THE EFFECT OF SOCIAL CAPITAL ON THE GROWTH OF MEDIUM ENTERPRISES IN KENYA

BY

OBONYO, RICHARD OKELLO

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017
STUDENT’S DECLARATION

I, the undersigned, declare that this project report is my original work and has not been submitted to any other college, institution or university other than the United States International University-Africa for academic credit.

Signed:……………………………………………….Date:………………………………..

OBONYO, Richard Okello (ID No. 649368)

This project has been presented for examination with my approval as the appointed supervisor.

Signed:……………………………………………….Date:………………………………..

Prof. George K’Aol

Signed:……………………………………………….Date:………………………………..

Dean, Chandaria School of Business
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ABSTRACT

The general objective of the study was to establish the effect of social capital on the growth of medium enterprises in the service sector in Kisumu City, Kenya. To achieve this objective, the study was guided by the following specific objectives; to determine the effect of structural social capital on the growth of medium enterprises, to determine the effect of relational social capital on the growth of medium enterprises and thirdly, to determine the effect of cognitive social capital on the growth of medium enterprises in Kisumu City.

The study adopted a descriptive correlation research design. The population consisted of 142 CEOs or persons in charge of key departments of registered medium enterprises operating in the service sector in Kisumu City. Stratified sampling technique was used to sample 116 CEOs from the total population, however only 102 out of the 116 responded. A structured questionnaire was adopted as data collection tool. Data was analysed using descriptive statistical techniques which included frequencies and percentage distributions, mean and standard deviation. Inferential statistical techniques were also used and this included Pearson correlation and regression analysis. Data was analyzed using SPSS as a tool and the results and findings were presented in figures and tables.

The findings on the effect of structural social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between structural social capital and growth of medium enterprises, \( r (102)=.296, p<.05 \). The results of the linear regression indicated that structural social capital explained 8.7% of the variability of medium enterprises growth \( (R^2=0.087, F(1,99)=9.48, p<.05) \). The regression coefficient findings revealed that structural social capital predicted the growth of medium enterprises \( (\beta=0.228, p<0.5) \). This implies that one unit increase of structural social capital would lead to an increase of 0.228 units of the growth of the medium enterprises.

In relation to the effect of relational social capital on the growth of medium enterprises, the results showed that there was a statistically significant positive correlation between relational social capital and growth of medium enterprises, \( r(102)=.631, p<.05 \). The linear regression results indicated that relational social capital explained 39.9% of the variability of medium enterprises growth \( (R^2=0.399, F(1,100)=66.32, p<.05) \). The regression coefficient findings revealed that relational social capital predicted the growth of medium enterprises \( (\beta=0.696, p<0.5) \).
This implies that one unit increase of relational social capital would lead to an increase of 0.696 units of the growth of the medium enterprises.

The findings on the effect of cognitive social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between cognitive social capital and growth of medium enterprises, \( r(102)=.408, p<.05 \). The results of the linear regression indicated that cognitive social capital explained 16.7% of the variability of medium enterprises growth \( (R^2=0.167, F(1,100)=19.99, p<.05) \). The regression coefficient findings revealed that cognitive social capital predicted the growth of medium enterprises \( (\beta=.491, p<0.5) \). This implies that one unit increase of cognitive social capital would lead to an increase of 0.491 units of the growth of the medium enterprises.

It was concluded that most medium enterprises have a preference for network diversity among its employees and there has been an increased growth in customer network over the years although engagement in social organizations did not in any way influence the increase but the growing customer network size had positively impacted sales volumes for the firms. The high bonding relationships between employees has also constituted to the low employee exit rate in the firms. Some firms share same business goals and values with key suppliers and the medium enterprises care for what their customers need.

The study recommends that management of the firms need to take time to participate in social organizations as such activities would help in marketing and networking of the business. Medium enterprises should maintain a high level of trust between in the firm and the customers. The firms also need to continue sharing their business goals and values with key suppliers and customers on what is in the best interest for both parties. Finally, the study recommends that similar studies should be done in other Counties in Kenya to enable an in-depth understanding on the use of social capital on the growth of medium enterprise across the Republic of Kenya.
ACKNOWLEDGEMENTS

To the Almighty God, am sincerely grateful for your grace and wisdom throughout the study period. Further, I like to thank and acknowledge the efforts of a number people who made it possible to successfully complete this study. First, I wish to express my unqualified thanks to my supervisor, Prof. George K’Aol for his guidance and mentorship throughout this process. My sincere gratitude to Mr Joshua Oyieko and Mr Joshua Nyangidi for their support, encouragement and professional guidance. I am also indebted to my fellow colleagues at Panafcon, my friends Ephraim Odero, Rev Joseph Akulu among many for their relentless support throughout the period of study. And not forgetting the role played by Kevin Lanyo, Thomas, Shem and Austin to make the field research study successful.

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May God Bless You All!
DEDICATION

To the Almighty God, my beloved family, colleagues and friends for all their love, patience, kindness and support throughout the study period.
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<tr>
<td>CBD</td>
<td>Central Business District</td>
</tr>
<tr>
<td>DCED</td>
<td>Donor Committee for Enterprise Development</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, Small, and Medium Enterprises</td>
</tr>
<tr>
<td>OECD</td>
<td>The Organization for Economic Cooperation and Development</td>
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<tr>
<td>GoK</td>
<td>Government of Kenya</td>
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<td>SC</td>
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<td>USIU-A</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

SMEs, by number, dominate the world business stage and it is estimated that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). Japan is said to have the highest proportion of SMEs among the industrialised countries, accounting for more than 99% of total enterprises (EIU, 2010). Estimated data for the 27 countries in the European Union for 2012 account for 99.8% of all enterprises, employ 67% of all workers and contribute 58% of gross value added in the GDP (EIU, 2010). India had 13 million SMEs in 2008, equivalent to 80% of all the country’s businesses (Ghatak 2010). While in Malaysia, the SMEs contribute to about 34% to the country’s national GDP.

Similarly, the SME sector is crucial to Africa’s performance, contributing more than 45% to employment and 33% to GDP (KEPSA, 2016). In South Africa, it is estimated that 91% of the formal business entities are SMEs (Abor & Quartey, 2010). According to SMEDAN (2010), micro, small and medium enterprises account for over 90% of the total business enterprises in Nigeria and have been noted to provide about 85% of employment. Small enterprises in Ghana are said to be a characteristics feature of the production landscape and have been noted to provide about 85% of employment in Ghana. MSMEs contributes to the Ghana’s GDP and account for approximately 92% of businesses in Ghana.

Along with globalisation, market competition has become ever more relentless. In a highly competitive market, where the competitive landscape is constantly shifting, firms have to continuously recreate, reconfigure and renew their resources and capabilities to ensure survival (Hou, Chang, & Lin, 2014). Previous studies have revealed that the capabilities required to achieve and sustain competitive advantages in this type of market are different from the earlier concepts such as core competence etc (Prahalad & Hamel, 1990). According to Le Van, Nguyen and Nguyen (2014), the challenges faced by the SMEs is caused mainly by lack of capital as it is one of the major elements that support the entrepreneurs in their production and business activities. The more capital firms own, the easier they improve quantity and quality of their tools and machines, consequently the higher profitability level they could achieve.
Today, in the sophisticated economies, the concept capital does not simply stand for physical capital, it also implies non-physical resources such as human capital in the form of managerial talent as well as education and training, skills of the labors working in enterprises among others and social capital in the form of social networks, the relationships between individuals, norm, trust that have certain impact on the firm productivity (Le Van et al., 2014).

The term social capital indicates the resources that are available from and through personal and business networks. These personal and business networks generate resources, such as business opportunities, information, financial capital, ideas, leads, emotional support, trust, cooperation, and even goodwill (Muniady, Mamun, Mohamad, Permarupan, & Zainol, 2015). The term social in the social capital context explains the resources belonging to an individual, but they lay in the network of relationships (Baker, 2010). Valenzuela, Arriagada, and Scherman (2012) stated that communities with a high level of civic engagement and social interaction have better means of governance, democracy, and economy. Tzanakis (2013) used the term social capital to describe the resources of individuals that emerge from their social ties and that it differs from financial and human capital, since social capital inheres in interpersonal relations and describes the durable networks which form social resources among individuals and groups as they strive for mutual recognition. Social capital is part of the necessary infrastructure of civic and community life because it generates norms of reciprocity and civic engagement.

Holland (2012) defined social capital as the sum of resources, actual or virtual, that are available to individuals or a group derived from strong network relationships built by mutual acquaintance and recognition. Hau, Kim, Lee and Kim (2013) defined social capital as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit and identified three dimensions of social capital namely: the relational, the structural and the cognitive dimensions of social capital. The structural dimension concerns the properties of the social system and of the network of relations as a whole. Kirkwood (2016) noted that this dimension has been explored in depth, strongly influenced deals with whom you reach and how you reach them.

The structural dimension encompasses network components and facets, such as the presence or absence of ties between parties, the configuration of a network, such as the hierarchy within an organization, and concepts, such as the denseness of relationships, structural holes in networks, the presence or absence of network ties between different people, formal and/or informal (such as appropriable networks) network configuration, and the density and connectivity of a network.
The relational dimension concerns the kind of personal relationships people have developed with each other through a history of interactions. This dimension encompasses the characteristics and qualities of individual relationships. Therefore, issues such as shared history, trust, respect, and friendship are important (Cervone & Pervin, 2015). The relational dimension is associated with the qualities - good or bad, of ongoing relationships. The relational dimension encompasses the character and qualities of the connection between individuals. This is often characterized through trust and cooperation and the identification that a particular individual has within a network of relationships (Muniady et al., 2015).

The cognitive dimension refers to resources that provide shared representations, interpretations, and systems of meaning among parties. This dimension, the least studied of the three, encompasses shared meanings and shared interpretations between parties in a relationship (Zhao, Lu, Wang, Chau & Zhang, 2012). The cognitive dimension captures the concepts of shared norms, systems of meanings and values, and, as such, the cognitive dimension can be expected to directly affect the development of social capital and the development of relationships (Karahanna & Preston, 2013). Golden (2016) asserted that when there is congruence on goals and values and when interpretations are shared by and across organizational partners, the cognitive capital becomes ongoing, cumulatively supportive, and self-reinforcing. The cognitive dimension reflects the concept that separate networks or communities develop unique terms, acronyms, interpretations of numbers, and concepts.

Social capital contributes positively both at individual and also organizational level. At the individual level, networks help people to land a job. Not all individuals secure jobs through formal methods such as advertisement etc. The practice of finding a job through networking is promoted by counselors and outplacement consultants, and people tend to land a better paying job, which is satisfying, and they stay longer at these jobs. The people with better networks are reported to have better pay and tend to be promoted faster (Baker, 2010). At the organization level, social capital helps in securing venture capital as the formal and informal social network provides not only access to information on current investment objects but also opportunities to increase their willingness to invest (Alexy, Block, Sandner, & Wal, 2012). Social capital is also linked to advertising based on word-of-mouth marketing where this method has a better effect when personal recommendation and referrals lead to actual purchase decisions. Social capital is found crucial to potential entrepreneurs who wish to embark on a start-up. The act of meeting other entrepreneurs and building good social capital is important for starting entrepreneurial activities.
For potential entrepreneurs, joining business incubators and entrepreneurial support network is necessary to promote and strengthen entrepreneurship (Neira, Portela, Cancelo, & Calvo, 2013). Neira et al. (2013) also noted the importance of social trust on entrepreneurs as it could improve entrepreneurial intention among the potential entrepreneurs. Social capital encourages organizational development and increases the efficiency of a society. Scholars have also related this concept to economic growth, community development, political participation, and organizational performance at various levels of government (Ofori & Sackey, 2010). A study by Korte and Lin (2012) on the socialization of newcomers in organizations examined typical patterns that newcomers experience when participating in building social capital. Based on their findings they suggested that newcomers should focus on understanding the structure of the groups and relationships already established (structural dimension), find a mentor who facilitates integration into the organization (relational dimension), and learn about the culture and values of the group (cognitive dimension).

Social network research in the past predominantly focused on quantitative studies of network structure (Baer, 2010). Many scholars on the other hand believe that use of a qualitative approach should complement the quantitative findings since a multi-theoretical approach for interorganizational relationship is vital to the understanding of such complex phenomena (Parmigiani & Rivera-Santos, 2011). Social capital has been defined as the actual and potential resources embedded in networking relationships that are accessed and used by actors (for example, managers of business enterprises) for actions (for example, conduct of enterprise business activities) (Eklinder-Frick, Eriksson & Hallén, 2012). The relationships with customers can produce customer contacts, customer loyalty, customer satisfaction, brand awareness and distribution networks.

A study that examined biotechnology SMEs found that those associations utilized social based capital or social capital as one approach to look for upper hand (Clarke & Turner, 2011). Social networking was done through industry clustering and industry associations; government assistance programs; linkages among government departments, research institutions and universities; management and sharing of other resources and the strategic partners. In summary, social capital expedites resources exchange among different units and promotes efficiency within the firm. It also helps to strengthen supplier, customers, and employees relations.

