

# Relationship between Strategic Networking on Financial Performance in Small Medium Enterprise in Eldoret Town Uasin Gishu County, Kenya

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## Abstract

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*This study examines the relationship between strategic networking on financial performance and small and medium enterprises in Uasin Gishu County. This study was guided by the following research questions: what is the relationship between networking intensity and financial performance? How does networking strength relate with financial performance? Does networking proactivity have relationship with financial performance? And what is the relationship between networking and financial performance? The study was guided by Theory of strategic network and social capital Theory. This study adopted a correlation research design. The population of study comprised of 2053 SMEs found in Eldoret Town. Questionnaires were used to obtain the primary data, and document analysis and interview schedules for secondary. Cronbach's alpha was used to determine reliability. The data was analyzed using descriptive (mean, standard deviation). The t test, was used to determine whether the means of two groups are statistically different from one another; analysis of variance, was used to determine if there was significant difference among the means of three or more groups; and chi square, was used to compare group frequencies, or to see if an event occurs more frequently in one group than another. The findings of indicated that networking intensity, strength networking proactive networking and networking diversity have a positive and significant effect on the financial performance of SMEs. Therefore the study recommends SME managers need to actively engage in networking within and outside of existing networks and especially with those that are relevant to the business*

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**Key words:** strategic networking, financial performance and Small& medium enterprises

## Introduction

### 1.1 Background to the Problem

Globally, improving performance of Small and medium industries in considered a vital element of the growth of Gross Domestic Product. Kraus, Harms, & Schwarz, (2006) but there is very little objective data relating activities to business performance in SMEs yet there are claims by academics and managers that activities do improve business performance (Simpson, *et. al.*, 2006).

Small and medium-sized enterprises are observed as capable instruments to solving the critical problems of development and poverty affecting most developing countries (Kayanula & Quartey 2000). Given the great potential of small and medium sized enterprises to bring about social and economic development, it is of no surprise that the performance of SMEs is of all huge concern to the government of different countries in the world.

Small and medium sized enterprises in both developing and developed countries plays important roles in the process of industrialization and economic growth, by significantly contributing to employment generation, income generation and catalyzing development in urban and rural areas (Hallberg, 2000; Olutunla,2001; OECD, 2004; Wasiams, 2006). Networking strategy is a useful way for SMEs owners/managers to expand expertise and knowledge (Gilmore *et al*, 2006). Due to the nature and simple structure of small firms and their frequent contacts with customers, all SMEs emphasis on direct relationship with specific customers and other important factors in networks strategies (Reijonen,2010). Gilmore, *et al*. (2006) recognized that networking activity could be informal even though it is important as it can help SME owners / managers utilize their limited resources and compete more effectively with their powerful competitors. Therefore, SMEs are often recognized as a suitable area for the forming of effective networks. Regarding the limitations that SMEs are faced with in gaining resources, networking is an important business dimension. Networking encapsulates owners/managers communicating activities with people, attending relevant trade events, gathering information regarding business activities in order to do business plan and performing activities (Gilmore *et al*, 2006). Nevertheless, the research evidences that are related to SMEs networking are inadequate. This is true especially in terms of activities, or the need for developing networks by SMEs in doing.

## 1.2 Statement of the Problem

Ideally, Performance of Small and medium enterprises are the major agents of economic growth and employment, finance on the other hand has been identified in many business surveys as the most important factor determining the survival and growth of small and medium sized enterprises in both developing and developed countries. Access to finance allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment.

Currently, Small and Medium Enterprises in Uasin County face unique issues, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Just to mention a few there has been complains regarding tedious registration and certification processes in Kenya. Various bodies have their requirements and require money and time. One option left to an entrepreneur is to evade the process but this proves more expensive at the end because of penalty given. Lack of access to credit is almost universally indicated as a key problem for SME's. This affects technology choice by limiting the number of alternatives that can be considered. Many SME's may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance.

