means the two variables are closely related (Coakes, 2005). In contrast, when r is close to 0, it means the two variables are weakly correlated (Coakes, 2005). The results are presented in Table 5.19 below.

**Table 5-19 Factors that influence networking**

Variables			General Networks	Managerial Networks	Social Networks	Ethnic Networks	Networking
Personal characteristics	Age	r	-0.03	0.00	-0.06	-0.02	-0.08
		P-value	<i>0.64</i>	<i>0.99</i>	<i>0.37</i>	<i>0.82</i>	<i>0.25</i>
	Gender	r	<b>0.19</b>	0.05	0.08	-0.13	0.09
		P-value	<b>0.01</b>	<i>0.49</i>	<i>0.24</i>	<i>0.06</i>	<i>0.22</i>
	Education	r	<b>0.37</b>	-0.07	-0.01	-0.07	0.06
		P-value	<b>0.00</b>	<i>0.29</i>	<i>0.86</i>	<i>0.35</i>	<i>0.38</i>
Firm characteristics	Size of the business	r	0.08	<b>-0.14</b>	-0.08	-0.03	-0.04
		P-value	<i>0.24</i>	<b>0.05</b>	<i>0.25</i>	<i>0.69</i>	<i>0.58</i>

cs	Age of the business	value					
		r	<b>-0.29</b>	<b>-0.28</b>	-0.10	<b>0.19</b>	<b>-0.21</b>
	P-value	<b>0.00</b>	<b>0.00</b>	0.16	<b>0.01</b>	<b>0.00</b>	
<b>Business characteristics</b>	Market orientation	r	<b>0.58</b>	-0.01	<b>-0.16</b>	<b>-0.23</b>	0.04
		P-value	<b>0.00</b>	0.90	<b>0.02</b>	<b>0.00</b>	0.58
	Competitive intelligence	R	<b>0.40</b>	<b>-0.15</b>	-0.07	<b>-0.16</b>	0.00
		P-value	<b>0.00</b>	<b>0.03</b>	0.35	<b>0.02</b>	0.96

Table 5.19 shows that, in terms of general networking, the personal characteristics that are statistically significant are gender ( $p=0.01$ ) and education ( $p=0.00$ ). They have a positive correlation with general networking with  $r=0.19$  and  $0.37$  respectively. That is, the more educated the SME owner, the more he/she participates in networks. Similar to this study, Machirori and Fatoki (2013) have established a positive relationship between gender and education of SME owners and general networking, meanwhile they found no relationship between age of the SME owner and networking. From firm characteristics, age of the business with  $p$ -value of  $0.00$  was found to have a negative correlation ( $r=-0.29$ ) with general networking. This means that there is a negative correlation between participation of the SMEs in general networks and age of SMEs. Conversely, Machirori and Fatoki (2013) found business age and size to have a positive influence on general networking. On the other hand, business characteristics of market orientation ( $p=0.00$ ) was found to have a positive correlation ( $r=0.58$ ) with general networks. Likewise, the findings of Li (2005:437) show that managers of a market-oriented business made more effort to form ties with government officials. However, Li (2005:437) further noted a positive relation between market orientation and ties with managers of other businesses unlike this study. Additionally, competitive intelligence ( $p=0.00$ ) was also found to have a positive correlation ( $r=0.40$ ) with general networks.

For managerial network participation, the only factors that have significant influence are size of the business ( $0.05$ ), age of the business ( $p=0.00$ ) and competitive intelligence ( $p=0.03$ ). They were all found to have a negative correlation with managerial networking, size of the business with  $r=-0.14$ , age of the business with  $r=-0.28$  and competitive intelligence with  $r=-0.15$ . Thus, participation in managerial networks decreases with the age of SMEs. Also, SMEs that practice competitive intelligence are less likely to engage in managerial

networking. In addition, as business size increases, participation in managerial networks decreases. Contrary to the results of this study, Machirori and Fatoki (2013) found that age and size of the SME do not influence managerial networking.

Regarding social networks, only market orientation ( $p=0.02$ ) was found to be significant, with a negative correlation (0.16). As a firm becomes more market-oriented, its participation in social networks decreases. None of the personal characteristics of the SME owner (gender, age and education) and firm characteristics of SMEs (business age and number of employees) had a statistically significant influence on social networking. Perhaps since social networks emanate from the SME owners' personal relationships, they may have more to do with the personality of the SME owner and not the characteristics they were tested against. The results are similar to the findings of Machirori and Fatoki (2013) who established that gender and age of the SME owner as well as business age and business size do not influence social networking. Machirori and Fatoki (2013), however, found education to have an influence on social networking, unlike this study.

In terms of participation in ethnic networks, age of the business ( $p=0.01$ ), market orientation ( $p=0.00$ ) and competitive intelligence ( $p=0.02$ ) were statistically significant. Age of the business has a positive correlation with ethnic networking ( $r=0.19$ ), whilst competitive intelligence ( $r=-0.16$ ) and market orientation ( $r=-0.23$ ) have a negative correlation. The reason could be that the more SMEs practice market orientation and competitive intelligence, the more they adapt to systematic way of conducting their business instead of relying on ethnic network, which tend to be more informal.

With regards to overall networking, however, the only variable that was found to be statistically significant was age of the business with p-value of 0.00, with a negative correlation. This means that there is an inverse relationship between the two variables. As the age of the SME increases its networking activities decrease and vice-versa. The findings of this study contradict the results of a study conducted by Huang *et al.* (2003) and Leroy (2012). Huang *et al.* (2003) reported a positive link between networking activities and the age of a business whilst Leroy (2012), on the other hand, did not find any significant relationship between the two variables. This study found that age, gender and education as personal characteristics of the owner do not have an influence on networking. Similar to the outcomes of this study Leroy (2012) found that age of an SME owner does not influence networking. Also, King *et al.* (2007) argue there is no difference between younger and older business

owners in their usage of networks. However, contrary to the result of this study, Daniel (2004) and Klyver and Grant (2010) reported the influence which gender has on networking. In addition, unlike the result of this study, Leroy (2012), Greve and Salaff (2003) as well as Machirori and Fatoki (2013) established a positive relationship between education and networking. In terms of the influence which size of an SME has on networking, the result of this study is similar to that of Harvie *et al.* (2010) who also established that business size does not influence networking. Having established factors that influence networking, the study will examine the relationship between networking and SME growth in the following section.

### 5.9 Networking and SME growth

This section tests the relationship between networking and SME growth. Firstly, linear regression was used to test the relationship between the different types of networking and overall SME growth. Linear regression helped the researcher test whether general, managerial, social and ethnic networks have an invert or increasing effect on SME growth. The results are presented in Table 5.20.

**Table 5-20 Linear Regression results - relationship between networking and SME growth**

<b>Model</b>	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>T</b>	<b>Sig.</b>
<b>General networks</b>	0.03	0.11	0.02	0.32	0.75
<b>Managerial networks</b>	-0.11	0.07	-0.10	-1.48	0.14
<b>Social networks</b>	0.06	0.08	0.05	0.80	0.43
<b>Ethnic networks</b>	0.26	0.09	0.18	2.77	<b>0.01</b>

The last column of Table 5.20 shows statistical significance (p-value) of the relationship between the type of networks and SME growth. The p-value is expected to be less than or equal to 0.05 for a significant relationship to be there between tested variables. Conversely, if the p-value is greater than 0.05, then the relationship is not significant. According to Table 5.20, general networks, managerial networks and social networks have no significant relationship with the SME growth with P-value of 0.75, 0.14, and 0.43 respectively. In other words, these three networks have insignificant contribution towards the growth of SMEs. The results vary from the findings of Leroy (2012), who established that general, managerial and social networks have a positive impact on SME growth. Ethnic networks significantly related to the growth of SMEs with the p-value of 0.01. The b-value (0.26) is the intercept of the

growth of SME and ethnic network, by which it implies the increase of ethnic network, enhances the growth of SME. For one unit increase in ethnic networking, SME growth increases by 0.26. Next, Pearson’s correlation test was performed to establish the relationship between overall networking and SME growth. The results are presented in Table 5.21 below.