In Kenya, SMEs contributed to about 70% of the GDP in 2011. Despite having SMEs start up on a very high note, there is a high rate of collapse and most enterprises are short lived and barely survive third anniversary (GoK, 2012).
The sessional paper no. 2 of 2015 shows that despite the significant role played by the SMEs, they have continued to experience many constraints like poor access to market and financial services and unfavorable polices. These have inhibited the realization of its full potential (GoK, 2016). A study by Otinga, Maru, and Tarus (2017) on influence of Social Capital and Charismatic Leadership on performance of SMEs in Western Kenya suggested that by having social and economic bonds, SME actors are likely to enhance their resource mobilization and leveraging capacities which in turn can significantly improve their performance towards growth and sustainability.

1.2 Statement of the Problem

In view of the challenges faced by the SMEs globally, several studies have been carried out in pursuit of establishing the effect of social capital on the growth and performance of SMEs. A study by Turner (2011) in the United States of America titled “Social Capital: Measurement, Dimensional Interactions, and Performance Implications”, made several conclusions with regards to the three dimensions of social capital namely; structural, relational and cognitive social capital. For the structural dimension of social capital, he concluded that simply knowing the right people is not enough of a sustainable competitive advantage for firms in today’s challenging business environment and that the structural social capital is the starting point for developing a firm’s supply chain into a sustainable competitive advantage. It is therefore important for each firm to know key contacts at major suppliers – people one can call to help jointly plan – stands to help a firm and the supplier. Last but not least, his findings also suggested that the smaller a firm is, the more challenging it can be to effectively develop structural capital.

With regards to the relational social capital, Turner (2011) found out that while it is important to remain in contact with the right people at the right suppliers, simply knowing the right people is not enough to derive true value from the supply chain. By working to develop a sense of trust and respect, a firm stands to get more out of their supplier than just a product to put on the shelf. Complex forms of firm performance improvement require a sense of trust and respect with supply partners and therefore firms seeking competitive advantage through their supply chain partners will be well served to develop meaningful relationships with a developed sense of trust and respect. And finally on the cognitive social capital, the study also concluded that it is important for firms to find and understand how their goals align with the supplier’s goals.
This approach would lead to a win-win situation with suppliers and can be the key to creating value from the supply chain. The study suggested that the single most important part of a relationship with a supplier is agreeing on what is in the best interest of the relationship (i.e. the path loading between the cognitive and the relational dimension has the highest among the dimensions of social capital). Turner (2011) recommended further study in measuring the cognitive dimension, to investigate the specific mechanisms that lead to a congruence of mindsets between supply chain partners: concepts of shared norms, systems of meanings and values, drilling down into the sub-constructs of each dimension while maintaining the inter-related nature of the three dimensions of social capital. Ofori and Sackey (2010) postulated that in Ghana social capital has been shown to be a useful tool in organisational life, capable of propelling the firm to better performance. To that end, the study recommended that firms take a proactive approach towards promoting, building and maintaining viable social networks within their structures in order to derive maximum benefit from it. They however, recommended future research to examine the extent of influence exerted by the determinants of social capital on organisational performance.

A study conducted in Ethiopia by Mesfin, Mebrahtu, Desalegn and Shamie (2014) concluded that the existence of strong tie among owners of SMEs in areas such as sharing of information, borrowing, giving and receiving of advice, consultation etc help the business owners to cope up hostile situations in time of shocks and crises and hence enhance the growth and expansion of their businesses. Despite the aforementioned positive contributions of business owners’ social capital, still there are a lot of challenges that need to be investigated further and improved on. For example the fight to attract customers, the lack of awareness about team work and the tendency of business owners not to participate in sport, school and community clubs as well as self-centred behaviour of the business owners during the time of economic losses hampered the true motivation of social capital.

A study by Musimba (2012) on the Role of Human and Social Capital in Internationalization of ICT SMEs in Kenya concluded that the survival and performance of a firm are influenced by the firm’s ability to utilize the social capital to the fullest. He draws attention to how connections, relationships and networking in Kenya can be crucially important for SMEs seeking to export or invest abroad. Kipchirchir (2014) in his findings on impact of Social Capital on the performance of SMEs in Nairobi County revealed that social capital affects positively the performance of SMEs.
Mwangi (2012) in his study about Social Capital and Access to Credit in Kenya, indicated that no detailed study has addressed the relationship between social capital and the performance of SMEs and their impact of social network on the overall performance of small enterprises. In addition, previous authors have studied the effects of human capital and social capital on entrepreneurial performance, this has been done by either focusing on the human capital or social capital bit rather than their combination. Thus, the literature related to human and social capital as drivers of growth of entrepreneurship is still relatively limited, with divisions witnessed among authors who argue that they are substitutes of each other while some see them as complements (Santarelli & Tran, 2012).

However, none of the studies above fully elaborate on how the dimensions (structural, relational and cognitive) social capital utilize and maintain network relationships, and how these impacts on growth of medium enterprises. Therefore, a considerable gap exists in the literature with regard to how social capital interacts with human capital to create knowledge for new venture growth. As a result, this study sought to fill these pertinent gaps in literature by studying the effect of the dimensions of social capital (structural, relational and cognitive) on the growth of Medium Enterprises in Kenya.

1.3 General Objectives

The general objective of this study was to establish the effect of social capital on the growth of medium enterprises in Kisumu City, Kenya.

1.4 Specific Objectives

The research study was guided by the following specific objectives:

a) To determine the effect of structural social capital on the growth of medium enterprises.
b) To determine the effect of relational social capital on the growth of medium enterprises.
c) To determine the effect of cognitive social capital on the growth of medium enterprises.

1.5 Justification of the Study

The anticipated achievements of the study are summarized under the following sub-sections.

15.1 SMEs Management

The findings of this study would be invaluable to the small and medium enterprises as they would be able to understand vividly the factors that influence their growth.
The recommendations given in the study would equip the enterprises with adequate tools to get the solutions to the problems posed by the identified factors thereby sustaining their operations.

1.5.2 SMEs Partners

The development partners who are usually interested at helping the medium enterprises grow would have an understanding of a wide variety of factors that affect medium enterprises and the extent to which the identified factors affect medium enterprises. Equipped with the right information, they would be able to develop adequate policies for the benefit of the medium enterprises.

1.5.3 Researchers and Academicians

Researchers and academicians who would like to carry out more studies on medium enterprises will find this study useful as a basis of carrying out more studies in other major towns in Kenya. The findings of this study would form a foundation from which researchers and academicians will formulate their statements and proposals and carry out more studies.

1.5.4 Government and Policy Makers

The study would provide an insight to both County as well as Central Governments on the impact of social capital on the sector and aide the two governments in formulating strategies and policies towards the improvement of business growth at the bottom of pyramid of business establishment’s i.e. MSMEs.

1.6 The Scope of the Study

This study was conducted in July 2017, targeting a population of 116 respondents of the medium enterprises operating in Kisumu City in the services sector. The respondents included the CEO’s or persons in charge of key departments of the medium enterprises.

1.7 Definition of Terms

1.7.1 Small and Medium Enterprises (SMEs)

The World Bank defines Small and Medium Enterprises by use of the number of employees engaged by the enterprise i.e. enterprises with 10 - 49 and 50 - 299 employees are categorized as small and medium enterprises respectively (DCED, 2013).
1.7.2 Firms’ Growth

Firms grow in order to achieve their objectives, including increasing sales, maximizing profits or increasing market share. Firms grow in two ways; by internal expansion and through integration (Penrose, 1955).

1.7.3 Firm Performance

Firm performance is defined as an indicator to what extent a firm’s goals could be accomplished. Even though financial performance constitutes the basis of performance measurement (Clarke & Turner, 2011).

1.7.4 Social Capital

Social capital, the sum of actual and potential resources embedded within (the organization), and accessible via a network of personal relationships and social unit (Daneshpajooh, Bakhtiari, & Masoumi, 2014).

1.7.5 Structural Social Capital

Structural dimension is the total roles, methods and rules created for conducting cooperative activities that mutually beneficial. This includes the appropriate concept of organization, communication network structures, etc. (Nahapiet, 2008).

1.7.6 Relational Social Capital

The relational dimension of social capital is based on the personal relationships created by individuals with other people in turn creates trust and reliability involved in social relationships (Tsai & Ghoshal, 1998).

1.7.7 Cognitive Social Capital

Cognitive social capital can be expressed as collective activities creating mutual benefits including norms, beliefs, attitudes and values. Cognitive social capital is composed as a result of mental processes and reinforced by culture and ideology, especially norms, values, attitudes and thoughts that contribute to cooperative behavior (Evans & Syrett, 2007).
1.8 Chapter Summary

This chapter looked at the background of the study, problem statement, research objectives as well as the significance of the study notwithstanding the definition of terms and the scope of the study. In the subsequent chapter two, a review of the literature that was used in this study is provided, in chapter three the research methodology that was used for the collection and analysis of the primary data in this study is discussed. While chapter four presents the research findings.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on social capital and its effects on the growth of SMEs based on the specific study objectives. It examined the existing knowledge on past studies and research work on the social capital and its dimensions namely; structural, relational and cognitive dimensions and their effects on the performance and growth of small and Medium Enterprises.

2.2 Effect of Structural Social Capital on the Growth of Medium Enterprises

The concept of social capital revolves around the effect and consequences of human interactions and connectedness, and how it is related to individuals and social structure (Tzanakis, 2013). Social capital was even found in the disadvantaged African American community in the early 1990s. It was found that they used both traditional and nontraditional social capital to promote economic outcomes (Cook, 2011). In the case of women entrepreneurs, formal social capital has been proven to bring in more benefits in the sense of growth resources, such as financial resources, when compared with informal social capital (Kickul, Gundry, & Sampson, 2007). It was found that training in production/operations and planning together with formal social capital was present among women entrepreneurs with high growth resources.

2.2.1 Civil Engagement and SME Performance

Recently, more academicians have recognized and agreed upon the benefits of social capital. Carey, Lawson, and Krause (2011) found a significant benefit derived from the relationship between the buyer and the supplier of a company. Based on a sample of 163 respondents, relational social capital mediated the link between cognitive and structural dimension of social capital with performance that was measured as innovation. In the Chinese life insurance industry, social capital was proven to have a strong relationship with objective sales performance. Chen, Zhang, and Fey (2011) found that when human resource practices did not improve performance, social capital came in as a moderator to push individual performance among 984 participants from China. In the less developed regions of the United Kingdom, the government was involved in providing entrepreneurship scholarship.
When the study by Jayawarna, Jones, and Macpherson (2011) was conducted to examine how nascent entrepreneurs performed, it was found that bootstrapping helped and social capital played a significant role in securing bootstrapped resources. There are three dimensions of social capital namely; structural, relational, and cognitive. The structural dimension concerns the properties of the social system and the network of relations. This dimension has been explored in depth, strongly influenced by the work of Burt (2010), and deals with whom you reach and how you reach them. The structural dimension encompasses network components and facets, such as the presence or absence of ties between parties, the configuration of a network, such as the hierarchy within an organization, and concepts, such as the denseness of relationships, structural holes in networks, the presence or absence of network ties between different people, formal and/or informal (such as appropriable networks) network configuration, and the density and connectivity of a network.

Promoting youth civic engagement is a phenomenon that has been shared globally by diverse stakeholders, including the former President Barack Obama, United Nations Educational, Scientific, and Cultural Organization, the United States Secretary of Education among other international entities (Davis & Elliott, 2014). Similarly the increased interest in civic engagement among the youth has become increasingly widespread, and similar research on youth civic engagement has proliferated (Ballard, 2014) across multiple disciplines (Amna, 2012; Balsano, 2005; Morimoto, 2013). Civic engagement has been championed as the avenue through which unity and belonging to a nation can be groomed and sustained. Dialogue among people is seen as the most effective method to build trust and avert chaos in society (Putman, 2000). The process of civic engagement, has been witnessed as having the potential of helping to build a stronger and more unified civic nation (Addai, Opoku-Agyeman, & Ghartey, 2012)

The role of civic engagement has been widely documented in the social capital literature. Empirical work based on regression analyses, such as that of Helliwell, Huang, and Wang (2014); confirm the significance of engagement in enhancing individual incentives to group membership and contributing to the expansion of social capital. Civic engagement is viewed as the factor developing opportunities for collective action, either through offering access to social networks and personal acquaintances, or through cultivating values and morals leading to a sense of citizenship and solidarity. They include issues such as voting, participation in decision making and demonstrations and volunteerism. An individual who performs hours of service for a public agency (or organization) for civic, charitable, or humanitarian reasons, without promise, expectation or receipt of compensation for services rendered (McGruckin, 2005).
Nunkoo and Ramkissoon (2012) examined social capital in terms of the degree of civic involvement, as measured by voter turnout, newspaper readership, membership in choral societies and football clubs, and confidence in public institutions. Northern Italy, where all these indicators are higher, shows significantly improved rates of governance, institutional performance, and development when other orthodox factors were controlled for. Another research conducted by Pinho (2011) on Social capital and dynamic capabilities in international performance of SMEs found out that in order to build new dynamic capabilities to cope with turbulent and unpredictable markets, small to medium-sized enterprises (SMEs) needed to leverage their network relationships that provide access to novel sources of information. These dynamic capabilities may in turn positively influence international performance. Community organizations can offer a way to ‘try out’ civic engagement.