There are various other financial challenges that face small enterprises in Uasin Gishu. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SME's in Kenya as asserted by (Wanjohi & Mugure, 2009)

Several studies have been conducted in this area; Study done by Fong, K.S & Tim ,M (2006) on Strategic networking and growth of Technology oriented SMEs in Singapore, found that firm growth is independent of the network range, but predicted by the intensity (frequency of contact) and the "richness" of relationships within the production network layer (e.g. with customers and suppliers). A study by Turyakira, P. & Mbidde, C.K, (2014) on networking on SMEs in Uganda found that networking factors can help to improve the survival rate of SMEs and may offer great opportunities for business competitiveness both locally and globally. However, still relationship is not clear with other research findings like Kitprem, V. Peng, C & Dennis .P,(2007) on Relationship between Strategic planning and SMEs in Thailand found that level of strategic planning is positively associated with growth of the SMEs.

None of the studies has investigated so far the relationship between strategic networking on financial performance and small medium enterprise in Uasin Gishu. Thus, this study therefore, examined the relationship between strategic networking on financial performance and SME in Uasin Gishu County Kenya.

### **1.3 Research questions**

- i. What is the relationship between networking intensity (NI) and financial performance?
- ii. How does networking strength (NS) relate with financial performance?
- iii. Does networking proactivity (NP) have relationship with financial performance?
- iv. What is the relationship between networking diversity (ND) and financial performance?

### **1.4 Research Hypotheses**

In order to assist the researcher to avoid bias and to provide for a neutral point of approach while trying to answer the research questions, the following research hypothesis were developed and statistically state

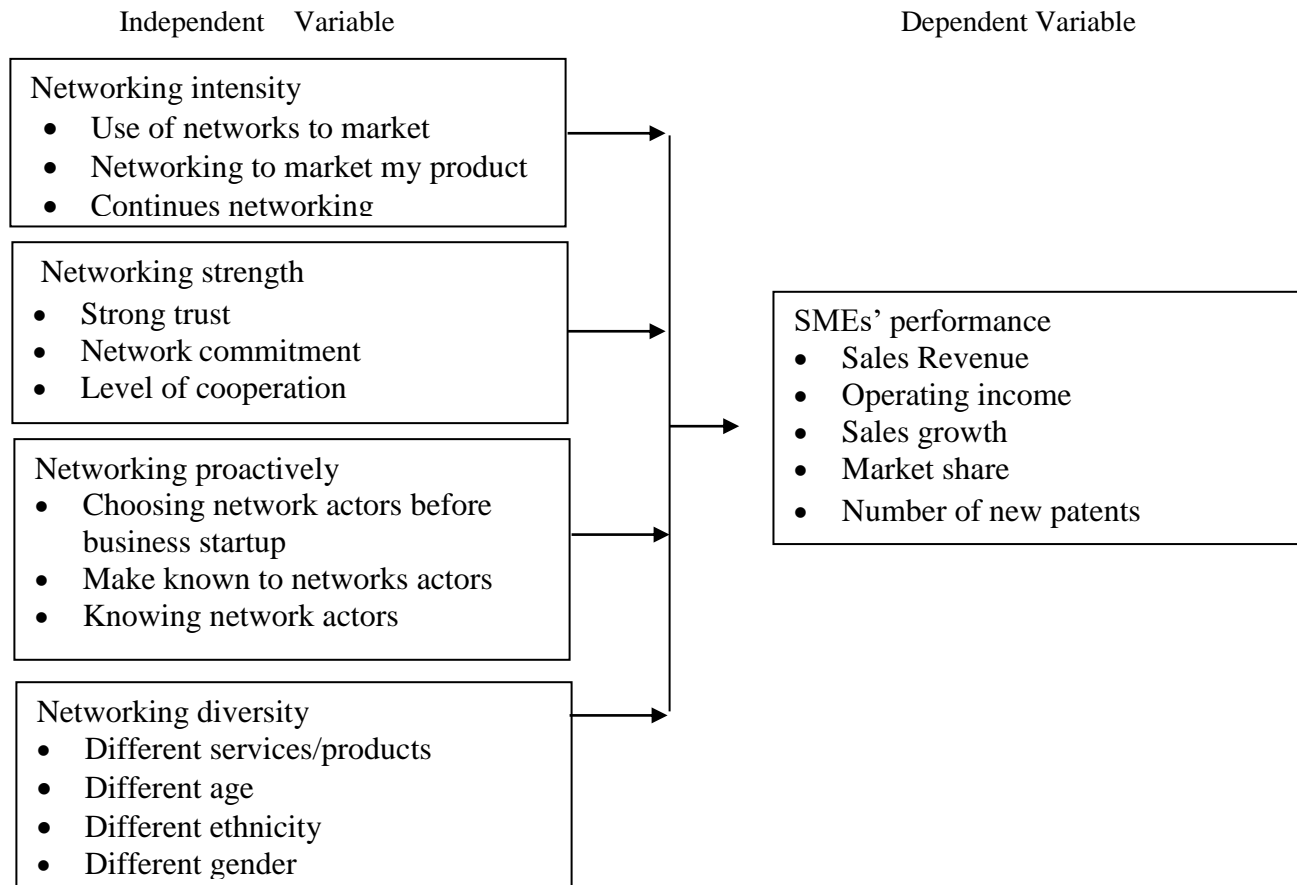
- H<sub>1</sub>: There is relationship between networking intensity and financial performance.  
H<sub>2</sub>: There is relationship between networking strength and financial performance.  
H<sub>3</sub>: There is relationship between networking proactively and financial performance.  
H<sub>4</sub>: There is relationship between networking diversity and financial performance.