**Table 5-21 Pearson’s correlation- relationship between overall networking and SME growth**

<b>Growth measures</b>		<b>Networking</b>
<b>Change in net profit/year</b>	R	-0.02
	P-value	<i>0.80</i>
<b>Change in total amount of sale/month</b>	R	-0.03
	P-value	<i>0.65</i>
<b>Change in equipment/asset</b>	R	0.06
	P-value	<i>0.38</i>
<b>Change in number of customers</b>	R	<b>0.17</b>
	P-value	<b>0.01</b>
<b>Change in number of employees</b>	R	<b>0.15</b>
	P-value	<b>0.03</b>
<b>Growth in market share</b>	R	0.02
	P-value	<i>0.75</i>

Table 5.21 depicts the Pearson’s relation correlation results on the relationship between networking and each of the growth measures. By looking at the p-value, it can be observed that networking is positively correlated with change in number of customers (p=0.01) and change in number of employees (p=0.03). Networking has a positive relationship with both growth measures. As networking increases, the SMEs’ growth as measure by number of employees and number of customers increases. The findings are relevant because SMEs are considered as a significant contributor to South African GDP. Through networking, SMEs can enhance their growth and improve the role they play towards the economic development of the country. In addition, the direct positive impact which networking has on the increment of number of employees is highly momentous. It shows that by using networking SMEs can

grow their business in terms of number of employees, and thereby creating more jobs. This is much needed solution for the high rate of unemployment in South Africa.

The positive impact which networks were found to have on SME growth are similar to previous studies (Leroy, 2012; Premaratne, 2002; Thrikawala, 2011), which also found networking to be an important vehicle for growth. Premaratne (2002) looked at the influence of networking on sales growth, increase in profitability and market expansion of SMEs and found that networking improves small enterprises' performance. Thrikawala (2011), by using sales growth, business progress and previous year financial outcomes to measure growth measures, established that networking is an important element of SME growth. Also, a study conducted by Leroy (2012) in South Africa analysed the impact which networks have on SME growth, measures of sales, profitability, satisfaction with performance compared to competitors, and overall SME performance, and concluded that there is a significant positive relationship between networks and SME performance.

It is, however, important to note that not all networks have equal importance for growth, and also that not all networks impact growth positively (Peng & Luo, 2000). Generally, there are other factors to be considered in order to determine the type of network that is vital for business growth. This is because each type of networks can be ideal in different situation. For instance factors such as location of an SME, the industry which it operates in and whether it is owned by a local or a foreigner can dictate the type of network that positively impacts the SME. This was evident in the analysis that followed, which looked at the relationship between SME growth and types of networks in terms of locally-owned and foreign-owned SMEs. Subsequently, a Pearson's correlation analysis was conducted to see how networking affects foreign-owned and locally-owned SMEs individually. Pearson's relation correlation coefficient ( $r$ ) measures the strength of linear relationship between type of networks and SME growth for both local and foreign-owned. The p-value is a measure of statistical significance that determines the likelihood by which the relationship between two variables happened by chance (Nuzzo, 2014). If the relationship shows p-value less than or equal to 0.05 or 5%, the relationship is unlikely to happen by chance and is statically significant (Nuzzo, 2014). Therefore, by conducting a Pearson's correlation test, a significance level of 0.005 or 5% was used to establish the relationship between different types of networks and SME growth. Growth was examined by making use of net profit growth, sale growth, asset growth, customer growth, employee growth and the growth of market share growth measures, the

researcher analysed the relationship between the change in each parameter with different types of networking for locally-owned and foreign-owned SMEs. The results of the Pearson's correlation are presented in Table 5.22 below.

**Table 5-22 Relationship between networking and locally-owned/foreign-owned SME growth**

SME Growth measures		Locally-owned				Foreign-owned			
		General Networks	Managerial Networks	Social Networks	Ethnic Networks	General Networks	Managerial Networks	Social Networks	Ethnic Networks
Change in net profit/year	R	-0.14	<b>0.20</b>	<b>-0.22</b>	<b>-0.22</b>	0.03	-0.03	-0.07	0.13
	P-value	<i>0.16</i>	<i>0.05</i>	<i>0.03</i>	<i>0.03</i>	<i>0.76</i>	<i>0.77</i>	<i>0.46</i>	<i>0.20</i>
Change in total amount of sale/month	R	-0.05	0.00	-0.10	<b>-0.20</b>	-0.01	-0.14	-0.12	<b>0.19</b>
	P-value	<i>0.64</i>	<i>0.99</i>	<i>0.33</i>	<i>0.05</i>	<i>0.90</i>	<i>0.14</i>	<i>0.23</i>	<i>0.05</i>
Change in equipment/asset	R	-0.06	0.05	-0.08	-0.16	-0.02	-0.06	0.14	<b>0.34</b>
	P-value	<i>0.55</i>	<i>0.63</i>	<i>0.42</i>	<i>0.12</i>	<i>0.85</i>	<i>0.55</i>	<i>0.14</i>	<i>0.00</i>
Change in number of customers	R	0.03	<b>0.32</b>	0.11	0.09	-0.04	0.02	0.14	0.09
	P-value	<i>0.80</i>	<i>0.00</i>	<i>0.26</i>	<i>0.39</i>	<i>0.67</i>	<i>0.84</i>	<i>0.14</i>	<i>0.37</i>
Change in number of employees	R	0.01	<b>0.24</b>	0.16	-0.09	-0.02	-0.04	0.07	<b>0.20</b>
	P-value	<i>0.89</i>	<i>0.02</i>	<i>0.13</i>	<i>0.38</i>	<i>0.81</i>	<i>0.72</i>	<i>0.47</i>	<i>0.04</i>
Growth in market share	R	-0.15	0.13	-0.10	0.01	-0.04	-0.03	-0.01	0.14
	P-value	<i>0.13</i>	<i>0.19</i>	<i>0.31</i>	<i>0.93</i>	<i>0.69</i>	<i>0.77</i>	<i>0.88</i>	<i>0.15</i>

Table 5.22 shows the analytical result for the relationship between networking and SME growth in terms of locally-owned SMEs and foreign-owned SMEs. According to the results, it has been observed that there is a significant relationship between the change in profit per year and social network, ethnic network and managerial network, with a p-value of 0.03, 0.03 and 0.05 respectively, on locally-owned SMEs. Although a significant relationship was observed, the relationship between change in profit per year and social network and ethnic network is weak negative relationship with the r-value of -0.22 each; which means social and ethnic networks negatively impact the change in profit for locally-owned SMEs. Managerial networks, on the other hand, have a positive relationship with profit change per year but still weak with r-value of 0.20. General networks from locally-owned SMEs side and all other types of networks listed under foreign-owned SMEs side, such as general, managerial, social and ethnic networks, have not shown statistical significance, with the p-value ranging from 0.16 to 0.77. In other words, the relationship between the types of networks listed and change in profit per year might happen by chance, not because any of the networks have deliberate impact on the change in profit. With that being said, managerial networks can be advised to local SME owners to gain change of profit in their business. Although the impact is not that big, it can contribute as one of the factors to boost their business.

Out of the four networks examined in the study, only ethnic networks and the change in total amount of sale per month have a significant relationship from both locally-owned and foreign-owned SMEs with p-values of 0.05 and 0.05, which means that the probability of random occurrence of this relationship is 5%. When it comes to the strength of the relationship, local SMEs' ethnic networks have a weak negative relationship, whilst foreign-owned SMEs' ethnic networks have a very weak positive relationship, with r-value of -0.20 and 0.19 respectively. Although, for foreign-owned SMEs, ethnic networks have depicted a positive relationship with the change in sale per month, it is not strong enough to provide advice to the foreign-owned SMEs to strengthen their ethnic networks in exchange for having a boost in their sales per month.