To support an existing organization, civic engagement means getting involved, understanding their mission as it relates to your interests or academic discipline, and working with others to accomplish established goals. Other methods could include identifying limitations and applying social and knowledge resources to address those limitations, or working to provide possible alternatives. The hands on application of time and skills in the community itself. Taking action in community locations where there is an identified need, and working to include and utilize public resources in the process (CSU, 2016). Civic engagement generates a social structure for democratic advocacy, interaction, transparency, and openness. In order to inform, persuade, or change individual’s perspectives regarding a certain issue, it is vital to build on social capital to impose the necessary schedules (Farr, 2004). Social capital offers the theoretical framework for exploring formal and informal organizations.

2.2.2 Network Diversity (Cultural Elements) and SME Performance

The cultural factors that can affect or improve social capital of firms include the differences in language, tribe, political systems and environmental, level of education and the level of industrial development among others. The cultural factors are a sum of factors that prevent the flow of information between firm and the market (Khojastehpour & Johns, 2014). Sohail and Jayant (2013) investigated the causal relationship between social capital and microfinance and their implications for rural development.
The participation in local organizations, heterogeneity of associations and level of both generalized and institutional trust were identified as the key dimensions of structural and cognitive social capital to influence households' access to credit. On the other hand, when these dimensions were combined in a single social capital index, the result indicated that social capital index has no significant effect on microfinance participation. This result provided support to the argument that grouping all the dimensions of social capital into one index may run the risk of losing the explanatory power of social capital (Khojastehpour & Johns, 2014). Many research and scholars agree that organizational culture has the capability to enhance organization performance, create competitive advantage. This is achieved as a result based on the quality of culture presented by resources based view theory and its ability to aid organization to adapt towards environmental changes (Loo, 2014). Ahmadi, Salamzadeh, Daraei, and Akbari (2012) pointed out that the organizational culture can be either strong or weak and that a strong cultures is attributed to superior performance that is caused by a strongly shared values among employees.

However, failure to achieve congruence with the environment jeopardizes a firms competitive advantage. Also a weak culture act as a de-motivator even therefore results into underperformance among employees and overall poor organizational performance. A number of studies have been undertaken to establish the existing relationship between organizational culture and performance of organization. A study by Ogbonna and Harris (2000) as cited in Khan and Khalique (2014) in the United Kingdom (UK) revealed a mixed effect of organizational culture on firms’ performance and therefore concluded that organizations with emphasis on external focus out performed those with internal focus. However, Denison, Leif and Ward (2014) comparative study illustrated that a strong positive relationship between organizational culture traits and performance exist.

Similar results were found in Russia by Fey and Denison (2003) who noted a positive relationship between organizational cultural traits and performance among Russian firms. The study although noted that emphasis on internal focus was the most dominant determinant of performance (Zakari, Poku & Owusu-Ansah, 2013). In a study by Yilzam and Ergun (2008) in Turkey, the results indicated a positive relationship between the organizational culture and the effectiveness of the firm. However, the discrepancies between the various cultural traits had mixed results and some recorded both positive and negative impacts on the various performance measures.
A study in Turkey by Yesil and Kaya (2013) also illustrated that organizational culture had no significant effect on the financial performance of SMEs. Similar results were also obtained among SMEs in Iran according to a study by Hajipour and Ghanavati (2011) that concluded that there was no significant relationship between organizational culture and the financial performance. Within the African context, however, a study in South Africa by Davidson, Coetzee and Visser (2007) on investment bank revealed that only few organizational culture traits were positively linked to financial performance. Even though contrary to a study by Zakari and Owusu-Ansah (2013) among nine Ghanaian banks established a positive relationship between organizational culture and performance.

2.2.3 Business Networks and Firm Performance

Business networking is an effective low-cost marketing method for developing sales opportunities and contacts, based on referrals and introductions - either face-to-face at meetings and gatherings, or by other contact methods such as phone, email, and increasingly social and business networking websites (Owolabi & Owolabi, 2013). Because they can significantly help the process of customer acquisition, business networks have received considerable attention in the marketing literature. Although they are less controllable and manageable than marketing actions (e.g., direct mail, broadcast media), referrals have some serious advantages (Chollet, Géraudel & Mothe, 2014). First, their influence on attitudes and beliefs about a firm is much stronger (Villanueva, Yoo & Hanssens, 2008). Information about a product, a service or a firm is indeed considered more credible by potential customers when it is transferred through referrals than when it comes from the firm itself (Seevers, Skinner, & Dahlstrom, 2010).

Second, referrals contribute to customer acquisition at a much lower cost than marketing actions (Trusov, Bucklin, & Pauwels, 2009). Indeed; they often take place as a result of spontaneous information circulation from one person to the other rather than because of a firm’s deliberate efforts. Previous studies have set up claims that social capital has two major varied effects on human interaction either bridging or bonding. Eklinder-Frick (2011) says that bonding oftenly denoted the strong connections experienced within homogeneous groups. On the other hand, bridging entails the persistent interaction between diverse social groups, and actors. Despite this, there has been a number of criticism levelled against this and such include Cooke, Asheim, Boschma, Martin, Schwartz, and Tödtling (2011) who cast doubt on whether strong ties and dense, cohesive communities are really considered to be a requirement for social capital within economic and regional studies.
Slotte-Kock and Coviello (2010) has also stressed the importance of weak ties or structural
dents based on the social capital literature. According to Jonsson and Lindbergh (2011), the
benefits attained from a firm’s social capital can be tangible and intangible assets, such include
issues such as funding and financial information. They added that social network members are
sources of information and opportunity and some firms have utilised social capital to build a
social status or reputation. Social capital has been found to be important in providing legitimacy
and Krishnan, Ivanov, Masulis, & Singh (2011) noted that the utilization of highly reputable
venture capitalists, acting as external shareholders, offers to a firm not only the monetary
contributions, but also non-monetary contributions like business advice. These thus improves
the post-IPO performance of such portfolio companies.

To analyse the social capital and firm performance among Indonesia small businesses, Pratono,
Saputra and Pudjabodojo (2016) concluded that nurturing of small businesses should be
considered as among the major role of social capital as such intangible resource, may be turned
into performance. This is attributed to the strong relationship among the stakeholders, who
include among others the employees and business partners. Martinez-Cañas, Sáez-Martínez,
and Ruiz-Palomino (2012) added that such resource are capable of promoting knowledge
acquisition and innovation and a positive work environment. Duffy, Scott, Shaw, Tepper and
Aquino (2012) also noted that the result indicates that social capital as a resource allows small
businesses to gain competitive advantage by offering the networks, trust and cognitive ideas to
gain competitive advantage.

2.3 Effect of Relational Social Capital on the Growth of Medium Enterprises

According to Chollet, Géraudel and Mothe (2014), the relational dimension concerns the kind
of personal relationships people have developed with each other through a history of
interactions. This dimension encompasses the characteristics and qualities of individual
relationships. Therefore, issues such as shared history, trust, respect, and friendship are
important. The relational dimension is associated with the “qualities,” good or bad, of ongoing
relationships. The relational dimension encompasses the character and qualities of the
connection between individuals. This is often characterized through trust and cooperation and
the identification that a particular individual has within a network of relationships. To measure
the relational social capital, the study focused on the quality of relationship and the level of trust
among key business players.
2.3.1 Trust and SME Performance

Social capital contributes to performance by highlighting the importance of cooperation and trust within the firm and the market. The interdependence between decisions of individual agents and the emergence of externalities and common goods makes cooperation imperative to maximizing social welfare (Peng, Pike, Yang & Roos, 2012). The superiority of social cooperation has long been documented in economic and social thought. But social capital, as social norms and networks, sustains cooperation by emphasizing its intrinsic value and its pursuit as an end in itself. It is a mixed-motive cooperation, in which individual behavior takes account of its effects on the welfare of others, alongside its own (Di Vincenzo & Mascia, 2012). In this manner, it operates as an internal commitment mechanism to resolving the social dilemma or collective action problems from free-riding and narrow-interested calculation (Andrew & Crispin, 2013).

On the other hand Putnam (2002) stated that trust is the essential component of social capital. He further asserted that trust increases cooperation: the greater the level of trust within the community, the greater the likelihood of cooperation, the end result of which is enhanced trust among members. Although they emphasize that, over time, a culture of cooperation will surface among this trusted group of people which can then be strengthened through social interactions. However, this social relationship can become weak if it is not maintained. Thus, interaction is a precondition for the formation and maintenance of social capital (Sommerfeldt, 2013). Trust plays a key major role towards the willingness of network actors to share knowledge. A lack of it may result to competitive confusion about whether or not a network firm is strong (Powell, Koput, & Smith, 2014).

Paul, Seok-Woo, & Adler (2009) carried out a research on the measurement of social capital in the entrepreneurial context. The research sought to examine the depth and richness of social capital for new venture creation and thereby identifying the impact of social capital in new venture creation. The paper's examination of the social capital literature thus far, although not exhaustive, noted that the emergence of several common themes associated the issues of measurement with lack of empirical consensus on an accepted definition of social capital. Literature acknowledged the important of trust in developing and maintaining productive cross border business relationships. Therefore Trust can used as an effective tool in mitigating foreign partner opportunism where partners will be less likely to engage in untrustworthy behaviour (Eberhard & Craig, 2013).
A trustworthy partner is known to make the necessary efforts to act in accordance with prior agreements, by being fair to the exchange partner, and not taking excessive advantage of partner (Boso, Story & Cadogan, 2013). In the international context, trust plays a vital role in overcoming the challenges to successful international exchange by enhances competency to exploit local market opportunity and effectively curtail a distributor’s opportunism (Kiessling, Harvey & Akdeniz, 2014). It is not surprising at all that trust has been found to enhance exchange performance especially for the export industry. Katsikeas Skarmeas, and Bello (2009) found that trust is directly and positively correlated to performance. Therefore, the study concluded that trust is expected to enhance the ability of small firms to achieve high export performance.

In recent studies of trust by Trägårdh, Wolleaek, and Selle (2013) in the Swedish society revealed that patterns emerge when exposed to a similar background and their indicate hardly any variation in trust between people from varying municipalities when aspects such as sex, age, and income were considered and neither did they establish any differences worth dwelling on. Although considerable differences were identified among small rural municipalities with high degree of trust in individuals in the local community, and the municipalities in metropolitan areas where people had little trust in their local community considerably less than did for people in general. Trust is generated both out of experience and on narratives mediated through others. It also affects transaction costs. Trust in the local community facilitates local cooperation but may also exclude cooperation with people who are seen to demonstrate strong identities that indicate belonging to other groups. The role of social capital in business relationships shows similarities to these observations of trust in society.

The disinterested but widespread trust on a general level facilitates openness to new information and new partners, business development and innovation. Particular trust, which in a business context would correspond to trust in well-established long-term business relationship, also favours business development. But trust in the local community might be the most important component. It might be corrupted into fervent, clan based loyalty and build up sectarian social capital, but it could also form the base for understanding the characteristics of the business networks that operate as the engine of innovation. In that sense, all business is local. And whatever the individuality of a firm, it needs to realize that it has several identities (Trägårdh et al., 2013).
2.3.2 Quality of Business Relationships and SME Performance

Pinho (2013) conducted a study on the role of relational social capital in examining exporter intermediary relationships. The objective of the paper aimed to rely on a conceptual model that builds on, and synthesizes, the theoretical foundations of social capital and cooperation. It assumed that the network of relationships and the set of resources embedded within it strongly influenced the extent to which exporter-intermediary cooperation occurs. The findings revealed that among the six relationships examined, five were positively supported. Specifically, the study found a positive and a significant impact of the two dimensions of social capital: cognitive (shared values) and relational (trust) on both commitment and cooperation. However, it did not support the impact of cognitive social capital on relational social capital.

The concept of networking has been categorized under four components: actors; links; flows and mechanisms (Conway & Jones, 2006). The actors here refer to the individuals and entities that constitute the network. Links or ties regards to the arches that associate personalities and shows the relationship between the main actors. The flows indicate the exchanges that take place between the actors within network and largely involve movement of resources (Ahuja, Soda & Zaheer, 2012). Finally, the mechanisms of the network are the modes and rules of interaction employed by actors within the network. Beth, Akhalkatsi, Roberts and Gardiner (2007), noted there are accrued benefits on SMEs regarding business networking: There is rise in employment and wealth creation by local firms as well as increased knowledge transfer and technology upgrading. Improved skills, standards and capacity and charm of FDIs in cluster effects, in addition there are more varied client and market structures and more stable relationships to buyer /producer organizations. It has also led to increased risk- sharing through joint funding operations as well as facilitation of access to finance (Alcantara & Mitsuhashi, 2012).