### **1.5 Significance of the Study**

This study was of great benefit to the SME owners because based on findings, recommendation and suggestions the SME was be in a position to adopt strategies that enhance performance and therefore improved their services, use the recommendations to address the challenges it is facing at the moment and even other organizations by implementation of good leadership strategies and was understand the challenges associated with it and how to address them. Scholars were also benefit from the findings since it was to allow for more research and literature review.

### **1.6 Conceptual Framework**

The independent variable of the study are networking intensity, networking strength, networking proactively and networking diversity, which is assumed to affect the SME financial performance (dependent variable). Networking intensity shows SME owner-managers tendency to use marketing networks in doing marketing, networking strength that shows the strength of linkages between owner-manager and network actors and networking diversity shows the number and variety of network sources that an SME owner-manager uses in doing marketing.



**Figure 1: Conceptual Framework**  
Source: (researcher, 2014)

## Literature Review

### 2.1 Review of Theories

#### 2.1.1 Theory of Strategic Networks

The actors are the individuals that make up the network and are usually represented graphically as the nodes of a web. They may be different kinds of entities, according to the nature of the phenomenon to be analyzed: human beings, places, computers, organizations or in the case of our area of interest firms. The links or ties are the arches that connect individuals/nodes and represent the relationships between the actors.

They may have different forms, directions, lengths and intensities. The flows indicate the exchanges that occur between the actors within the network and may have different natures and transaction contents: flows of information, advice, money, goods raw materials, components, and equipment, power, friendship. Finally, the mechanisms of the network are the modes and rules of interaction employed by the actors within the networks.

#### 2.1.2 Social Capital Theory

social capital is defined as the sum of effective potential resources and existing resources available, resulting from the network of relationships that individuals possesses. Indeed, access to external information and skills in managing boardroom dynamics and processes are critical too in fulfilling their roles within corporations

#### 2.1.3 Criticism of the Theories

Social capital has been argued to be vague, hard to measure, poorly defined and perhaps not even a form of capital at all. Most of the theory of strategic network as a model for organizing social realities focus on what it has replaced: tightly woven, location-specific communities (a community itself can be defined as a particular kind of network).