Asset growth was one of the SME growth measures employed in the study. The relationship between asset growth and ethnic network from foreign-owned SMEs' side were found statistically significant among the rest of the networks with the p-value of 0.00. The strength of the relationship is a moderate positive relationship with an r-value of 0.34. Foreign-owned SMEs' ethnic networks have a positive impact on change in equipment's per asset growth. The other types of networks from foreign-owned SMEs, such as general, managerial and

social networks and from locally-owned SMEs, such as general, managerial, social and including ethnic networks, have statistically no significant relationship with asset growth with a p-value fluctuating between 0.12 and 0.85.

The relationships between customer growth and types of networks were analysed and presented in Table 5.22. According to the result, only managerial networks from locally-owned SMEs have significant relationships with the change in number of customers, with the p-value of 0.00. A moderate positive relationship was perceived between number of customer growth and managerial networks on locally-owned SMEs with r-value of 0.32. Local SMEs' managerial networks have a positive influence on number of customer growth and hence managerial network is important for South African-owned SMEs to increase number of their customers, which are basically one of the key stakeholders in any type of business. Apart from the managerial network from the locally-owned SMEs side, all types of networks did not show a significant relationship with customer growth i.e. their p-value was greater than 0.05, ranging from 0.14 to 0.84. Growth in number of employees was also adopted as one of the growth measure parameters. In terms of its relationship with different types of network, a significant relationship has been observed with managerial networks (p-value 0.02) and ethnic networks (p-value 0.04) from locally-owned SMEs and foreign-owned SMEs respectively. However, the strength of the relationship between the growth of number of employees with managerial networks and ethnic networks is a weak positive relationship with r-value of 0.24 and 0.20 respectively. Ethnic networks from foreign-owned SMEs and managerial network from locally-owned SMEs can help contribute to the growth of employees in their respective businesses, but they did not appear to be strong elements to lift the SMEs in terms of employee number. Finally, growth in market share has shown no significant relationship with types of networks listed, either from local or foreign-owned SMEs. The p-value ranges from 0.13 to 0.88.

Overall, in Table 5.22, it has been observed that two different network types relatively significantly related with growth measures; managerial networks for local SMEs and ethnic networks for foreign SMEs. Managerial networks have positive impact on net profit growth, number customer growth and number of employee growth with r-value of 0.20, 0.32 and 0.24 respectively. Similar to the findings of this study, Li (2005) found that managerial networking has a positive impact on business performance. Consequently, managerial networking is recommended for locally-owned SMEs as one element to help grow their business. On the other hand, ethnic networks have shown impact on sale growth,

asset growth and employee growth for foreign-owned SMEs with r-value of 0.19, 0.34 and 0.20 respectively. Similar findings of this study, Sequeira and Rasheed (2006) suggested that for foreign business owners, participating in ethnic networks is critical to success. In addition, Salaff *et al.* (2002) and Chen (2000) established the importance which ethnic networks have for the success of immigrant Chinese businesses. Moreover, after conducting a study on the impact of ethnic networks on business growth for Chinese business owners in Australia, Ho (2010) concluded that participation of Chinese business owners in ethnic networks was positively related to business growth. Therefore, ethnic networks are highly advised for foreign-owned SMEs to grow their business as part of their overall growth strategy.

## 5.10 Chapter summary

The purpose of this chapter was to present the empirical results of the study. The chapter firstly presented the response rate of the study. It was reported that out of the 500 questionnaires distributed, only 206 questionnaires were filled out properly and returned. This was followed by the presentation of the findings from the reliability analysis. Cronbach's Alpha reliability analysis was conducted to test the reliability of the questions that were added up in order to conduct further analysis. The results were acceptable and were thus valid for further analysis.

Next, by analysing the questionnaires, personal characteristics of the SME owners, the characteristics of the business, as well as the firm characteristics of the SMEs were illustrated and discussed using figures, tables and charts. The results showed that the majority of the SMEs in South Africa are owned by individuals who are male between the ages of 31 and 40, who have completed high school. The results also showed that the majority of the SMEs do not have a systematic practice of market orientation or competitive intelligence. With regard to the firm characteristics of SMEs, it was observed that the larger part of the SMEs operated in the food, beverage and tobacco sector. Most of the SMEs were found to be very new, having been in operation between 1 and 3 years. Additionally, the predominance of the SMEs had between 6 and 10 employees. The chapter then presented the empirical findings on the networking activities of SMEs. The most common networks were found to be social networks and managerial networks, which were also rated as the most helpful networks by most SMEs with regard to financial assistance, moral support, access to resources, cost minimization, marketing and business information. The importance which ethnic networks have for SMEs in areas, such as cost reduction on the cost of raw materials or goods, getting credit from

suppliers, overcoming language barriers, informal banking, forming contact with important suppliers and forming contact with important customers was then established. Here, it was also noted that ethnic networks are especially important for foreign-owned SMEs.

Afterwards, findings on growth intentions were reported in which the lack of growth interest of SMEs was noted. This was followed by a linear regression test conducted to identify the influence of growth intentions on actual growth of SMEs. It was established that the intention of the SME owner is amongst the important factors that determine actual growth of SMEs. Then, Pearson's correlation test was used to identify factors that influence the networking of SMEs. Regarding general networking, gender and education were found to have a positive influence with general networking, whilst age of the business was found to have a negative correlation with general networking. On the other hand, participation in managerial networks was found to increase with the age of SMEs. Also, SMEs that practice competitive intelligence are the more likely to engage in managerial networking and participation in managerial networks decreased with increase in size of the SMEs. Regarding social networks, it was found to be negatively correlated to market orientation. In terms of participation in ethnic networks, age of the business, market orientation and competitive intelligence were found to be statistically significant. Business age had a positive correlation with ethnic networking, whilst competitive intelligence and market orientation were found to be negatively correlated. When looking at factors that influence overall networking, the only variable that was found to be statistically significant was age of the business it was found to have an inverse (negative) relationship with networking

The last section of this chapter analysed the impact which networking has on SME growth. First, linear regression was used to establish the influence which general business networks, managerial networks, social networks and ethnic networks have on SME growth. From the results it was evident that only ethnic networks had a positive impact on overall SME growth. Next, Pearson's correlation was used to test the overall influence which networking has on each of the growth measures, namely net profit growth, sale growth, asset growth, customer growth, employee growth and the growth of market share. The results showed the positive impact which overall networking has on increase in number of customers and increase in number of employees for SMEs. Lastly, the influence which each type of network has on foreign- and local SMEs was examined separately. Managerial networks were found to benefit locally-owned SMEs, whilst social networks and ethnic networks had a negative

effect on the SMEs. On the other hand, ethnic networks had a positive impact on foreign-owned SMEs.

Based on the main findings presented above, the next chapter presents the conclusions and recommendations of the study.

## Chapter 6 Conclusion and recommendation

### 6.1 Introduction

The previous chapter presented the research findings. In the chapter, empirical findings of this study were presented and discussed. This chapter concludes the study by summarizing the findings and providing recommendations. The chapter is presented in four themes. The first section will provide a brief summary of the theoretical and empirical findings of the study. The second section will discuss how the objectives of the study were addressed. The third section presents recommendations drawn from the main findings of the study, and the fourth and final section suggests areas that require further research.

### 6.2 The literature review revisited

The literature review was covered in chapters two and three. Below, the main findings of each literature chapter are summarized.

#### 6.2.1 Small and medium enterprises (SMEs)

In chapter two, a literature review on SMEs was presented. Firstly, the concept of entrepreneurship, entrepreneurs and individual approaches to understanding the entrepreneur were discussed. The topic was deemed important, because entrepreneurs are the creators of SMEs. Entrepreneurs were defined as individuals who identify opportunities, gaps or unmet needs in the market, and try to meet these identified needs by creating a new business. Next, the discussion focused on SMEs. Definitions of SMEs from an international as well as a South African context were presented. Here, it was observed that the definitions of SMEs differ across countries, amongst industries and amongst organizations. Therefore, there is no worldwide standard definition of SMEs. Subsequently, a specific definition of SMEs was used in this study. The study used the quantitative definition of The National Small Business Act 102 of 1996 of South Africa which uses the number of employees to classify the size of SMEs (Government Gazette of the Republic of South Africa, 2003). In this regard, small businesses in this study refer to businesses that have a maximum of fifty employees, whilst medium enterprises refer to businesses with a maximum of two hundred employees.