There are opportunities to innovate, upgrade and upsurge competitiveness. Further, OECD (2001) points out several other benefits including an increased scale and scope of activities, shared costs and risks, improved ability to deal with complexity and Enhanced learning. Flexibility and efficiency in knowledge management, speed and resilience. Despite the nature these benefits accrue to networking firms, irrespective of their size and activity, empirical studies suggest that most SMEs face both internal and external obstacles to seizing networking opportunities (Lampadarios, Kyriakidou & Smith, 2017). In addition, major reason why SMEs lack full advantage of networking opportunities is their lack of motivation to do so (OECD 2004).
Business relationships and networks are perceived as sources of competitive advantage. Performance of the firm remains the ultimate indicator for success as evidenced in both empirical and theoretical models (Man, Lau & Chan, 2002). Performance of a firm may be affected by both internal and external factors (Randall, 2013).

2.3.3 Networks and Social Capital

Individual social capital originating from an individual's network of relationships can be distinguished from organizational social capital derived from an organization's network of relationships. The former has the property of a private good, whereas the latter takes on the nature of a public good. With social capital as a public good, members of an organization can tap into the resources derived from the organization's network of relationships without necessarily having participated in the development of those relationships (Kostova & Roth, 2012). These two levels of social capital are often interrelated. For example, a manager, through his or her own social relationships and personal connections, can help his or her company set up a joint venture with another company. In this case, organizational social capital is created on the basis of individual social capital.

The increasing use of networks for SMEs has been mentioned as a factor influential in the developmental procedure of entrepreneurial activity (Randall, 2013). A review of related literature on entrepreneurial networks established that the most cited entrepreneurial network types are: institutional networks; business networks; social network; informational networks; friendship networks; scientific and technical networks; profession networks; user networks; and recreation networks (OECD, 2000). People who begin businesses are more likely to interact with other entrepreneurs than those who don’t. Focusing on social network analysis has changed the attention to relationships between entrepreneurs and others who provide the resources that are vital in establishing a corporation (Fisher, 2012). Entrepreneurs have thoughts to test, and some knowledge and competence to route the enterprise, but they also require complementary resources to produce and deliver their goods or services. They get support, knowledge, and access to distribution channels through their social networking.

According to Perin, Sampaio, Jiménez-Jiménez, & Cegarra-Navarro (2016) research on network effects on radical innovation and financial performance, the results from testing the empirical model indicated that open-mindedness was positively related to the use of internal and external social networks.
In addition, employee receptiveness to new ideas facilitates that employees recognize the value of knowledge and beliefs of other agents in the social network that could be useful for the company (Sanchez-Casado, Cegarra-Navarro, Wensley, & Tomaseti-Solano, 2016). This means that those companies that are more predisposed to capture new ideas are going to try to encourage the use of both internal and external networks. Contrary, employees would not value or would not be willing to interact with other agents. A plausible explanation for this is that to implement social networks, organizations require a level of openness and transparency, which needs to come from listening and embracing others' ideas rather than simply imposing our thoughts. The results showed that the effects of open-mindedness on internal social network are mediated by the external social network. This suggests that open-mindedness is an important antecedent of the process of converting external social capital into internal social capital. Moreover, the promotion of external networks will encourage the creation of new internal networks with the aim of using the knowledge acquired outside the company.

What this could mean for internal social capital is that before new networks can be implemented, old networks should be reviewed and challenged. It is possible to establish new relations of communication between members of the company that previously did not exist (such as between sales personnel, agents that collaborate with external entities and management innovation), not limited to personal relationships, mostly informal, to share information (Sanchez-Casado et al., 2016). These results are also consistent with the literature focused on learning orientation and results since open-mindedness is a way of learning (Kropp, Linsay & Shoham, 2006).

2.4 Effect of Cognitive Social Capital on the Growth of Medium Enterprises

The cognitive dimension refers to resources that provide shared representations, interpretations, and systems of meaning among parties. This dimension, the least studied of the three, encompasses shared meanings and shared interpretations between parties in a relationship. The cognitive dimension captures the concepts of shared norms, systems of meanings and values, and, as such, the cognitive dimension can be expected to directly affect the development of social capital and the development of relationships. He further suggested that cognitive capital is embodied in the shared visions and collective goals of organizational partners and encapsulated by shared perceptions, expectations, and interpretations. Relationships developed with shared norms and values can be expected to be stronger (Moran, 2005).
Weick (1995) asserted that when there is congruence on goals and values and when interpretations are shared by and across organizational partners, the cognitive capital becomes ongoing, cumulatively supportive, and self-reinforcing. The cognitive dimension reflects the concept that separate networks or communities develop unique terms, acronyms, interpretations of numbers, and concepts.

2.4.1 Shared Goals, Values and SME Performance

According to Chang and Huang, (2012), shared vision embodies the collective goals and aspirations of the members of an intrafirm network. When a shared vision is present in the network, members have similar perceptions as to how they should interact with one another. This can promote mutual understandings and exchanges of ideas and resources. Thus, a shared vision can be viewed as a bonding mechanism that helps different parts of a network integrate knowledge. When a firm’s stakeholders bring contradicting ambitions into their arrangement, interpartner conflict may arise. Conflict among parties in an intrafirm collaboration tends to result in frustration and dissatisfaction (Blanchot, Nolan & Whittemore, 2013). Such a negative atmosphere is not conducive to the success of the firm. In studying intra- and interdepartmental conflict within a large utility company, Nasr, Burton, Gruber, & Kitshoff (2014) found that lower levels of goal clarity increased both types of conflict. For stronger intrafirm relationships, we also expect that goal clarity reduces interpartner conflict by facilitating the negotiation and establishment of common goals.

The first social capital component, generalized norms and perceptions, is concerned with how willing members of the organization are willing to help each other in going about their daily chores and how fairly members of community treat each other including donations to the community, teamwork, valuing integrity, also to an extent of supporting organizational engagements. In addition to the owners' motivations, an SME’s culture can have a significant effect on how its business operates. In their book In Search of Excellence, Peters and Waterman (2012) popularized the notion that organizations have personality characteristics that can be harnessed as a competitive advantage. Previous research has indicated that organizational culture is particularly positive if it is valuable, rare, and difficult for other firms to duplicate (Barney, 2006). A company's culture typically starts with the founder and his/her vision and values, which can create a strong sense of shared purpose, identity, and destiny-keys to success in any business, family owned or not.
It appears, though, that family owned companies tend to adhere to the founder's original purpose and that purpose can linger into future generations even after the founder's death. Such a strong cultural foundation can have a positive effect on the performance of a family owned business, but also it needs to be flexible. Next-generation owners and managers will bring their own talents and perspectives to the leadership role, and the culture that can adapt to the new style will be more likely to thrive (Eddleston, 2008).

Small businesses are heavily influenced by their founder and his or her vision for the business can exist across subsequent generations (Kelly, Turner, & Ledwith, 2010). Such a vision, shared across the organization may play a role in the long-term success of the firm. Also because of the central role of the founder and his or her closer associates, a higher sense of trust and confidence in firm management may positively influence long-term performance. Inherent in the nature of small business particularly family business, where family members juggle multiple roles (owner, employee, family member, etc.) the clarity in one's work role and lack of conflicting priorities may aid the long-term performance of the firm. Personal development, external learning opportunities, and a general commitment to learning may also aid the long-term performance of a family firm by improving human capital, raising awareness of the firm's external environment, and building a culture of continual learning.

### 2.4.2 Cognitive Accuracy Capital and SME Performance

A firm's orientation toward performance may be a factor in its long run performance. For example, the performance aspirations of small business managers could be associated with actual performance, and this effect could be enhanced by higher manager education and experience. In the small business firm context, some long lived SMEs survive without performance but their survival is attributed to special circumstances; including tightly controlled ownership, stable competitive environments, and little technological change (Ward, 2009). With little a priori knowledge of these conditions, performance may be necessary to avoid stagnation and decline of a family business. While family firms face special challenges to achieve performance. Miller, Breton-Miller and Scholnick (2008) found no difference in market performance expectations and actual performance between small private family firms and their non-family counterparts. This construct seeks to measure perceptions of the organization's capacity to grow and management's ability to spur that performance.
This construct also measures perceptions of certain performance indicators: sales volume, employment performance, and investment in capacity/technology (Jordan & Audia, 2012). Perin et al, (2016) noted that when firms hold an open ear towards adopting new processes they are more likely to achieve radical innovations from external sources. There is a need for the employees to reconsider internal practices and determine whether they are valid in the dynamic environments. Perin et al, (2016) added that the introduction of new practices aids in facilitating the process of improvement and creating new products that give rise to the performance of the institution. Social networks have also been found to play a vital task for the organizations as a means of conducting information that offers opportunities and constraints for the firms on the networks although without a strong social internal network, all external knowledge become useless, as it limits transmission to those involved in the innovation process.

Chuairuang (2013) in the study to determine relational networks and family firm Capital structure in Thailand revealed that owners who are have many weak ties outside the family circle were more likely to make use bank loans or other external equity compared to those with close stronger ties. Thus networks did not necessarily act as link in facilitating loan access and result indicate that when accessing capital via bank loans, direct information sharing rather than networks was necessary in facilitating the process.

2.4.3 Entrepreneurship Orientation and SME Performance

An organizations entrepreneurial orientation (EO) has a significant effect on its growth and adaptation. Despite varied opinion on the specific composition and manifestations EO is often termed as the firm’s endeavor for innovation, risk taking, and proactiveness (Covin & Lumpkin, 2011). On this note Miller (2011) elaborates that firms that take part in greater innovation, most often display more willingness to undertake risky initiatives and is focussed more towards beating competitors. Previous theories offer evidence that indeed EO may not only enhance a firms performance. Given that EO influences an organisations ability to compete, adapt, effectively in any turbulent environments, there has been a great interest in its origins (Nadkarni & Herrmann, 2010). Although managers most often lead under considerable constraints, studies do report that a firms’ entrepreneurial proclivities and engagements are shaped by leadership style expressed by the managers, tenure in office and personality exhibited eg self-esteem, emotional stability, overconfidence (Simsek, Heavey, & Veiga, 2010).
As such, an organisation’s EO is seen to be a reflection of its CEO’s characteristics, which is due to the CEO’s unique position and influence as the firm’s chief decision maker (Covin & Lumpkin, 2011). CEOs’ social capital as a concept is attained from the interpersonal connections as well as the information, influence, and solidarity attained from such a connection (Kariv, 2011). Prior studies have demonstrated that such executive ties serve as conduits necessary for the access and transfer of knowledge and resources across firms and within. Socio relational benefits such as legitimacy and status can also aid in the reduction of the executives’ perceived environmental ambiguity by offering timely and relevant data for the purpose of strategic decision making (Cao, Simsek, & Jansen, 2012). A Manager may possess intrafirm social connections with members in different departments or functional units within the organization. In such instance, the social ties offers the mechanism for bonding in the firm.

Conversely, extra firm social ties denoted the relations with external groups of firm stakeholders, including customers, suppliers, competitors, and government agencies among others. Such social ties have the capacity to span organizational boundaries and propel the firm to a diverse set of external stakeholders (Cao et al., 2012). The integrative advantages of CEO bonding social capital includes the exposure to diverse knowledge, and resources within the firm as well as the ability to mobilize and coordinate them, such actions have a positive effects on firm EO. Prior studies indicate that cultivating social ties is not free and comes at a costs, as reflected by the time and energy used in the sustainability of the ties (Crossland & Hambrick, 2011). While the costs for intrafirm connections is minimal, for extrafirm ties a CEO needs to make the necessary effort to, establish such external ties as well as invest more time and energy towards maintaining and managing such diverse set of relationships and evidence suggesting that only a few companies are likely to over search through external ties because of the associated high costs. Although CEO bridging social capital may only be successful when its costs are exceeded by the benefits it brings.

2.5 Chapter Summary

This chapter reviewed literature on effects of social capital on firm growth as set out in the study objectives. The first part reviewed literature on how structural social capital influence the growth of the firm, while the second section covers literature on how relational social capital affects firm growth and finally the last subsection looked at the various elements of cognitive form of social capital and how they influence the overall growth of the firm. The next chapter three provides the research methodology which was used to collect and analyse data.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used to carry out the research study to achieve the set objectives of the study. This includes the research design, target population and sampling, and sampling procedures. It also provides information on the data collection and data analysis methods used.