## Research Design and Methodology

### 3.1 Research Design

This study adopted a correlational research. The basic idea behind correlational research was to examine relationships between strategic networking on financial performance and SME in Uasin Gishu County Kenya.

### 3.2 Target Population and sample size

The population of study comprised registered SMEs where owners/managers in Uasin Gishu County. According to Uasin Gishu County records there are 10252 registered SMEs, (Company Registrar, 2013). Out of these 2053 SMEs are in Eldoret Town. The study only targeted SMEs within seven sectors, namely; financial services, Retail, Telecommunication, Agriculture, Hospitality, Professional services and Workshop services.

**Table 3.1: Target Population**

Name of SMEs Population	Targeted
Financial Services	450
Retail	470
Telecommunication	389
Agriculture	195
Hospitability	151
Professional services	147
Workshop services	251
<b>Total</b>	<b>2053</b>

Source ((Company Registrar, 2013)

**Table 3.2: Sampling**

Name of SME	Target population	$n_{h= (N_h/N)n}$
Financial services	450	73
Retail	470	77
Telecommunication	389	63
Agriculture	195	32
Hospitality	151	25
Professional services	147	24
Workshop services	251	41
Total	2053	335

The researcher assigned random numbers to respondents in each street then calculated the max-value of the sampling interval (the number of individuals in the population divided by the number of individuals to be chosen for the sample), selected a random number between 1 and the max-value, and repeatedly adds the max value to select the rest of the SMEs. And chose the sample by selecting the SMEs corresponding to the number sequence obtained.

### 3.3 Description of Data Collection Instrument and Procedures

The study employed both primary and secondary source of data collection

Self-administered Questionnaires were used to obtain the primary data required for the field. Questionnaires having six sections were administered to the targeted population on the relationship between strategic networking on financial performance and SMEs in Eldoret town Uasin Gishu County This research employed a Likert scale i.e. strongly disagrees, strongly agree, in rating the various responses. The respondents were required to read, understand and tick an appropriate choice.

The respondents comprised of the SME manager/owners in Eldoret town. This study made use of face to face interview as a method of data collection. An interview schedule is a set of questions that an interviewer asks while interviewing the respondent. Interviews were used in collecting data from the SMEs owners. It used open-ended questions, it contained questions such as (“Tell me about...”) and some may arise naturally during the interview (“You said a moment ago...can you tell me more?”). The researcher tried to build a rapport with the respondents; the interview was like a conversation and questions were asked when the interviewer felt it was appropriate to ask them. The content and the objective of the interviews did not differ from that of the questionnaire. Document analysis was also used to obtain information.

### 3.4 Validity and Reliability of the Instruments

#### 3.4.1 Validity of the Instrument Results

This study applied the content validity as a measure of degree to which data was obtained from. The researcher gave a copy of the questionnaire to an expert panel to check if it represented all the research questions under the study. A pilot study on 7 SMEs out of the sampled 335 was carried out to pretest the research instruments before actual administration on the respondents.

#### 3.4.2 Reliability of the instrument results

Under this study, reliability was determined through test- re-test method where the instruments were then administered twice to the same sample of 7 respondents, which then correlated to determine the agreement among the response.

### 3.5 Descriptions of Data Analysis and Presentation.

Data was analyzed both quantitatively and qualitatively. Data analysis was facilitated by use of SPSS (Statistical Package for Social Science) Computer package. Qualitative data was analyzed using thematic analysis. Descriptive methods were employed in analyzing qualitative data where frequencies and proportions were used in interpreting the respondent’s perception of issues that were raised in the questionnaires so as to answer the research questions. Descriptive statistics such as frequency distribution, percentages, means and standard deviations were calculated and data presented in form of tables, graphs and charts were used. Inferential statistics was used to draw implications from the data with regard to the regression model.

Multiple regression model used in this study was given as;

$$y_1 = \alpha_e + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \varepsilon_i$$

$y_1$ =SME Performance

$\alpha$  = constant.