In assessing the importance of the SME sector in South Africa, it was clear that the sector plays an enormous role in the country's economy. SMEs contribute to more than half of the country's GDP and employ the majority of the labour force (Abor & Quartey, 2010:223). Thus, the growth of SMEs is necessary to eradicate the economic challenges which the

country is currently facing, such as unemployment. As a result, there are various support programmes, policies and organizations set up by the South African government to improve their performance. Amongst these organizations are The Ministry of Small Business Development, Khula Enterprise and The Small Enterprise Development.

Hereafter, the concept of SME growth was discussed. In this discussion, Stochastic, Descriptive, Deterministic and Learning Approaches of SME growth were explained. According to the stochastic approach, business growth is a random phenomenon that can result from various factors and thus there is no dominant theory to explain the phenomenon. The main focus of the Descriptive Approach is on how small businesses adapt internally in order to grow. The Descriptive Approach uses stages models to depict the dynamic nature of business growth. The Deterministic Approach uses a set of observable industry and firm-specific characteristics to explain small business growth. The final approach to SME growth, the Learning Approach, argues that learning creates knowledge that is essential for growth. The main objective of the Learning Approach is thus to identify how and when SME owners can learn most effectively.

In the discussion that followed, factors that impact SME growth were identified. Previous literature (Levie & Autio, 2013; Wiklund *et al.*, 2009) showed that the growth intention is a significant predictor of actual growth. It was thus argued that actual growth requires the active pursuit of the SME owner and that it is not a process that automatically happens. In addition to growth intention, other determinants of growth are management strategies, characteristics of the entrepreneur, characteristics of the business, and environmental or industry-specific factors.

The last section of the chapter focused on measurement of SME growth. SME growth measures were discussed after being grouped into financial, strategic, structural, organisational and image measures. This study measured growth using growth indicators of increase in net profit, total amount of sale, equipment or assets, number of customers, number of employees and growth in market share. The chapter on SMEs was followed by a literature review on networking. The main points in the literature chapter on networking can be summarized as follows.

### **6.2.2 Networking**

Chapter three of this study focused on networking. Networks or networking denotes any relationship or tie which a business, the employees of the business or the owner has with its

competitors, other businesses, customers, suppliers or other organizations, which involves cooperation and collaboration which is mutually beneficial to all members. There are different theories on networking, including the Transaction Cost Approach, Resource Dependency Approach and Social Network Theory. The main difference in the approaches lies in their reasoning on how networks are created. The Transaction Cost Approach explains that transaction costs are reduced when distributed amongst network members, as opposed to the higher cost each business would incur without the networks. The second type of networking approach, which is the Resource Dependency Approach, argues that businesses are not resource sufficient by themselves. As such, they have to rely on one another by forming networks to overcome this challenge. Social networks, on the other hand, focus more on the social interactions and relationships a business owner has which result in networks.

The analysis of literature on networks further showed that there are different types of networks. This study focused on social networks, general networks, managerial networks and ethnic networks. Social networks refer to social ties that are created by business owners through social interactions with other people. These include ties with family, relatives, friends, as well as ties with social associations and clubs. General business networks, on the other hand, are networks which businesses have with organizations (governmental or non-governmental) that provide assistance, as well as networks with business consultant firms. The third type of network discussed in this chapter is managerial networks. Managerial networks refer to networks created and maintained by managers or business owners with suppliers, customers and other similar businesses (competitors). In addition, the chapter discussed ethnic networking. Ethnic networks were defined as links among individuals of the same ethnic background as a way of narrowing the gap in information, cost, risk and uncertainty to trade by building trust and substituting for difficulty of enforcing contracts internationally.

Next, factors that influence the networking of SMEs were reviewed. Accordingly, the three factors that were most relevant to SMEs are personal characteristics, business characteristics and firm characteristics. Under personal characteristics, characteristics of the SMEs' owners that may have influence on networking were identified. They are the age, gender and educational background of the owner. Market orientation and competitive intelligence characteristics of the business were then discussed as they can also influence the networks of SMEs. Lastly, firm characteristics of the age and size of a business, along with the influence they may have on networking were explained.

The final section of the literature chapter on networking looked at the impact which networking has on the growth of SMEs. Networking contributes towards SME growth by assisting in areas such as financing, marketing, reduction of raw material cost, and moral support. Now that the literature on SMEs and growth factors as well as networking has been summarized, it is important to look at the empirical finding of the current study.

### **6.3 Summary of empirical findings**

The research findings, presented in chapter five, are summarized in the following sub-headings.

#### **6.3.1 Response rate**

Out of the 500 questionnaires distributed, 206 were returned fully completed. Thus, the percentage of questionnaires that were fully completed and usable was 41.2%. The respondents constituted 47.6% South African, 4.4% Nigerian, 6.3% Ghanaian, 5.8% Senegalese, 19.4% Ethiopian, 3.9% Eritrean and 12.6% Somalian SME owners.

#### **6.3.2 Characteristics**

In this section, characteristics of the SMEs as well as the SME owner were presented. The main findings are summarized as follows.

##### **6.3.2.1 Personal characteristics**

Firstly, the results presented findings on the age, gender and education level of the SME owner. It was important to look at these personal characteristics because of the key role which SME owners have in running their business. Looking at the results in this study, it was observed that men own more of the SMEs than women do. It was also observed that the preponderance of SME owners/managers were between the ages of 31 and 40 years of age, and have completed high school. This indicates that most SMEs are run by individuals who have a low level of education, which creates a concern as these individuals might lack the required knowledge and skill necessary to successfully run a business.

##### **6.3.2.2 Firm characteristics**

When looking at the results on firm characteristics, the three main sectors which SMEs engage in were found to be the food, beverage and tobacco sector, followed by the clothing sector and cosmetics or hair salons. In addition, a significant number of SMEs were found to be less than seven years of age. This indicates that most of the SMEs that are currently in operation were established in recent years. With regard to the number of employees, most SMEs were found to have 6-10 employees. The small number of employees in SMEs

indicates that the SME sector is not growing and achieving its full potential. Thus, the inability of the SME sector to create ample jobs could be a contributing factor to the high unemployment rate in South Africa.

### **6.3.2.3 Business characteristics**

Here, business characteristics of market orientation and competitive intelligence were analysed. From the results it was observed that most SMEs do not engage in the practice of market orientation and competitive intelligence. Market orientation and competitive intelligence are practices by which businesses conduct market analysis and use the information to transform their business into a more competitive, customer-oriented business which creates superior customer value for customers. Consequently, although the SMEs may have informal ways of analysing their market and implementing changes accordingly, they can go further by adopting methodical market-orientation and competitive intelligence practices.

### **6.3.3 SME growth**

In evaluating results on the current state of SMEs, it was observed that SMEs in South Africa are not growing. Most SME owners rate their business performance as poor to average. Moreover, the SME owners do not have a positive inclination towards the future of their business. This can explain the lack of growth intention perceived in the SME owners, as the preponderance of SME owners were not planning to grow their business.

#### **6.3.3.1 Growth intention and SME growth**

The influence of growth intention on SME growth was examined here. It was seen that growth intention is a determinant of actual growth. Without growth intention, it is unlikely that businesses experience any growth. Thus, the little interest shown by SME owners towards growth was regarded as highly concerning, as the sector is expected to grow and to absorb the increasing unemployment rate in the country.