3.2 Research Design

According to Cooper and Schindler (2014), research design is a plan and structure in which answers to the research questions are thoroughly examine and obtained. The research design is primarily determined by the purpose of the research. There are three basic research designs that can be used for given problems and research objectives, namely exploratory, descriptive and casual research designs. Exploratory research design is used to gain background information, to define terms, to clarify problems and develop hypotheses, to establish research priorities, to develop questions to be answered. Descriptive research design is used to describe and measure phenomena at a point in time. While causal research design is used to determine causality, test hypotheses, to make “if-then-statements”, to answer questions.

The descriptive research includes case study, survey and correlation designs Lewis, Saunders and Thornhill (2016). A case study is a method of obtaining information from the detailed observation of respondent(s). Although valuable information about certain types of problems may be obtained by this method, the procedure is time consuming, and it is difficult to obtain data from a broad sampling of people. In a survey, respondents from a wide sample are asked questions about the topic of concern. It is one of the most commonly used research methods in social sciences or business research studies. Researchers randomly selects respondents from a population to answer a standardized questionnaire, or conduct a face-to-face interview or telephone interview to collect data to assess people's behavior, beliefs and attitudes. Lastly, correlation is a type of nonexperimental research in which the researcher measures two variables or more and assesses the statistical relationship (i.e., the correlation) between them with little or no effort to control extraneous variables. It gives an indication of how one variable may predict another variable or variables (Lewis et al., 2016).
This research design was chosen to enable the study to identify and describe the effect of social capital (independent variable) on the growth (dependent variable) of the Medium Enterprises.

### 3.3 Population and Sampling Design

The population and the sampling design used to conduct the study are discussed in the following subsections.

#### 3.3.1 Population

The term population in research refers to the total collection of elements about which the researcher wishes to make inference. It is the universe of people, place or things to be investigated (Lewis et al., 2016). In this study the population consisted of all the Medium Enterprises in the service sector registered in Kisumu City. According to the Kisumu County Industrialization, Trade and Enterprise Development Office (2017), there are 142 properly registered Medium Enterprises in the service sector in Kisumu City. Table 1 shows the population and percentage distribution across the different service sectors.

**Table 1: Target Population**

<table>
<thead>
<tr>
<th>Service Sector</th>
<th>Medium Sized Firms</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport Services</td>
<td>28</td>
<td>20%</td>
</tr>
<tr>
<td>Health Services</td>
<td>8</td>
<td>6%</td>
</tr>
<tr>
<td>Entertainment Facilities</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>Education</td>
<td>100</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>142</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Kisumu County; Industrialization, Trade and Enterprise Development Office (2017).*

#### 3.3.2 Sampling Design

Sample design is a definite plan determined before any data are actually collected for obtaining a sample from a given population. Sample design refers to the technique or the procedure which the researcher would adopt in selecting some sampling units from the population for drawing inferences about the population (Sreevidya, Sunihat & Venugopal, 2011).

##### 3.3.2.1 Sampling Frame

The sampling frame consists of a list of the elements from which the probability sample is derived (Babbie, 2010).
Denscombe (2010) described the sampling frame as an objective list of the population that the researcher can use to draw a sample from. The list of elements i.e. all properly registered Medium Enterprises in Kisumu City was obtained from Kisumu County Industrialization, Trade and Enterprise Development Office database.

3.3.2.2 Sampling Technique

The samples can be either probability samples or non-probability samples. With probability samples each element has a known probability of being included in the sample but the non-probability samples do not allow the researcher to determine this probability. Probability samples are those based on simple random sampling, systematic sampling, stratified sampling, cluster/area sampling whereas non-probability samples are those based on convenience sampling, judgement sampling and quota sampling techniques (Cooper & Schindler, 2014). Lewis et al. (2016) affirm that this technique involves one selecting the sample at random from the sampling frame. Stratified random sampling is the probability of selection in which elements are randomly selected from a population that has been divided into homogenous groups or strata.

The study used probability sampling based on stratified random sampling technique. According to Cooper and Schindler (2014), stratified sampling involves dividing the population into homogeneous non-overlapping groups (i.e., strata), selecting a sample from each group, and conducting a simple random sample in each stratum. This method was chosen because it obtains a sample population that best represents the entire population being studied. The technique reduces sample selection bias and therefore ensures that certain segments of the population are not underrepresented or overrepresented. In the sampling procedure, the Medium Enterprises was stratified into four strata. This included the transport services (28), health services (8), entertainment (6) and education (100) as provided in table 2 overleaf.

3.3.2.3 Sample Size

To determine the sample size, this study adopted Yamane (1973) formula with 95% confidence level. The method was adopted since the population was known (finite) and also because it allows for correction of the proportion.

The calculation formula is as provided below:

\[
n = \frac{N}{1 + N\left(e^2\right)}
\]
Where:

\[ n = \frac{N}{1 + Ne^2} \]

\[ n = \frac{142}{1 + 142 \times (0.05)^2} \]

\[ n = \frac{142}{1 + 142 \times 0.0025} \]

\[ n = \frac{142}{1 + 0.355} \]

\[ n = \frac{142}{1.355} \]

\[ n = 104.79 \text{ (approximately 105 medium enterprises)} \]

According Israel (1992), an additional 10% was added to the sample size to compensate for respondents that the researcher would have not been able to contact, thus making the final total sample size to be 116 (i.e. 105 x 110%). The distribution of the number of the sample size per stratum was done as a percentage proportion of each stratum over the total sample size of 116 medium enterprises in the service sector as provided in Table 2.

**Table 2: Distribution of Sample Size**

<table>
<thead>
<tr>
<th>Strata: Service Sector</th>
<th>Population</th>
<th>% of Total</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport Services</td>
<td>28</td>
<td>20%</td>
<td>(116 \times 20%) = 23</td>
</tr>
<tr>
<td>Health Services</td>
<td>8</td>
<td>6%</td>
<td>(116 \times 6%) = 7</td>
</tr>
<tr>
<td>Entertainment Facilities</td>
<td>6</td>
<td>4%</td>
<td>(116 \times 4%) = 5</td>
</tr>
<tr>
<td>Education</td>
<td>100</td>
<td>70%</td>
<td>(116 \times 70%) = 81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>142</strong></td>
<td><strong>100%</strong></td>
<td><strong>116</strong></td>
</tr>
</tbody>
</table>

*Source: Kisumu County; Industrialization, Trade and Enterprise Development Office (2017)*

Thereafter, Table.2 was used to develop the final list of medium enterprises for the actual field survey by carrying out simple random sampling from each stratum.
3.4 Data Collection Methods

For the study, questionnaire was used as the research instrument. The questionnaire consisted of open and closed ended questions, check list question and four point Likert scale which was divided contained in 4 sections. Section A of the questionnaire aimed at collecting demographic information of the respondents. This was necessary to ascertain the respondents’ personality factors that influence growth of medium enterprise. The other three sections (B - E) of the questionnaire covered all the specific study objectives and were further divided into two parts namely: first part dealing the existence of the social capital elements within the firm and second part looking at their effects on the growth of the firm.

Section B of the questionnaire addressed responses regarding the effect of structural social capital on the growth of medium enterprises. Some of the variables which were assessed in this part included network diversity, network density, network size, trust and their effects on the growth of medium enterprises. Section C of the questionnaire focuses on the second specific study objective i.e. how relational social capital affects the growth of medium enterprises. The specific variables included; participation in social organizations, relationships within the firm and with other stakeholders and their effects on the growth of medium enterprises. Finally, section D of the data collection tool pertained to the third specific study objective of how cognitive social capital affects the growth of medium enterprises. The variables that were assessed in this section included availability of similar values and goals, similar norms and sharing of similar emotional connections among employees.

Finally, the respondents were required to choose answers in a likert scale of 4, where 1 = Strongly Disagree [SD], 2 = Disagree [D], 3 = Agree [A] and 4 = Strongly Agree [SA].

3.5 Research Procedures

Pilot test is considered important for validity of a study as well as the reliability of a research instrument (Sekaran & Bougie, 2015). A pilot test was conducted and data collected from 20 respondents who were drawn from the four strata targeted by the pilot study (i.e. transport services, health services, entertainment facilities and education).

The pilot test was done to determine the validity of the instrument and establish whether the instrument was reliable. The data collected from the pilot test was analyzed to determine the reliability of the instrument and review questions that needed further refinement.
3.5.1 Reliability Analysis

According to Sekeran and Bougie (2015) acceptable minimum Alpha value is 0.7, thus any value of above 0.7 is considered reliable.

3.5.1.1 Reliability Test of Structural Social Capital Variables

The findings revealed that effect of structural social capital had the highest reliability ($\alpha=0.873$) which was above the recommended alpha value of 0.7 as indicated in Table 3.

Table 3: Reliability of Structural Social Capital Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects of Structural social Capital</td>
<td>.873</td>
<td>8</td>
</tr>
</tbody>
</table>

3.5.1.2 Reliability Test of Relational Social Capital Variables

The findings revealed that effect of Relational social capital had a reliability ($\alpha=0.715$) which was above the recommended alpha value of 0.7 as indicated in Table 4.

Table 4: Reliability of Relational Social Capital Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects of Relational social Capital</td>
<td>.715</td>
<td>5</td>
</tr>
</tbody>
</table>

3.5.1.3 Reliability Test of Cognitive Social Capital Variables

The findings revealed that effect of Relational social capital had a reliability ($\alpha=0.751$) which above the recommended alpha value of 0.7 as indicated in Table 5.

Table 5: Reliability of Cognitive Social Capital Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects of Relational social Capital</td>
<td>.751</td>
<td>6</td>
</tr>
</tbody>
</table>

From the experience gained from the pilot test and the analysis of the data reliability, the questionnaire was further refined prior to the beginning of the actual field survey.
After ascertaining the possibility of the survey and appropriateness of the data collection instrument, the researcher proceeded to collect the actual data from the research respondents. The researcher issued the questionnaires to the CEO’s or persons in charge of key departments of stratified randomly selected medium enterprises. The questionnaires, which contained a brief introduction letter by USIU-A on the purpose of the research and how the information provided by the respondents would be used and also benefit the enterprises, were delivered to the respondents for one-one interviews and in some cases through drop and pick approach. This was deemed necessary as some of the respondents were either not available or preferred to fill the questionnaire during their own appropriate time.

3.6 Data Analysis Methods

Data analysis is the process of examining, cleaning, converting, and analyzing data collected in a research. The study utilized both qualitative and quantitative techniques (Matthew, Miles, Michael & Johnny, 2014). Both descriptive and inferential statistics was used to analyse the data obtained from the study. According to Cooper and Schindler (2014), descriptive statistics refers to the use of visually recognizable statistics like; frequency and percentage distribution, mean and standard deviation. On the other hand, inferential statistics imply the use of complex calculations such as; correlations, chi-square tests, deviations, cross-tabulations to make deeper sense of the data obtained.

Descriptive statistics used in data analysis included the frequency and percentage distribution, mean and standard deviation. Whereas inferential statistics were: Pearson Correlation analysis and linear regression analysis. Pearson Correlation Coefficient technique was applied because the variables measured assumed an ordinal scale. Healey (2011) explained that correlation is an index of the strength of association between variables, which range from zero denoting no association to +1 denoting perfect association. A high index denotes strong correlation between the study variables whereas a low index denotes weak correlation. Finally, linear regression analysis was done to predict the level of growth of the medium enterprises caused by the different dimensions of social capital. The data was analyzed by Statistical Package for the Social Sciences (SPSS) tools and the results presented in figures and tables.
3.7 Chapter Summary

This chapter described the research methodology that was used for the study. It also detailed the research design that guided the collection and analysis of data; the target population, the sampling and sampling procedures that was used during the study to accomplish the study objective. The next chapter 4 presents the research findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results as obtained from the data analysis done. This include findings from respondents’ demography and the specific research objectives of this study which aimed at establishing the effects of social capital on the growth of medium enterprises in the service sector in Kisumu City, Kenya.

A total of 116 questionnaires were administered to the respondents out of which 102 questionnaires were duly filled and returned giving a response rate of 88%. This was considered sufficient for the study.

4.2 Background Information

This section presents the results of background information of the respondents. The background information included gender, age education, nature of the firm, years in operation and number of employees.

4.2.1 Gender of Respondents

As indicated in Figure 1, the results on gender composition revealed that most (67%) of the respondents were male while female respondents accounted for 32% of respondents.

![Figure 1: Gender of Respondents](image-url)

As indicated in Figure 1, the results on gender composition revealed that most (67%) of the respondents were male while female respondents accounted for 32% of respondents.
4.2.2 Age of Respondents

As shown in Figure 2, the results on the age group of the respondents revealed that only 4% were aged below 20 years, those of the age group 21-30 were the majority and represented 44% of the respondents. Those aged groups between 31-40 and 41-50 accounted for 38% and 12% of the respondents respectively. This implies that more youths are going into self-employment and this is good for the economy.

![Figure 2: Age of Respondents](image)

4.2.3 Education Level

Figure 3 shows the results on educational level of the respondents. Forty three percent of the respondents had vocational training. Bachelor and master degree holders were at 44% and 6% of the respondents respectively, while doctorate degree holders accounted for 6% of the respondents.
4.2.4 Business Category

The findings as shown in Figure 4 indicate that 67% of the firms were in the education sector, 25% were in the transport sector, 5% in the health sector while 4% of the firms were in the entertainment sector.