$\beta_1... \beta_5$ = the slope which represents the degree in which SME performance changes as the independent variable change by one unit variables.

$x_1$ =networking intensity

$x_2$ = networking strength

$x_3$ = networking proactivity

$x_4$ = networking diversity

$\varepsilon$  = error term

In order to test for multicollinearity among the predictor variables, variance inflation factor (VIF) and tolerance was applied. The tolerance indicator for predictor variables greater than 0.1 and VIF values less than 10 indicated that there was no multicollinearity problem (Neter *et al* 1996), (Ott & Longnecker 2001). Variables were tested at a significant level of 0.01 (1%) and data presentation was done using tables.

## Results

### 4.1 Presentation of the Findings

It focused on the questionnaire return rate, demographic information of the respondents, presentation and interpretation of the findings. The presentation of findings was done based on the research questions and the hypothesis of the study.

**4.1.1 Questionnaire Return Rate**

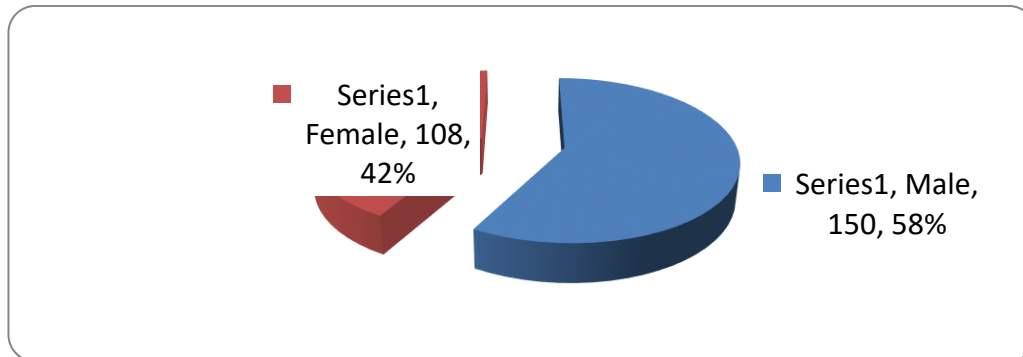
The study findings revealed that 335 questionnaires were distributed to the respondents. 258 questionnaires out of the 335 were returned, which gives a response rate of approximately 77% percent.

**4.1.2 Demographic Information**

Characteristics of respondents are outlined as gender, age of the SME and the number of employees.

**4.1.2.1 Respondent gender**

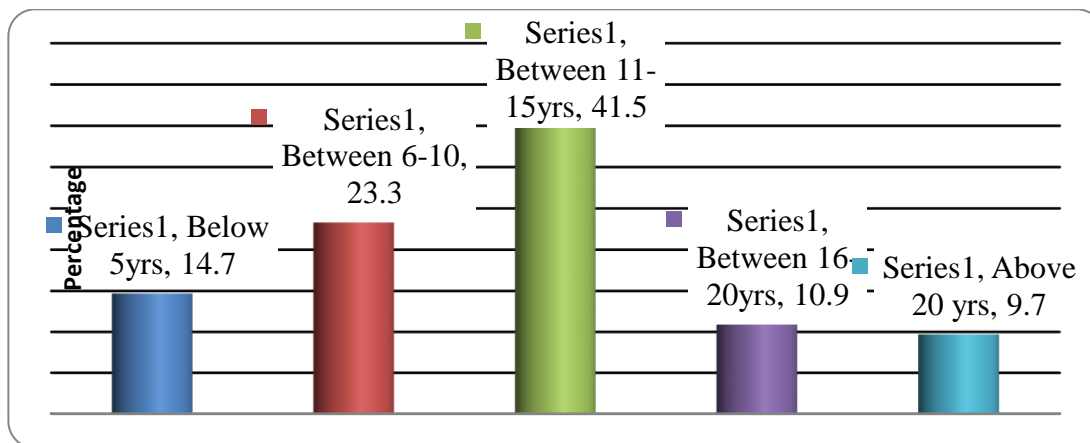
The researcher sought to establish the gender of the respondents. The findings are as presented in figure 2. As evidenced in the figure, 58% (150) of the respondents are male and 42% (108) are female. This indicates that more male individuals are in business.