The role of networks in the growth of SMEs was then analysed. In the discussion, more than three quarters (80.7%) of the respondents identified one or more types of networks that helped them grow their business. The foreign SME owners identified networking with family and friends as the most important network, followed by supplier networks. On the other hand, the majority of the locally-owned businesses identified the network with family or relatives, networks with friends and social associations and clubs as networks that have played an important role in their growth. Furthermore, ethnic networks were found to be useful in

reducing the cost of raw materials or goods, as well as assisting SME owners in overcoming language barriers, creating important contact with suppliers and customers. In addition, the results showed that ethnic networks formed with suppliers is important for increasing credit facilities. The importance of ethnic networks was more profound for foreign-owned businesses compared to their local counterparts.

#### **6.3.4 Networking**

Next, results on networking of SMEs were presented. SMEs' participation in networks was first explored. The results showed that the preponderance of the SMEs do not participate in general business networks. General business networks consist of networks with governmental or non-governmental organizations that provide assistance for small businesses and networks with business consultant firms. The SMEs in this study showed low levels of participation with regard to networking with professional associations, governmental agencies, non-governmental agencies and business consultants. Also, the majority of the SMEs do not have a relationship with ethnic networks, such as ethnic associations or clubs, ethnic financial institutions and ethnically-based business to business relations.

Conversely, most SMEs participate in managerial (networks with suppliers, customers and competitors) and social networks (networks with family/relatives, friends and social associations/clubs). This finding was followed by the presentation of results on the SME owners' perception on the importance of networks. In helping SMEs minimize cost, networks with suppliers, were indicated as being of utmost importance. The results showed that networks with family and relatives were regarded as an important source of financial assistance by most SME owners, whilst a network with friends was important for consultation, access to business information, resources and moral support. Furthermore, networks with customers was helpful for marketing. Word of mouth can increase the number of customers SMEs generate.

##### **6.3.4.1 Factors that influence the networking of SMEs**

This section examined the influence which personal characteristics (SME owner's age, gender and educational level), firm characteristics (business size and age) and business characteristics (market orientation and competitive intelligence) have on networking of SMEs. Overall, networking was found to have no correlation with any of the personal and business characteristics. However, the results showed a negative correlation between overall

networking and business age. With regard to general business networking, it was found to be positively correlated to gender, education, market orientation and competitive intelligence characteristics. Meanwhile, business age was found to negatively influence general business networking. In addition, from the results it was observed that managerial networks were negatively correlated to business size and business age and competitive intelligence. The only characteristic, from the characteristics examined in this study that seemed to influence social networking was market orientation. Negative correlation was found between social networking and market orientation. Lastly, ethnic networks were found to be positively correlated to age of the business and negatively correlated to market orientation and competitive intelligence.

#### **6.3.4.2 Networking and SME growth**

The relationship between networking and SME growth was examined in this section. First, linear regression was used to test the relationship between the different types of networking and overall SME growth. The results showed that only ethnic networks had a significant, positive relationship with SME growth. Next, a Pearson relation correlation test was conducted to determine the relationship between overall networking and each of the growth measures. The results showed that networking has a significant positive influence on change in number of customers and change in number of employees. Then, the impact of networking on local and foreign-owned SMEs was analysed separately. To analyse the influence of networking on the growth of local and foreign-owned SMEs, Pearson's correlation test was used. The outcome showed that managerial networks had a significantly positive influence on the growth of profit, number of customers and employees of locally-owned SMEs. Conversely, social networks and ethnic networks have a significantly negative relationship on the profit of local SMEs. Foreign-owned SMEs, on the other hand, were found to be positively affected by ethnic networks.

### **6.4 Achievement of Objectives**

The objectives of the study are presented along with the corresponding findings.

#### **6.4.1 Primary objective**

The primary objective of this study was to find out what role networks play in the growth of SMEs. Four types of networks namely general business-, managerial-, social- and ethnic networks were tested to see if overall networking had any relationship with SME growth. SME growth was measured using change in profit, sale, equipment/asset, number of customers, number of employees and growth in market share as indicators. Networking was

found to have a significantly positive relationship with the change in the number of customers and change in the number of employees. This shows the contribution which networking makes to SME growth, with regard to the increase in the number of customers and the increase in the number of employees. Thus, it was concluded that overall networking has a positive impact on SME growth.

The results are in line with previous literature (Hill, McGowan & Drummond, 1999; López-García & Puente, 2009; Machirori, 2012; Stam & Schutjens, 2005; Thrikawala, 2011) which identified networking as a tool for SME growth. Furthermore, this study also identified how networks contribute toward SME growth. Networking was found to be an important tool by which SMEs can access financial assistance from formal and informal financial sources. Networks increase the legitimacy of SMEs (Fatoki & Garwe, 2010) and thereby improve their chance to obtain loans from formal financial institutions. Through networks SMEs can also receive financial assistance from informal sources such as loans or grants from family, friends, social clubs, as well as informal financial institutions. Additionally, SMEs may not have adequate financial- and human resources to collect business information. Thus, the use of networks enables them to receive important business consultation and information at a much lower cost. Networks also contribute to the marketing activities of SMEs by distributing information about SMEs through word of mouth, which also results in increase in number of customers. Moreover, networks aid SMEs with resources such as human resources and also with moral support. Yet, another way networks grow SMEs is by helping them minimize cost. By forming networks amongst each other, SME owners can enjoy reduced transactional cost and achieve economies of scale. Therefore, networks are essential vehicles by which SME owners can grow their business.

#### **6.4.2 Secondary objective**

The study had four secondary objectives. The findings of each of the objectives are discussed below.

##### **6.4.2.1 To establish the determinants of SME growth**

Although this study focused on networking as a determinant of SME growth, there are also other factors that impact the growth of SMEs. The different growth determinants identified from previous literature were discussed in chapter two under section 2.8 of this study. Determinants of SME growth were grouped and discussed under four main groups, similar to

those of Smallbone and Wyr (2000). They are management strategies, characteristics of the entrepreneur, characteristics of the business and environmental/industry specific factors.

- Management strategies are the operational and developmental strategies of the SME owners or managers, such as growth objectives, employee recruitment and development, product market development, financial resources, internationalization and business collaboration, flexibility, business collaboration and networking.
- Characteristics of an entrepreneur refer to characteristics such as the entrepreneur's motivation, educational background and previous experience.
- Characteristics of the business refer to profile of the business, such as its age and size.
- Environmental or industry specific factors refer to factors related to the environment of a business, such as social factors, culture and family, and industry-specific factors which refer to external constraints or opportunities that arise in the market like demand or supply variation.

Whilst the above determinants of SME growth were identified, it was also noted that none of these factors can solely determine the growth of business by them. The growth of an SME requires the balanced combination of the determinants of growth discussed above. That being said, this study focused on networking as one of the critical determinants of SME growth and identified it to have a positive relationship with growth.

#### **6.4.2.2 To assess to what extent ethnic networks affect SME growth**

Linear regression was used to test what impact ethnic networks have on SME growth. The results showed ethnic networks to have a positive impact on SME growth. Furthermore, the result of the linear regression showed that the B-value (the intercept of the growth of SME and ethnic network) is 0.26. This implies that for every one unit increase in ethnic networking, SME growth increases by 0.26.

However, care should be taken when generalizing the importance of ethnic networks. As it will be further seen in the next section (6.3.2.3), the type of networks that enhance growth can be dependent on factors such as the country of origin of the SME owner.