4.2.5 Years of Operation

Figure 5 shows the results on the duration the medium enterprises have been in operation. Majority of the firms (43%) have been in existence for over 10 years, 6-10 years of operation accounted for 28%, while 3-5 and 1-3 years of operations accounted for 15% and 10% respectively.
4.2.6 Number of Employees

As shown in Figure 6, many of the firms had 11-49 employees accounting for 67% of the respondents, those with 50-249 employees, were 20% while those with less than 10 employees were 13%. The findings indicate that only 20% of the firms had 50 and above employees.

Figure 6: Number of Employees

4.3 Effects of Structural Social Capital on the Growth of Medium Enterprises

In this section the respondents were asked a set of questions which they were required to rate based on a 4-point likert scale 1 = Strongly Disagree, 2 = Disagree, 3 = Agree, and 4 = Strongly Agree.
4.3.1 Effect of Structural Social Capital on the Growth of Medium Enterprises

The findings on the existence of structural social capital elements in the firm revealed that 65% of the respondents disagreed that management of the firm participates in social organizations compared to 27% that agreed (M=2.31, SD=.612). It was also revealed that there was high level of network diversity among the employees as 70% of the respondents agreed to this statement (M=2.94, SD=.544). Ninety five percent of the respondents either agreed or strongly agreed that there is high network density of customers (M=3.28, SD=.550). While all respondents (100%) either agreed or strongly agreed that the customer network size was growing (M=3.52, SD=.502).

On the other hand, the results on the effect of structural social capital elements on the growth of the firm showed that majority (59%) of the respondents disagreed that participation in social organizations by management had increased the number of new customers (M=2.36, SD=.743). Seventy five percent of the respondents either agreed or strongly agreed that the diversity in firm’s employee network had increased the level of new product/service innovation in the firm (M=2.92, SD=.674). A total of 93% of the respondents either agreed or strongly agreed that network density among customers had increased profitability of the firm (M=3.14, SD=.548). And lastly, 93% of the respondents admitted that growing customer network size had resulted to high sales volumes for the firm (M=3.22, SD=.576). The results are indicated in Table 6.

Table 6: Effects of Structural Social Capital on the Growth of Medium Enterprises

<table>
<thead>
<tr>
<th>Variable</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The management of the firm participates in social organizations e.g. business clubs etc.</td>
<td>4</td>
<td>65</td>
<td>27</td>
<td>4</td>
<td>2.31</td>
<td>.612</td>
</tr>
<tr>
<td>There is high level of network diversity among the employees</td>
<td>0</td>
<td>18</td>
<td>70</td>
<td>12</td>
<td>2.94</td>
<td>.544</td>
</tr>
<tr>
<td>There is high network density of customers</td>
<td>0</td>
<td>5</td>
<td>63</td>
<td>32</td>
<td>3.28</td>
<td>.550</td>
</tr>
<tr>
<td>The customer network size is growing</td>
<td></td>
<td>48</td>
<td>52</td>
<td></td>
<td>3.52</td>
<td>.502</td>
</tr>
<tr>
<td>Participation in social organizations (e.g. business clubs) by management has increased the number of new customers</td>
<td>7</td>
<td>59</td>
<td>24</td>
<td>9</td>
<td>2.36</td>
<td>.743</td>
</tr>
<tr>
<td>The diversity in firm’s employee network has increased the level of new product/service innovation in the firm</td>
<td>1</td>
<td>24</td>
<td>57</td>
<td>18</td>
<td>2.92</td>
<td>.674</td>
</tr>
<tr>
<td>Network density among customers has increased profitability of the firm</td>
<td>1</td>
<td>6</td>
<td>71</td>
<td>22</td>
<td>3.14</td>
<td>.548</td>
</tr>
<tr>
<td>Growing customer network size has resulted to high sales volumes for the firm</td>
<td>1</td>
<td>5</td>
<td>65</td>
<td>28</td>
<td>3.22</td>
<td>.576</td>
</tr>
</tbody>
</table>
4.3.2 Correlation of Structural Social Capital on the Growth of Medium Enterprises

Person correlation test was carried out to determine relationship between structural social capital and the growth of the medium enterprises. The results in Table 7 shows that there was a statistically significant positive correlation between structural social capital and growth of medium enterprises, \( r(102) = .296, p < .05 \).

**Table 7: Correlation of Structural Social Capital on the Growth of Medium Enterprises**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.296**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.003</td>
</tr>
<tr>
<td>N</td>
<td>102</td>
</tr>
</tbody>
</table>

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

4.3.3 Regression of Structural Social Capital on the Growth of Medium Enterprises

A simple linear regression test was used to establish how structural social capital affected the growth of medium enterprises. The model summary results presented in Table 8 indicate that structural social capital explained 8.7% of the variability of medium enterprises growth (\( R^2 = .087, F(1,99) = 9.48, p < .05 \)) and the strength of the relationship was weak (\( r = .296 \)).

**Table 8: Regression of Structural Social Capital on the Growth of Medium Enterprises**

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode 1</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

**ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.043</td>
<td>1</td>
<td>1.043</td>
<td>9.484</td>
<td>.003b</td>
</tr>
<tr>
<td>Residual</td>
<td>10.883</td>
<td>99</td>
<td>.110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>11.925</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As shown in Table 8, the linear regression ANOVA showed that structural social capital statistically significantly predicted the growth of medium enterprises $F(1,99)=9.48, p<.05$.

The regression coefficient findings as indicated in Table 8 revealed that structural social capital predicted the growth of medium enterprises ($\beta=.228, p<0.5$). This implies that one unit increase of structural social capital would lead to an increase of 0.228 units of the growth of the medium enterprises. Based on the coefficients results, the general form of model equation established is as follows:

\[ G_{me} = 1.97 + 0.228S_{sc} \]

Whereby $G_{me} =$ Growth of medium enterprises and $S_{sc} =$ Structural social capital.

### 4.4 Effect of Relational Social Capital on the Growth of Medium Enterprises

In this section the respondents were asked a set of questions which they were required to rate based on a 4-point likert scale 1 = Strongly Disagree, 2 = Disagree, 3 = Agree, and 4 = Strongly Agree.

#### 4.4.1 Effect of Relational Social Capital on the Growth of Medium Enterprises

The findings on the existence of relational social capital elements in the firm revealed that 73% of the respondents agreed that there was high level of trust in the firm (M=3.08, SD=.521). The results also showed that 68% of the respondents agreed that there was close relationships among employees (M=3.28, SD=.495).

Ninety nine percentage of the respondents either agreed or strongly agreed that there was close relationships between employees and management of the firm (M=3.25, SD=.495).

While all respondents (100%) either agreed or strongly agreed that there was close relationships between the firm and the suppliers (M=3.29, SD=.458).
On the other hand, the results on the effect of relational social capital elements on the growth of firm showed that a total of 51% of the respondents either agreed or strongly agreed that high level of trust in the firm by the customers had resulted in an increase in the market share (M=2.61, SD=.720). In addition, the last three elements of relational social capital showed high percentages for bonding (80%), bridging (93%) and linking (99%) of the respondents either agreed or strongly agreed that the relationships have contributed to the growth of the firm. The results are shown in Table 9.

**Table 9: Effect of Relational Social Capital on Growth of Medium Enterprises**

<table>
<thead>
<tr>
<th>Variable</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is high level of trust in the firm by the customers</td>
<td>0</td>
<td>10</td>
<td>73</td>
<td>18</td>
<td>3.08</td>
<td>.521</td>
</tr>
<tr>
<td>There is close relationships among employees in the firm.</td>
<td>0</td>
<td>2</td>
<td>68</td>
<td>30</td>
<td>3.28</td>
<td>.495</td>
</tr>
<tr>
<td>There is close relationships between employees and management of the firm</td>
<td>0</td>
<td>2</td>
<td>71</td>
<td>28</td>
<td>3.25</td>
<td>.481</td>
</tr>
<tr>
<td>There is close relationships between firm and the suppliers</td>
<td>0</td>
<td>0</td>
<td>71</td>
<td>29</td>
<td>3.29</td>
<td>.458</td>
</tr>
<tr>
<td>High level of trust in the firm by the customers has resulted in an increased market share</td>
<td>2</td>
<td>47</td>
<td>39</td>
<td>12</td>
<td>2.61</td>
<td>.720</td>
</tr>
<tr>
<td>The close bonding relationships between employees has resulted in high employee retention</td>
<td>0</td>
<td>1</td>
<td>78</td>
<td>2</td>
<td>3.21</td>
<td>.430</td>
</tr>
<tr>
<td>The close bridging relationships between employees and management of the firm has enhanced teamwork thus an increase in the profitability of the firm</td>
<td>1</td>
<td>6</td>
<td>78</td>
<td>15</td>
<td>3.07</td>
<td>.493</td>
</tr>
<tr>
<td>The close linking relationships between the firm and the suppliers has increased the firm’s asset base</td>
<td>0</td>
<td>1</td>
<td>62</td>
<td>37</td>
<td>3.36</td>
<td>.503</td>
</tr>
</tbody>
</table>
4.4.2 Correlation of Relational Social Capital on the Growth of Medium Enterprises

Table 10 shows that there was a statistically significant positive correlation between relational social capital and growth of medium enterprises, \( r(102) = .631, p < .05 \).

**Table 10: Correlation of Relational Social Capital on the Growth of Medium Enterprises**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Growth</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td></td>
<td>1.00</td>
<td></td>
<td>.631**</td>
<td>.000</td>
</tr>
<tr>
<td>Relational Social Capital</td>
<td></td>
<td>.631**</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

4.4.3 Regression of Relational Social Capital on the Growth of Medium Enterprises

The model summary as presented in Table 11 shows that relational social capital explained 39.9% of the variability of medium enterprises growth (\( R^2 = .399, F(1,100)=66.32, p < .05 \)) and the strength of the relationship was moderate (\( r = .631 \)).

**Table 11: Regression of Structural Social Capital on the Growth of Medium Enterprises**

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.631a</td>
<td>.399</td>
<td>.26934</td>
<td>.399</td>
<td>66.32</td>
<td>1</td>
<td>100</td>
<td>.000</td>
</tr>
</tbody>
</table>

**ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4.811</td>
<td>1</td>
<td>4.811</td>
<td>66.32</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>7.254</td>
<td>100</td>
<td>.073</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.065</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.439</td>
<td>.270</td>
<td>1.624</td>
<td>.108</td>
</tr>
<tr>
<td>Relational Social Capital</td>
<td>.696</td>
<td>.085</td>
<td>.631</td>
<td>.000</td>
</tr>
</tbody>
</table>

*p < .05
As shown in Table 11, the linear regression ANOVA showed that relational social capital statistically significantly predicted the growth of medium enterprises $F(1,100)=66.32, p<.05$.

The regression coefficient findings as indicated in Table 11 revealed that relational social capital predicted the growth of medium enterprises ($\beta=.696, p<0.5$). This implies that one unit increase of relational social capital would lead to an increase of 0.696 units of the growth of the medium enterprises. Based on the coefficients results, the general form of model equation established is as follows:

$$\text{Gme} = 0.439 + 0.696\text{Rsc}$$

Whereby Gme = Growth of medium enterprises and Rsc = Relational social capital.

### 4.5 Effect of Cognitive Social Capital on the Growth of Medium Enterprises

In this section the respondents were asked a set of questions which they were required to rate based on a 4-point likert scale 1 = Strongly Disagree, 2 = Disagree, 3 = Agree, and 4 = Strongly Agree.

#### 4.5.1 Effect of Cognitive Social Capital on the Growth of Medium Enterprises

The findings on the existence of cognitive social capital elements in the firm revealed that 51% of the respondents agreed that the firm share same business goals with key suppliers ($M=2.49, SD=.540$). Fifty eight percentage of the respondents either agreed or strongly agreed that the firm and customers often agree on what is in the best interest for both parties ($M=2.74, SD=.744$). Majority (95%) of the respondents either agreed or strongly agreed that the firm shared same business values with key suppliers ($M=3.25, SD=.574$).