**Figure 2: Respondent Gender**

**4.1.2.2 Age of the SME**

The age of the SME was also established by the researcher. The findings of the study are presented in figure 3. As shown in figure 3, 41.5% of the SMEs have been in operation for 11 to 15 years, 23.3% for 6 to 10 years, 14.7% for less than 5 years, 10.9% for 16 to 20 years and 9.2% of the SMEs have been in operation for over 20 years.

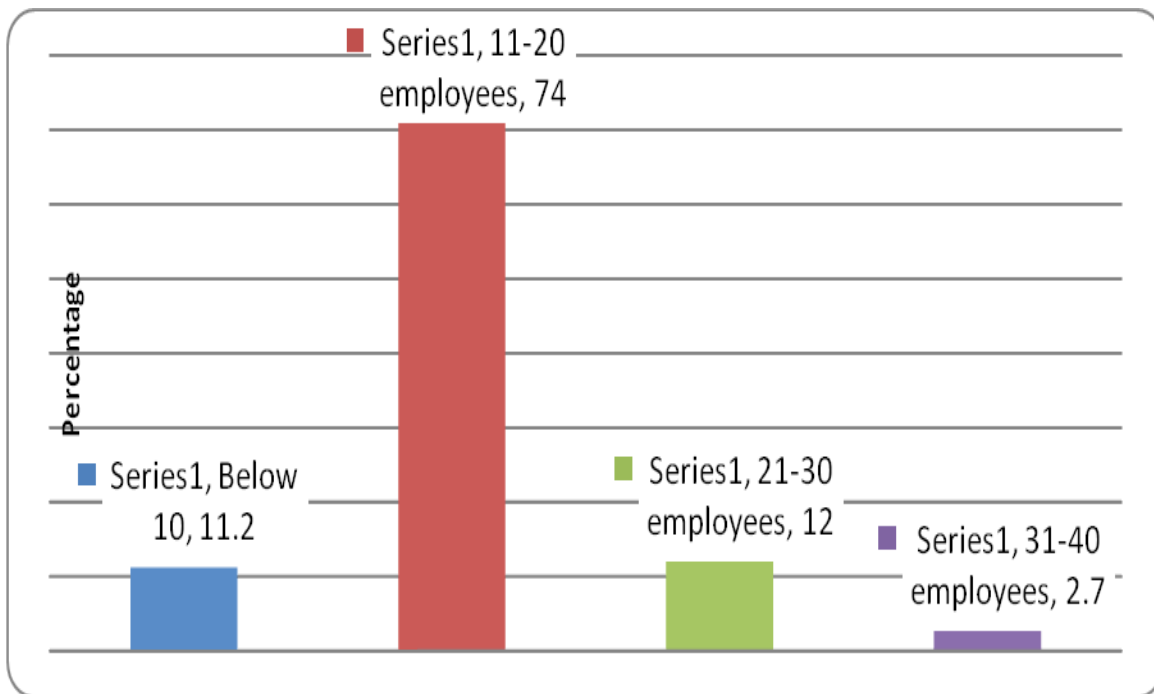


**Figure 3: Age of the SME**

**4.1.2.3 Number of Employees**

The researcher also deemed it important to establish the number of employees. The results are as presented in figure 4. From figure 4, 74% of the respondents confirmed that there are between 11 to 20 employees, 12% of them noted that there between 21 to 30 employees, 11.2% of them stated that there are below 10 employees and 2.7% of the respondents confirmed that there are between 31 to 40 employees.