#### **6.4.2.3 To determine which type of networks are essential for the growth of SMEs**

Ethnic networks were found to be significant for the growth of foreign-owned SMEs. These networks result in growth in sales, growth in equipment/asset and growth in number of employees, thereby contributing to overall growth. Managerial networks, which are networks

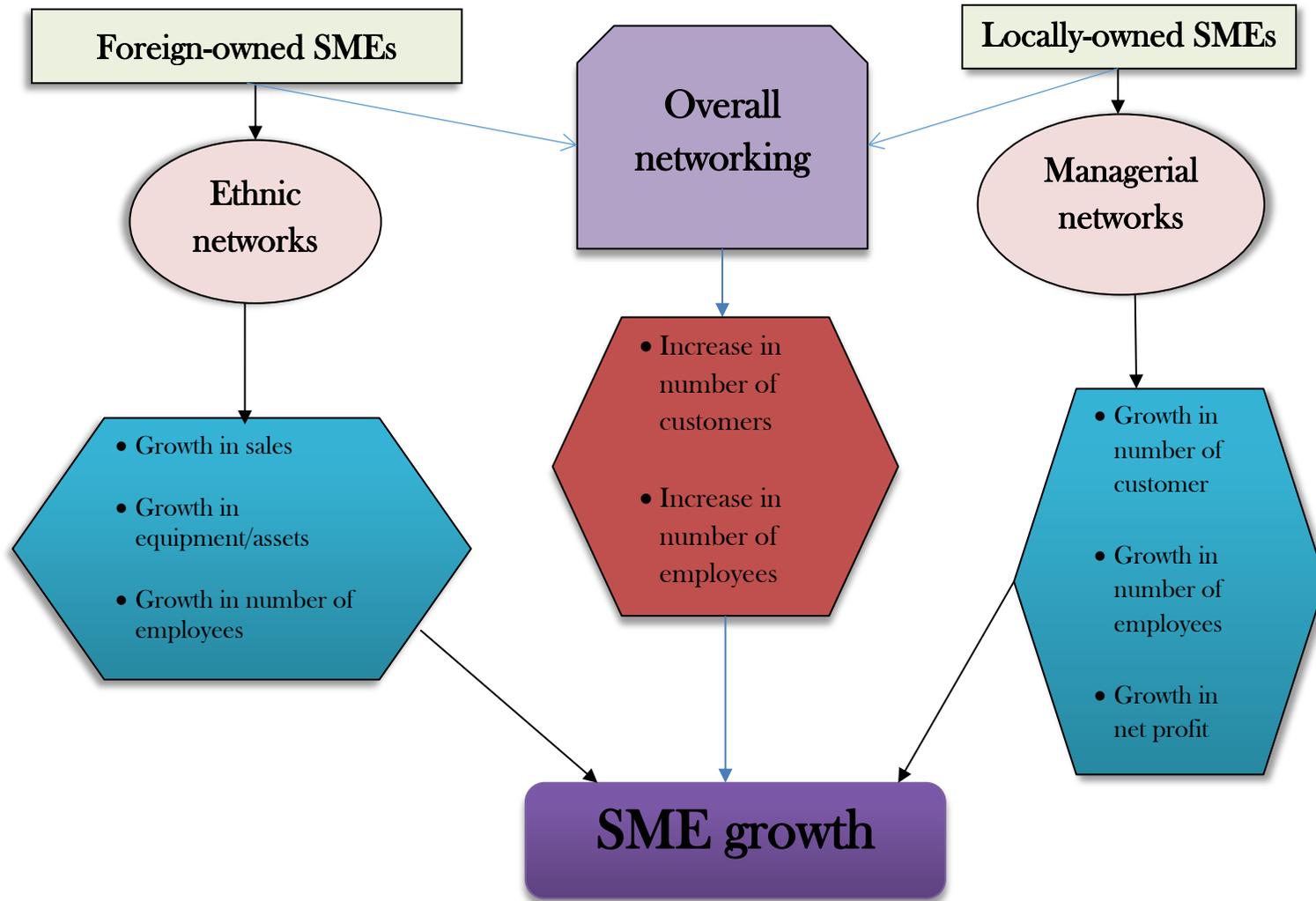
with suppliers, customers and other similar businesses or competitors, were found to be significant for the growth of local SMEs by contributing to growth in number of customers, growth in number of employees as well as growth in net profit.

The reason for the variation in the type of networks that were found to grow local and foreign-owned SMEs may be that foreign SMEs face barriers more profoundly than their local counterparts. In establishing and running their business, foreign SME owners are often faced with cultural-, language-, financial- and information barriers as a result of their relatively new status in the country. Therefore, in the face of these challenges, participating in networks with other individuals who share their culture and experience provides them with emotional support. The ethnic networks also assist them in the areas of reduction of cost of raw materials, overcoming language barriers, providing them with informal banking, as well as forming contact with important suppliers and customers. As a result of the listed assistance which the foreign businesses receive, the foreign SMEs can improve their performance. The local SMEs, on the other hand, are more familiar with the business environment which they operate in. Thus, it is more beneficial for them to network with their suppliers, customers and their competitors.

#### **6.4.2.4 To establish a conceptual framework linking key networks that can enhance SME growth**

The main findings of this study are summarized in the conceptual framework (Figure 6.1). The conceptual framework shows the relationship between networking and the growth of SMEs in general, locally-owned SMEs and foreign-owned SMEs. Regarding SMEs in general, networks were found to have a positive relationship with the business growth measures of the number of customers and the number of employees. Furthermore, managerial networks were found to be especially significant for the growth of locally-owned SMEs. Ethnic networks, on the other hand, were found to be especially significant for the growth of foreign-owned SMEs. A positive relationship was also established between networking and the growth in the number of customers, the growth in the number of employees and the growth in the net profit of locally-owned SMEs. Meanwhile, a positive relationship was established between ethnic networks and growth of foreign-owned SMEs in areas of growth in sales, equipment/asset and number of employees. Figure 6.1 below illustrates the conceptual framework.

Figure 6-1 Conceptual framework linking key networks that can enhance SME growth



## 6.5 Recommendations

Recommendations are made for SME owners, government and organizations that provide assistance to SMEs based on the findings of the study.

### 6.5.1 Recommendation for SME owners

Networks play an enormous role in growing SMEs. Networks provide SMEs with financial assistance, consultation or business information, lower costs and easier credit facilities. In addition, networks help SMEs increase their number of customers and provide them with easy access to external resources. Consequently, for SME owners to optimize the benefits of networking, they are strongly encouraged to actively build and participate in networks.

Furthermore, from the different types of networks examined in this study, local SME owners are especially encouraged to engage in managerial networks, i.e. networks with their suppliers, customers and other similar businesses (competitors). The foreign-owned SMEs, on the other hand, are strongly encouraged to participate in ethnic networks. This is because managerial networks were found to have a significant positive impact on the growth of local SMEs, whilst ethnic networks positively impact the growth of foreign-owned SMEs.

There are different ways in which SME owners can build networks. Networks can be built in the everyday social interactions that SME owners and employees engage in. Through socialization, SMEs can create networks with others which mutually benefit both parties. In addition to their normal every day interactions, SME owners can also actively pursue opportunities and take actions in order to build and interact in networks. For example, SMEs can participate in trade fairs, industrial meetings, business seminars and workshops which will allow them to get more exposure and meet with new customers, suppliers and other important parties in the industry. Another way in which SMEs can identify good networking opportunities is by participating in training and workshops arranged by organizations which support small businesses. Local business chambers are also important networking agents for local SMEs. In this way, the business owners gets to know their competitors as well as better ways to survive in the area of business. Such exposure allows SMEs to receive critical information on support programmes and policies that affect them and also the organizations that are put in place to assist them.

### **6.5.2 Recommendation for government and organizations that provide assistance to SMEs**

South African government recognizes the importance of the SME sector for economic growth. Thus, the government has put in place organizations that provide SMEs with financial and non-financial assistance. Some of the organizations include Khula Enterprise Finance Ltd, Small Enterprise Development Agency (SEDA), Industrial Development Corporation (IDC) and Department of Small Business Development (SBD). However, the result of this study reveals that very few SMEs maintain relationships with these institutions. One reason for the low participation of SMEs in networks with these organizations is that most SMEs are unaware that such organizations exist (Leroy, 2012; Maas & Herrington, 2006). This indicates the need for these institutions and the government to raise awareness of the presence of the organizations, and also of the services provided by them. As a result, the organizations should launch an intensive promotion program to raise awareness of their existence and the work they do. Moreover, convenient workshops should be prepared to allow SMEs to receive in-depth knowledge about the assistance that is in place for them. The organizations should also provide easy and accessible information regarding the benefits which SMEs can receive from networking with the institutions. These organizations are strongly advised to organize network formation activities which bring SME owners together, such as seminars and trade fairs. In addition, by hosting activities such as seminars, the organizations can educate SME owners on the benefits of networking. The activities will enable SME owners to promote their business as well as helping them to form useful links with chief players in the industry. These organizations should also link up and get actively involved with activities hosted by business chambers. These organizations and business chambers should cooperate to assist SMEs.