On the other hand, the results on the effect of cognitive social capital elements on the growth of firm showed that 56% of the respondents either agreed or strongly agreed that sharing same business goals with key suppliers had resulted in an increase in the asset base ($M=2.64, SD=.535$). Majority (99%) of the respondents either agreed on strongly agreed that strong relationships with customers had resulted in retaining the existing customers and also an increase in the number of new customers ($M=3.26, SD=.715$). Equally, 99% of the respondents either agreed or strongly agreed that sharing business values with key suppliers had led to an increase in new product/service innovation in the firm ($M=3.23, SD=.462$).
Table 12: Effect of Cognitive Social Capital on the Growth of Medium Enterprises

<table>
<thead>
<tr>
<th>Variable</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm share same business goals with key suppliers</td>
<td>2</td>
<td>47</td>
<td>51</td>
<td>0</td>
<td>2.49</td>
<td>.540</td>
</tr>
<tr>
<td>The firm and customers often agree on what is in the best interest for both parties</td>
<td>1</td>
<td>41</td>
<td>41</td>
<td>17</td>
<td>2.74</td>
<td>.744</td>
</tr>
<tr>
<td>The firm share same business values with key suppliers</td>
<td>0</td>
<td>5</td>
<td>66</td>
<td>29</td>
<td>3.25</td>
<td>.574</td>
</tr>
<tr>
<td>Shared business goals with key suppliers has led to an increase in the asset base</td>
<td>3</td>
<td>41</td>
<td>45</td>
<td>11</td>
<td>2.64</td>
<td>.535</td>
</tr>
<tr>
<td>Strong mutual understanding between the firm and customers has resulted in retaining existing customers and an increase in the number of new customers</td>
<td>0</td>
<td>1</td>
<td>72</td>
<td>27</td>
<td>3.26</td>
<td>.715</td>
</tr>
<tr>
<td>Shared business values with key suppliers has led to an increase in new product/service innovation in the firm</td>
<td>0</td>
<td>1</td>
<td>75</td>
<td>24</td>
<td>3.23</td>
<td>.462</td>
</tr>
</tbody>
</table>

4.5.2 Correlation of Cognitive Social Capital on the Growth of Medium Enterprises

Table 13 shows that there was a statistically significant positive correlation between cognitive social capital and growth of medium enterprises, \( r (102) = .408, p < .05 \).

Table 13: Correlation of Cognitive Social Capital on the Growth of Medium Enterprises

<table>
<thead>
<tr>
<th>Variable</th>
<th>Performance And Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance and growth</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Cognitive Social Capital</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
<td>102</td>
</tr>
</tbody>
</table>

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

4.5.3 Regression of Cognitive Social Capital on the Growth of Medium Enterprises

The model summary as presented in Table 14 shows that cognitive social capital explained 16.7% of the variability of medium enterprises growth \( R^2 = 0.167, F(1,100) = 19.99, p < .05 \) and the strength of the relationship was weak \( r = .408 \).
Table 14: Regression of Cognitive Social Capital on the Growth of Medium Enterprises

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

ANOVA*

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2.010</td>
<td>1</td>
<td>2.010</td>
<td>19.991</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>10.055</td>
<td>100</td>
<td>.101</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.065</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.250</td>
<td>.310</td>
<td>4.036</td>
<td>.000</td>
</tr>
<tr>
<td>Cognitive Social Capital</td>
<td>.491</td>
<td>.110</td>
<td>.408</td>
<td>4.471</td>
</tr>
</tbody>
</table>

*p<.05

As shown in Table 14, the linear regression ANOVA showed that cognitive social capital statistically significantly predicted the growth of medium enterprises $F(1,100)=19.99, p<.05$. The regression coefficient findings as indicated in Table 14 revealed that cognitive social capital predicted the growth of medium enterprises ($\beta=.491, p<0.5$). This implies that one unit increase of cognitive social capital would lead to an increase of 0.491 units of the growth of the medium enterprises. Based on the coefficients results, the general form of model equation established is as follows:

$$Gme = 1.25 + 0.491Csc$$

Whereby $Gme = \text{Growth of medium enterprises}$ and $Csc = \text{Cognitive social capital}$. 
4.6 Chapter Summary

This chapter presents the results and findings of the study based on the specific objectives.

The findings on the effect of structural social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between structural social capital and growth of medium enterprises, $r (102) = .296, p < .05$. The results of the regression model summary indicated that structural social capital explained 8.7% of the variability of medium enterprises growth ($R^2 = .087$, $F(1,99) = 9.48, p < .05$). The linear regression ANOVA showed that structural social capital statistically significantly predicted the growth of medium enterprises $F(1,99) = 9.48, p < .05$. The regression coefficient findings revealed that structural social capital predicted the growth of medium enterprises ($\beta = .228, p < 0.5$). This implies that one unit increase of structural social capital would lead to an increase of 0.228 units of the growth of the medium enterprises.

The results on the effect of relational social capital on the growth of medium enterprises showed that there was a statistically significant positive correlation between relational social capital and growth of medium enterprises, $r (102) = .631, p < .05$. The results of the regression model summary indicated that relational social capital explained 39.9% of the variability of medium enterprises growth ($R^2 = 0.399$, $F(1,100) = 66.32, p < .05$). The linear regression ANOVA showed that relational social capital statistically significantly predicted the growth of medium enterprises $F(1,100) = 66.32, p < .05$.

The regression coefficient findings revealed that relational social capital predicted the growth of medium enterprises ($\beta = .696, p < 0.5$). This implies that one unit increase of relational social capital would lead to an increase of 0.696 units of the growth of the medium enterprises.

Finally, the findings on the effect of cognitive social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between cognitive social capital and the growth of medium enterprises, $r(102) = .408, p < .05$. The results of the regression model summary showed that cognitive social capital explained 16.7% of the variability of medium enterprises growth ($R^2 = 0.167$, $F(1,100) = 19.99, p < .05$). The linear regression ANOVA showed that cognitive social capital statistically significantly predicted the growth of medium enterprises $F(1,100) = 19.99, p < .05$. 

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The regression coefficient findings revealed that cognitive social capital predicted the growth of medium enterprises ($\beta=0.491$, $p<0.5$). This implies that one unit increase of cognitive social capital would lead to an increase of 0.491 units of the growth of the medium enterprises.

The next chapter, chapter five presents the discussion, conclusions and recommendations in line with the findings.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses results of this study in line with previous studies done by various scholars. The chapter therefore discusses the findings, draws conclusions, and makes the necessary recommendations for improvement and further studies.

5.2 Summary of Findings

The general objective of the study was to establish the effect of social capital on the growth of medium enterprises in the service sector in Kisumu City, Kenya. To achieve this objective, the study was guided by the following specific objectives; to determine the effect of structural social capital on the growth of medium enterprises, to determine the effect of relational social capital on the growth of medium enterprises and thirdly, to determine the effect of cognitive social capital on the growth of medium enterprises in Kisumu City.

The study adopted a descriptive correlation research design. The population consisted of 142 CEOs or persons in charge of key departments of registered medium enterprises operating in the service sector in Kisumu City. Stratified sampling technique was used to sample 116 CEOs from the total population, however only 102 out of the 116 responded. A structured questionnaire was adopted as data collection tool. Data was analysed using descriptive statistical techniques which included frequencies and percentage distributions, mean and standard deviations. Inferential statistical techniques were also used and this included Pearson correlation and regression analysis. Data was analyzed using SPSS as a tool and the results and findings were presented in figures and tables.

The findings on the effect of structural social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between structural social capital and growth of medium enterprises, $r (102) = .296, p < .05$. The results of the linear regression indicated that structural social capital explained 8.7% of the variability of medium enterprises growth ($R^2 = 0.087, F(1,99)=9.48, p < .05$).
The regression coefficient findings revealed that structural social capital predicted the growth of medium enterprises ($\beta=.228$, $p<0.5$). This implies that one unit increase of structural social capital would lead to an increase of 0.228 units of the growth of the medium enterprises.

In relation to the effect of relational social capital on the growth of medium enterprises, the results revealed that there was a statistically significant positive correlation between relational social capital and growth of medium enterprises, $r (102) =.631$, $p<.05$. The linear regression results indicated that relational social capital explained 39.9% of the variability of medium enterprises growth ($R^2=0.399$, $F(1,100)=66.32$, $p<.05$). The regression coefficient findings revealed that relational social capital predicted the growth of medium enterprises ($\beta=.696$, $p<0.5$). This implies that one unit increase of relational social capital would lead to an increase of 0.696 units of the growth of the medium enterprises.

The findings on the effect of cognitive social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between cognitive social capital and growth of medium enterprises, $r(102)=.408$, $p<.05$. The results of the linear regression indicated that cognitive social capital explained 16.7% of the variability of medium enterprises growth ($R^2=0.167$, $F(1,100)=19.99$, $p<.05$). The regression coefficient findings revealed that cognitive social capital predicted the growth of medium enterprises ($\beta=.491$, $p<0.5$). This implies that one unit increase of cognitive social capital would lead to an increase of 0.491 units of the growth of the medium enterprises.

5.3 Discussion

5.3.1 Effect of Structural Social Capital on the Growth of Medium Enterprises

The findings revealed that 65% disagreed that management of the firm participates in social organizations e.g. business club. Business networking is an effective low-cost marketing method for developing sales opportunities and contacts, based on referrals and introductions - either face-to-face at meetings and gatherings, or by other contact methods such as phone, email, and increasingly social and business networking websites. Business networking is an effective low-cost marketing method for developing sales opportunities and contacts, based on referrals and introductions - either face-to-face at meetings and gatherings, or by other contact methods such as phone, email, and increasingly social and business networking websites (Owolabi & Owolabi, 2013).
Because they can significantly help the process of customer acquisition, business networks have received considerable attention in the marketing literature. Although they are less controllable and manageable than marketing actions (e.g., direct mail, broadcast media), referrals have some serious advantages (Chollet, Géraudel & Mothe, 2014). It was also revealed that there is high level of network diversity among the employees as 70% agreed to this statement. Downey, Werff, Thomas and Plaut (2014) noted in their study to investigate the association of diversity practices with an important aspect of workplace well-being, engagement and using a sample of 4,597 health sector employees, the results indicated that diversity practices were positively associated to the trusting climate in the firm that was positively related to employee engagement. Furthermore, the relationship between diversity practices and trust climate was moderated by inclusion.

The findings on the effect of structural social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between structural social capital and growth of medium enterprises, $r (102)=.296, p<.05$. This indicates that the medium enterprises can build more social capital in order to improve their profits. This coincides with Kipchirchir (2014) study on the influence of social capital on the growth of SMEs in Nairobi County where the correlation results established among the different relationships between the social capital variables and the indicators of growth. Trust has the highest positive coefficient of correlation. The social capital variable of trust and Civic engagement had a strong and positive relation to the improvement in profits of the SMEs.

The results of the linear regression indicated that structural social capital explained 8.7% of the variability of medium enterprises growth ($R^2 =0.087$, $F(1,99)=9.48$, $p<.05$). The regression coefficient findings revealed that structural social capital predicted the growth of medium enterprises ($\beta=.228$, $p<.05$). Similar findings have been expressed in previous studies like Muniady, Al Mamun, Mohamad, Permarupan and Zainol (2015) research on the effect of cognitive and relational social capital on structural social capital and micro-enterprise performance among micro-enterprises owned and managed by women in Peninsular Malaysia where it was revealed that structural social capital had a significant positive effect on micro-enterprise performance and the outcome of social capital provides entrepreneurs with resources and knowledge that are not available in the first place.
Chuairuung (2013) in their study to determine relational networks and family firm Capital structure in Thailand revealed that owners who are have many weak ties outside the family circle were more likely to make use bank loans or other external equity compared to those with close stronger ties. Thus networks did not necessarily act as link in facilitating loan access and result indicate that when accessing capital via bank loans, direct information sharing rather than networks was necessary in facilitating the process. A study by Turner (2011) in the United States of America titled “Social Capital: Measurement, Dimensional Interactions, and Performance Implications”, concluded that structural dimension of social capital is the starting point for developing a firm’s supply chain into a sustainable competitive advantage. It is therefore important for each firm to know the key contacts at major suppliers – people one can call to help jointly plan – stands to help a firm and the supplier.

5.3.2 Effect of Relational Social Capital on the Growth of Medium Enterprises

The findings revealed that 73% of respondents agreed that there is high level of trust in the firm by the customers. Trust plays a key major role towards the willingness of network actors to share knowledge. A lack of it may result to competitive confusion about whether or not a network firm is strong (Powell, Koput & Smith, 2014). Literature acknowledged the important of trust in developing and maintaining productive cross border business relationships. Therefore Trust can be used as an effective tool in mitigating foreign partner opportunism where partners will be less likely to engage in untrustworthy behaviour (Eberhard & Craig, 2013). A trustworthy partner is known to make the necessary efforts to act in accordance with prior agreements, by being fair to the exchange partner, and not taking excessive advantage of partner (Boso, Story & Cadogan, 2013).

It was also revealed that 68% of the respondents agreed that there are close relationships among employees in the firm. Andrew and Crispin (2013) noted that social capital contributes to performance by highlighting the importance of cooperation and trust within the firm and the market. The interdependence between decisions of individual agents and the emergence of externalities and common goods makes cooperation imperative to maximizing social welfare. The superiority of social cooperation has long been documented in economic and social thought.
But social capital, as social norms and networks, sustains cooperation by emphasizing its intrinsic value and its pursuit as an end in itself. It is a mixed-motive cooperation, in which individual behaviour takes account of its effects on the welfare of others, alongside its own.