Moreover, the results of this study showed that in spite of the organizations set up by government to assist SMEs, the main source of financial and non-financial resources for SMEs are managerial- and social networks. SMEs also depend on these two networks more than the governmental agencies for assistance and information. Accordingly, it is recommended that policy makers look for ways in which they can approach SMEs and extend their services through networks which the SMEs actively use. For instance, the governmental organizations can collaborate with social and managerial networks to offer SMEs manifold training that will help

them boost their business. Additionally, as social and managerial networks are the main sources of information for SMEs. These networks can be utilized by the organizations to spread awareness about the services which they render.

## 6.6 Areas for future research

It should be noted that whilst this study has made contributions in understanding networking and the role which it plays in the growth of SMEs, there are some limitations which lay the foundation for future research. For instance, the data for this study was collected from only three regions of the Mangaung Metropolitan Municipality. Accordingly, the applicability of the findings to other areas is not known. Therefore, future research can include a broader region with a larger sample size in order to ascertain if the present findings are applicable to the broader population of SMEs. In addition, this study examined the influence which personal characteristics, business characteristics and firm characteristics have on SME networking. However, there are also other factors that influence the networking of SMEs, such as necessity, reciprocity, efficiency, stability, number of suppliers, market strategy, political influence, internationalization, personal characteristics, business characteristics and firm characteristics (Farinda *et al.*, 2009; Lama & Shrestha, 2011). In this regard, future research can incorporate other factors in order to have a better understanding of the factors that influence the networking of SMEs. Moreover, foreign business owners from six countries (Nigeria, Ghana, Senegal, Ethiopia, Eritrea and Somalia) were used in this study. Thus, future research can include foreign business owners from non-African countries. This will further enhance the understanding of the difference in the use and importance of networking between locally-owned and foreign-owned businesses.

Furthermore, the lack of interest in growth by SME owners reported in this study is alarming. Growth intentions have a notable significance for the actual growth of a business. This gives an indication that the growth potential of SMEs in South Africa is being hampered due to the lack of growth intention by their owners. Hence, further research should investigate why the SME owners lack an interest in growing their business.

## 6.7 Summary

This chapter presented the conclusions and the recommendations of the study. Firstly, a brief review of the previous five chapters of the study was presented. The chapters included the introduction chapter, the two literature chapters on SMEs and networking, and the chapter analysing the research results. The main findings of each chapter were highlighted. The suggested recommendations were then constructed for SMEs as well as for government and organizations that provide assistance to SMEs. The last section elaborated on areas that were identified in this research for other research studies to investigate.

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## ADDENDUM 1

### Questionnaire

**November 2014**

**Dear respondent**

Thank you for agreeing to participate in this survey. This research is conducted to identify the role networks play on the growth of small and medium enterprises. The information gathered will only be used by the researcher for the purpose of the study. It will be treated with the strictest confidentiality. The researcher is conducting the study in accordance with the requirements for the degree in development studies, at the University of the Free State. Please be as accurate and as honest as possible in answering all the questions. Your cooperation is highly appreciated.

If you have any further queries please feel free to contact me.

[nnardii@yahoo.com](mailto:nnardii@yahoo.com) / 084 445 1891

Thank you for your co-operation

**Researcher:** Nardos T. Desta

N.T Desta

**Co-supervisor:** Dr. Deidre *van Rooyen*



A handwritten signature in black ink, which appears to be "Rooyen", is written over a horizontal line.

**Section A: Personal characteristics**

*(Please mark the appropriate box with an X)*

**1. Gender:**

Male	
Female	

**2. Age:**

≤20	
21-30	
31-40	
41-50	
≥51	

**3. What is your nationality? (by place of birth) \_\_\_\_\_**

**4. Highest formal educational qualification: please indicate by marking X**

No formal education		Diploma	
Grade 1-7		Bachelor's Degree	
Grade 8-12		Master's Degree	
High School Professional Education		Doctoral Degree	
If other, please specify:			

**Section B: Firm Characteristics**

**5. What is the main activity your business is involved in? \_\_\_\_\_**

**6. How many years has your business been in existence? \_\_\_\_\_ Years**

**7. Where is your business located?**

Bloemfontein		Thaba 'Nchu		Botshabelo	
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**8. How many employees do you have in your business? ( both part time and full time employees)**

0- 5 people		6- 10 people		11-50 people		51-120 people		>120	
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**Section C: Business Characteristics**

**9. Market Orientation: Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level**

**1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree**

Statements					
We meet with customers at least once a year to find out what products or services they will need in the future.	1	2	3	4	5
We collect industry information by informal means (e.g., lunch with industry friends, talks with trade partners)	1	2	3	4	5
We often talk with or survey those who can influence our end users' purchases (e.g., retailers, distributors)	1	2	3	4	5
We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers	1	2	3	4	5
Our business unit periodically circulates documents (e.g., reports, news- letters) that provide information on our customers	1	2	3	4	5
When something important happens to a major customer of market, the whole business unit knows about it within a short period	1	2	3	4	5
Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis	1	2	3	4	5
We have interdepartmental meetings at least once a quarter to discuss market trends and developments	1	2	3	4	5
We are quick to respond to significant changes in our competitors' pricing structure	1	2	3	4	5
We periodically review our product development efforts to ensure that they are in line with what customers want	1	2	3	4	5
Our business plans are driven more by technological advances than by market research	1	2	3	4	5
If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately	1	2	3	4	5
When we find out that customers are unhappy with the quality of our service, we take corrective action immediately	1	2	3	4	5

**9. Competitive intelligence: Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level**

**1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree**

Statements	1	2	3	4	5
we gather information about your competitors and the competitive environment and, use it in your planning processes and decision-making in order to improve the performance of your business (awareness of competitive intelligence)	1	2	3	4	5
Our employees understand what competitive intelligence is	1	2	3	4	5
We practice competitive intelligence in our business	1	2	3	4	5
We know the prices of our competitors' products or services	1	2	3	4	5
We gather competitive intelligence for decision-making	1	2	3	4	5
We know who our competitors' customers are	1	2	3	4	5
We know our competitors' strengths and weaknesses	1	2	3	4	5
We know who our competitors' suppliers are	1	2	3	4	5
We hire people or other businesses to collect information on our behalf.	1	2	3	4	5
We have competitive intelligence professionals in our business	1	2	3	4	5
We have a computerized competitive intelligence system	1	2	3	4	5
Competitive intelligence provides us with competitive advantage over our rivals.	1	2	3	4	5
We have a formalized competitive intelligence process	1	2	3	4	5
We collect information about our competitors and analyse it.	1	2	3	4	5
Our managers support competitive intelligence practice	1	2	3	4	5

**Section D: Networking**

**10. Which of the following do you have a business relationship with? ( Please tick all the applicable boxes); and if so please rate the strength of the relationship by marking X in the appropriate box**

	Business relationship	Strength of the relationship				
		Very Weak	Weak	Adequate	Strong	Very strong
Professional associations such as chamber of commerce						
Government agencies that support businesses						
Non-governmental agencies that support businesses						
Business consultants						
Competitors or similar businesses						
Suppliers						
Customers						
Relationship with friends regarding your business						
Relationships with your family and relatives regarding your business						
Relationships with social associations or clubs regarding your business						