The results on effect of relational social capital on the growth of medium enterprises showed that there was a statistically significant positive correlation between relational social capital and growth of medium enterprises, $r(102) = .631, p < .05$. Previous studies have also shown a positive relationship between relational social capital and other factors of growth and such is the study by Ortiz, Donate and Guardamalis (2016) study in Austria which sought to determine relational and cognitive social capital and its influence on strategies of external knowledge acquisition. The findings established that relational social capital had an effect on the strategies used for growth (alliances and direct purchases).

The linear regression results indicated that relational social capital explained 39.9% of the variability of medium enterprises growth ($R^2 = 0.399, F(1,100) = 66.32, p < .05$). Raza (2012) study on impact of relational capital management on firm performance in the manufacturing small and medium enterprises of Khyber Pakhtunkhwa region of India and the study revealed that there is a positive relationship between a firm’s customer relational capital and firm performance. This means that a positive change or a boost in firm’s customer relational capital leads to an increase in performance of the firm. The firm which invests capital to strengthen its relationships with customers and stronger and organized distribution channels increases its performance.

The regression coefficient findings revealed that relational social capital predicted the growth of medium enterprises ($\beta = .696, p < 0.5$). This indicated the effect of relational social, capital on growth, however other studies have indicated that relational social capital may not be very influential in determining performance. For instance Karahanna and Preston (2013) study to determine the effect of social capital of the relationship between the CIO and top management team on firm performance. The results show that cognitive social capital has the strongest total effect on information system strategic alignment (and consequently on firm performance), structural social capital has the lowest, and relational social capital lies in between. Tuner (2011) found out in their study on Social Capital: Measurement, Dimensional Interactions, and Performance Implications that while it is important to remain in contact with the right people at the right suppliers, simply knowing the right people is not enough to derive true value from the supply chain.
By working to develop a sense of trust and respect (relational social capital), a firm stands to get more out of their supplier than just a product to put on the shelf. Complex forms of firm performance improvement require a sense of trust and respect with supply partners and therefore firms seeking competitive advantage through their supply chain partners will be well served to develop meaningful relationships with a developed sense of trust and respect.

5.3.3 Effect of Cognitive Social Capital on the Growth of Medium Enterprises

The findings revealed that 47% of the respondents agreed that the firm share same business goals and values with key suppliers. When a firm’s stakeholders bring contradicting ambitions into their arrangement, interpartner conflict may arise. Conflict among parties in an intrafirm collaboration tends to result in frustration and dissatisfaction (Blanchot, Nolan & Whitemore, 2013). Such a negative atmosphere is not conducive to the success of the firm. In studying intra-and interdepartmental conflict within a large utility company, Nasr et al. (2014) found that lower levels of goal clarity increased both types of conflict. For stronger intrafirm relationships, we also expect that goal clarity reduces interpartner conflict by facilitating the negotiation and establishment of common goals.

Small businesses are heavily influenced by their founder and his or her vision for the business can exist across subsequent generations (Kelly et al., 2010). Such a vision, shared across the organization may play a role in the long-term success of the firm. Also because of the central role of the founder and his or her closer associates, a higher sense of trust and confidence in firm management may positively influence long-term performance. Another research conducted by Pinho (2011) on Social capital and dynamic capabilities in international performance of SMEs found out that in order to build new dynamic capabilities to cope with turbulent and unpredictable markets, small to medium-sized enterprises needed to leverage their network relationships that provide access to novel sources of information. These dynamic capabilities may in turn positively influence international performance. It was also revealed that the firm and customers often agree on what is in the best interest for both parties as many agreed.

The findings on the effect of cognitive social capital on the growth of medium enterprises revealed that there was a statistically significant positive correlation between cognitive social capital and growth of medium enterprises, \( r(102) = .408, p < .05 \).
To estimate the rate of relationship among social capital and personnel’s performance and role of triple dimensions of social capital in performance, Shariatmadari, Rashid, Zadeh and Safae (2014) correlation test and stepwise multistage regression showed the relational dimension solely interpreted 52.5% performance of staff employees in Islamic Azad University Central Tehran branch (CTB) and both relational and cognitive dimensions affected totally on performance of staff employees of Islamic Azad University (CTB) at level 59.4%, while structural dimension had no significant impact on performance of staff employees of Islamic Azad University (CTB).

The results of the linear regression indicated that cognitive social capital explained 16.7% of the variability of medium enterprises growth ($R^2 =0.167$, $F(1,100)=19.99$, $p<.05$). The regression coefficient findings revealed that cognitive social capital predicted the growth of medium enterprises ($\beta=.491$, $p<0.5$). Song (2016) established the same findings in his study the effect of social capital on organizational performance in different cultures: a cross-national comparison of the United States and South Korea. The results showed that organizations with higher levels of structural, relational, and cognitive social capital achieve higher levels of organizational performance. Yosra (2015) study on exploring the family effect on firm performance: the impact of internal social capital dimensions on family firm performance in Tunisia revealed that relational dimension of internal social capital – trust, norms, obligations and identity, has a positive direct effect on financial and non-financial performance. These findings suggested that family norms within family firms create obligations and expectations which lead to higher commitment to the business.

A study by Tuner (2011) concluded that it is important for firms to find and understand how their goals align with the supplier’s goals. This approach would lead to a win-win situation with suppliers and can be the key to creating value from the supply chain. The study suggested that the single most important part of a relationship with a supplier is agreeing on what is in the best interest of the relationship (i.e. the path loading between the cognitive and the relational dimension has the highest among the dimensions of social capital).
5.4 Conclusions

The following conclusions were made.

5.4.1 Effects of Structural Social Capital on the Growth of Medium Enterprises

Most of the managers in medium enterprises do not take part in social organizations like business clubs, however there is a preference for network diversity among its employees. There has also been an increased growth in customer network over the years although engagement in social organizations did not in any way influence the increase but the growing customer network size had positively impacted sales volumes for the firm.

5.4.2 Effects of Relational Social Capital on the Growth of Medium Enterprises

There was a high level trust in the firms by the customers and there was a good work environment considering the good relationships among employees, management and suppliers. The high bonding relationships between employees has also constituted to the low employee exit rate in the firms.

5.4.3 Effects of Cognitive Social Capital on the Growth of Medium Enterprises

Some firms share same business goals and values with key suppliers and the medium enterprises care for what their customers need. In addition, there is high level of shared emotional connection among employees and between employees and the firm.

5.5 Recommendations

This section presents recommendations for improvement and further studies based on specific objectives.

5.5.1 Recommendation for Improvement

5.5.1.1 Effect of Structural Social Capital on the Growth of Medium Enterprises

Management of the firm need to take time to participate in social organizations as such activities would help in marketing and networking of the business. Medium enterprises should maintain high level of network diversity among the employees.
It has been acknowledged that the customer network size is growing and therefore the medium enterprises need to ensure that they satisfy the customer’s needs by putting adequate strategies in place.

5.5.1.2 Effect of Relational Social Capital on the Growth of Medium Enterprises

There is a need to maintain a high level of trust between the firm and the customers. There is also a need to continuously maintain a close relationship with the major stakeholders in order to guarantee increased market share, and profitability of the firm. The medium enterprises need to maintain the relationships between the firm and the suppliers to guarantee an increase in firm’s asset base.

5.5.1.3 Effect of Cognitive Social Capital on the Growth of Medium Enterprises

Medium enterprises need to continue sharing their business goals and values with key suppliers and customers on what is in the best interest for both parties. In addition, the business should only share goals and values with key suppliers if it leads to an increase in the asset base.

5.5.2 Recommendations for Further Studies

This research recommends that similar studies should be done in medium enterprises operating in other counties in order to be able to re-confirm the findings. Also there is a need to undertake a similar study in large firms so as to establish if they are also affected by issues of social capital.
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APPENDICES

Appendix I: Letter of Introduction

July 2017

Dear Respondent,

I am a student at United States International University Africa (USIU-Africa) pursuing a Masters of Business Administration program. In partial fulfillment of my course work, I would like to conduct a research project to assess “The Effect of Social Capital on the Growth of Medium Enterprises in Kisumu City, Kenya.”

The findings of this study will be used to improve the growth and sustainability of Medium Enterprises.

Kindly therefore, complete the attached questionnaire with accurate information that will be used entirely for this research while observing utmost confidentiality. Your assistance is highly valued.

Thank you in advance.

Yours faithfully,

OBONYO, RICHARD OKELLO
Tel: 0733 887 944
Appendix II: Questionnaire

This questionnaire is for collecting data on the effect of social capital\(^1\) on the growth of Medium Enterprises in Kisumu City. The questionnaire has four sections i.e. Section A contains questions on the background information, Section B, contains the questions on the effect of structural social capital on the growth of Medium Enterprises, Section C addresses the effect of relational social capital on the growth of medium enterprises and lastly, Section D asks questions about the effect of cognitive social capital on growth of the medium enterprises.

SECTION A: BACKGROUND INFORMATION

Please tick (√) where appropriate or fill in the information in the space provided.

1. Please indicate your Gender. Male [ ] Female [ ]
2. Please indicate your age bracket
   - Below 20 years [ ] 21–30 years [ ] 31–40 years [ ] 41–50 years [ ] Over 50 years [ ]
3. Please indicate your highest level of education
   - High School Certificate [ ] Vocational Training [ ] Bachelor Degree [ ]
   - Master Degree [ ] Doctorate Degree [ ]
   - Other (Please specify) ___________________________________________________________________
4. Please check category that best describes the firm’s primary area of business.
   - Manufacturing [ ] Trading [ ] Services [ ] Agri Business [ ]
5. How many years has your business been operating?
   - Less than 1 year [ ] 1 – 3 years [ ] 3 – 5 years [ ] 6 – 10 years [ ] More than 10 years [ ]
6. How many full time employees does your firm have?
   - Less than 10 [ ] 10-49 [ ] 50-249 [ ] 250 and Above [ ]

\(^1\) Social Capital is referred to as a valuable asset that stems from access to resources made available through social relationships or networks.
**Instructions for Sections B - D**: Please indicate the extent to which you agree or disagree with each of the following statements regarding the existence of social capital elements and their effects on the growth of your firm. Use a scale of 1 to 4, where 1 = Strongly Disagree [SD], 2 = Disagree [D], 3 = Agree [A] and 4 = Strongly Agree [SA]. Please tick (✓) where appropriate.

**SECTION B: THE EFFECT OF STRUCTURAL SOCIAL CAPITAL ON THE GROWTH OF MEDIUM ENTERPRISES**

<table>
<thead>
<tr>
<th>#</th>
<th>Structural social capital consists of various networks, associations, and institutions, as well as the rules and procedures they establish</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The management of the firm participates in social organizations e.g. business clubs etc.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>There is high level of network diversity among the employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>There is high network density of customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The customer network size is growing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Effect of structural social capital on the growth of the firm</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Participation in social organizations (e.g. business clubs) by management has increased the number of new customers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>The diversity in firm’s employee network has increased the level of new product/service innovation in the firm</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>3</td>
<td>Network density among customers has increased profitability of the firm</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>4</td>
<td>Growing customer network size has resulted to high sales volumes for the firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION C: THE EFFECT OF RELATIONAL SOCIAL CAPITAL ON THE GROWTH OF MEDIUM ENTERPRISES**

<table>
<thead>
<tr>
<th>#</th>
<th>Relational social capital are the expectations and levels of trust or respect that are developed through repeated interactions within the network</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A) Existence of relational social capital elements</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>There is high level of trust in the firm by the customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>There is close relationships among employees in the firm</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>4</td>
<td>There is close relationships between employees and management of the firm</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Effect of relational social capital on the growth of the firm</th>
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<th>D</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High level of trust in the firm by the customers has resulted in an increased market share</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>The close bonding relationships between employees has resulted in high employee retention</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>The close bridging relationships between employees and management of the firm has enhanced teamwork thus an increase in the profitability of the firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The close linking relationships between the firm and the suppliers has increased the firm’s asset base</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION D: THE EFFECT OF COGNITIVE SOCIAL CAPITAL ON THE GROWTH OF MEDIUM ENTERPRISES

Cognitive social capital consists of attitudes and behavioural norms, shared goals, values, trust, and reciprocity

<table>
<thead>
<tr>
<th>#</th>
<th>A) Existence of cognitive social capital elements</th>
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<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The firm share same business goals with key suppliers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>The firm and customers often agree on what is in the best interest for both parties</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>The firm share same business values with key suppliers</td>
<td>1</td>
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<td>3</td>
<td>4</td>
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</table>

<table>
<thead>
<tr>
<th>#</th>
<th>B) Effect of cognitive social capital on the growth of the firm</th>
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<th>D</th>
<th>A</th>
<th>SA</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Share business goals with key suppliers has led to an increase in the asset base</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Strong mutual understanding between the firm and customers has resulted in retaining existing customers and an increase in the number of new customers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Share business values with key suppliers has led to an increase in new product/service innovation in the firm</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

THANK YOU FOR YOUR TIME AND RESPONSES