**11. Please indicate which of the following networks have helped you get financial assistance in block one, provided you with consultation or business information in block two, assisted you in your marketing activities such as promotion and advertisement in block three, minimize the cost you incur in conducting your business in block four, helped you receive more customers in block five, assisted you with accessing resources in block six and provided you with moral support in block seven (you may tick more than one box)**

	Financial assistance	Consulting/ business information	Marketing	Minimizing cost	More customers	Access to resources	Moral support
Professional associations							
Government agencies							
Non-governmental agencies							
Business consultants							
Competitors or similar businesses							
Suppliers							
Customers							
Friends							
Family and relatives							
Social associations or clubs							

**12. Has your business shown any growth since its initial start-up?**

Yes		No	
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*If you have answered "No" to the question above please skip the next two questions (13 & 14)*

**13. If any of the following relationships have played a role in helping you grow your business, please indicate with a tick (you may tick more than one box).**

Professional associations	
Government agencies	
Non-governmental agencies	
Business consultants	
Competitors or similar businesses	
Suppliers	
Customers	
Friends	
Family and relatives	
Social associations or clubs	

**14. Which of the following parties do you have a business relationship with? ( you can tick more than one option); and if so please rate the strength of the relationship by marking X in the appropriate box**

	Business relationship	Strength of the relationship				
		Very Weak	Weak	Adequate	Strong	Very strong
Associations or clubs formed on the basis of cultural group						
Financial institutions formed on the basis of cultural group						
Business to business relations formed on the basis of cultural group						

*If you have **not** ticked on any of the business relationships to question number 15 above please skip the following question two questions (16 & 17).*

**15. Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level**

**1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree**

Your business growth relies much on your relationship with your cultural group	1	2	3	4	5
Individuals in your cultural group help each other grow their business	1	2	3	4	5
Your cultural group has helped guide you enhance your competitive position	1	2	3	4	5
Your cultural group has helped you identify profitable market segments	1	2	3	4	5

**16. Please indicate if your cultural group has been helpful to your business in the following areas (Please tick all the applicable boxes)**

	No help at all	Slightly helpful	Fairly helpful	Very helpful
Reduce the cost of raw materials or goods				
Overcome language barriers during business transactions				
Informal banking				
Form contact with important suppliers				
Form contact with important customers				

**17. Do your main suppliers belong to your own cultural group?**

Yes		No	
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*If "No" please skip the next question*

**18. If yes, is it easier to get credit facilities from them?**

Yes		No	
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**Section E: Growth intentions**

**19. Assume you have received a one million rand grant for your business that can use at your discretion. Please assign percentages of the money you will assign to the following six options.**

Pay suppliers	%
Pay debt	%
Buy out a business	%
Grow the business	%
Start new business	%
Deposit in the bank.	%
<b>Total</b>	<b>100%</b>

**20. Which of the following reflect the future of your business the best:**

	<b>Please tick relevant description</b> <i>(TICK ONLY ONE)</i>
Will most certainly close down	
Considers closing down	
Will continue in current mode	
Plan moderate business expansion	
Plan large-scale business expansion	

**21. What is the likelihood that your business will engage in the following activities in the following two years? Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level**

**1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree**

Statement					
Adding a new product or service	1	2	3	4	5
Selling to a new market	1	2	3	4	5
Adding operating space	1	2	3	4	5
Expand its distribution channels	1	2	3	4	5
Expanding advertisement and promotion	1	2	3	4	5

**Section F: Business growth**

**22. Please rate your business performance for 2014, five years ago and the expected performance in five years from now**

	Please rate business performance with				
	1 = very poor 2=poor 3=Average 4=good and 5 = Very good				
Current (2014)	1	2	3	4	5
Five years ago	1	2	3	4	5
Five years from now	1	2	3	4	5

**23. Please indicate approximately your business results of the last year, by marking an X on the most appropriate answers**

Indicators	Decrease >20%	Decrease 10- 20%	Stable	Increase 10-20%	Increase > 20%
Net profit/ year	1	2	3	4	5
Total amount of sale/ month	1	2	3	4	5
Equipment/ Assets	1	2	3	4	5

Number of customers	1	2	3	4	5
Number of employees	1	2	3	4	5
Growth in market share	1	2	3	4	5

**24. How many people were working with you when you started this business?**

\_\_\_\_\_

**25. How many people are working with you now?** \_\_\_\_\_

**26. Can you please provide the reason for the change or lack thereof in the number of employees you have?**

\_\_\_\_\_

\_\_\_\_\_

**THANK YOU FOR YOUR COOPERATION!!**

## ADDENDUM 2

### Results from correlation matrix

Correlation matrix among market orientation variables

Correlations													
	MO1	MO2	MO3	MO4	MO5	MO6	MO7	MO8	MO9	MO10	MO11	MO12	MO13
MO1	1												
MO2	.414**	1											
MO3	.393**	.229**	1										
MO4	.243**	.242**	.210**	1									
MO5	.003	.095	.098	.317**	1								
MO6	.056	.114	.167*	.173*	.218**	1							
MO7	.181**	.235**	.170*	.058	.145*	.028	1						
MO8	.052	.077	.159*	.053	.183**	.286**	-.033	1					
MO9	-.011	.005	-.112	-.152*	-.103	.081	.194**	-.117	1				
MO10	.088	.165*	.267**	.065	.197**	.397**	.129	.164*	.237**	1			
MO11	-.060	-.058	.176*	.051	.160*	.114	.113	.023	.366**	.513**	1		
MO12	.142*	.046	.188**	.117	.198**	.452**	.145*	.327**	.208**	.319**	.305**	1	
MO13	.074	.154*	.158*	.183**	.113	.232**	.296**	.343**	.054	.128	.192**	.373**	1

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

Correlation matrix among competitive intelligence variables

Correlations															
	CI1	CI2	CI3	CI4	CI5	CI6	CI7	CI8	CI9	CI10	CI11	CI12	CI13	CI14	CI15
CI1	1														
CI2	.219**	1													
CI3	.816**	.255**	1												
CI4	.085	.326**	.071	1											
CI5	.078	.177*	.147*	.146*	1										
CI6	.097	.113	-.052	.154*	.187**	1									
CI7	-.121	.004	.116	.172*	.184**	.096	1								

CI8	.142*	.303**	.128	.239**	-.026	.228**	.157*	1							
CI9	.072	-.043	.123	.127	.264**	.153*	.292**	.049	1						
CI10	.019	.243**	.070	.306**	.247**	.005	.393**	-.001	.130	1					
CI11	.007	.118	.081	.336**	.295**	.108	.291**	.177*	.237**	.544**	1				
CI12	.029	.251**	.109	.271**	.349**	.116	.391**	.241**	.109	.545**	.403**	1			
CI13	.158*	.392**	.245**	.313**	.370**	.231**	.282**	.224**	.167*	.284**	.322**	.526**	1		
CI14	.155*	.211**	.192**	.402**	.353**	.145*	.277**	.122	.205**	.495**	.462**	.517**	.515**	1	
CI15	.028	.169*	.077	.168*	.248**	.029	.169*	.072	.256**	.375**	.224**	.349**	.322**	.516**	1

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

Correlation among growth intentions variables

Correlations					
	GI1	GI2	GI3	GI4	GI5
GI1	1				
GI2	.554**	1			
GI3	.454**	.439**	1		
GI4	.340**	.417**	.431**	1	
GI5	.482**	.597**	.388**	.533**	1

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

Correlation among growth measure variables

	Change in net profit/year	Change in total amount of sale/month	Change in equipment/asset	Change in number of customers	Change in number of employees	Growth in market share
Change in net profit/year	1					
Change in total amount of sale/month	.701**	1				
Change in equipment/asset	.377**	.544**	1			
Change in number of customers	.480**	.501**	.451**	1		

<b>Change in number of employees</b>	.240**	.387**	.544**	.380**	1	
<b>Growth in market share</b>	.391**	.472**	.593**	.591**	.419**	1
**. Correlation is significant at the 0.01 level (2-tailed).						