**Figure4: Number of Employees**



**4.1.3 Networking Intensity**

The researcher examined the effect of networking intensity on financial performance. The results of the study are as presented in table 4.1. It was confirmed by 66.7% (172) of the respondents that they were continuing networking (mean = 4.3, SD = 0.552). It is also evident from 74.4% (192) of the respondents that they have been using networking since they started their business (mean = 4.17, SD = 0.509). Further, 49.2% (127) of the respondents agreed that they intend to continue using networking to market their product (mean = 4.01, SD = 1.006). Similarly, 45% (116) of the respondents agreed that they have used networks to market their products. However, 44.2% (114) of them strongly disagreed that they have used networks to market their products. Thus, the respondents were generally uncertain in regards to the use of networks to market their products (mean = 3.22, SD = 1.131). The findings infer that SMEs networking strength practices were above average. SMEs that have a network that has lower intensity probably produce high quality of information with low rate of redundancy (Greece, 2010). The closed contacts might be their family members, relatives and friends who also provide financial support to the entrepreneurs based on long-term relationship.

**Table 4.1 Networking Intensity**

		SD	D	N	A	SA	Mean	Std. Deviation
I have used networks to market my products	Freq.	0	114	0	116	28	3.22	1.131
	%	0	44.2	0	45	10.9		
I intend to continue using networking to market my product	Freq.	0	43	0	127	88	4.01	1.006
	%	0	16.7	0	49.2	34.1		
I was continues networking	Freq.	2	0	0	172	84	4.3	0.552
	%	0.8	0	0	66.7	32.6		
I have been using networking since I started my business	Freq.	1	0	9	192	56	4.17	0.509
	%	0.4		3.5	74.4	21.7		



#### 4.1.4 Networking Strength

In this section of the study, the researcher sought to establish the effect of networking strength on financial performance. Table 4.2 presents the findings of the study. As evidenced in table 4.2, 100% (258) of the respondents strongly agreed that they have strong trust with their network actors (mean = 4.41, SD = 0.545). Also, 53.9% (139) of the respondents strongly agreed that them and their network actors have relation beyond business (mean = 4.34, SD = 0.905). As well, 63.2% (163) of the respondents agreed that they have high level of cooperation between their business and network actors ( mean = 4.34, SD = 0.535).

Besides, 65.5% (169) of the respondents agreed that them and their network actors are committed to each other ( mean = 4.32, SD = 0.523). With SME indicating high networking strength they are able to obtain route for individual SMEs to address their problems as well as to improve their competitive position. By coordinating their activities, enterprises can collectively achieve economies of scale beyond the reach of individual small-scale firms and obtain bulk-purchase inputs, achieve optimal scale in the use of machinery and pool production capacities to meet large-scale orders (Gilsin, 2005)

**Table 4.2      Networking Strength**

		SD	D	N	A	SA	Mean	Std. Deviation
I have strong trust with my network actors	Freq.	1	1	146	110	258	4.41	0.545
	%	0.4	0.4	56.6	42.6	100		
Me and my network actors are committed to each other	Freq.	1	0	1	169	87	4.32	0.523
	%	0.4	0	0.4	65.5	33.7		
We have high level of cooperation between my business and network actors	Freq.	1	0	2	163	92	4.34	0.535
	%	0.4	0	0.8	63.2	35.7		
Me and my network actors have relation beyond business	Freq.	1	23	1	94	139	4.34	0.905
	%	0.4	8.9	0.4	36.4	53.9		

#### 4.1.5 Networking Proactivity

The researcher sought to establish the effect of networking proactivity on financial performance. The findings of the study are presented in table 4.3. As shown in the table, 51.6% (133) of the respondents agreed that they keep in touch with contacts they have met in the past ( mean = 4.48, SD = 0.501). Also, 51.6% (133) of the respondents strongly agreed that they make their self-known to their network actors ( mean = 4.47, SD = 0.612).

Further, 57.8% (149) of the respondents agreed that they always choose their network actors before marketing (mean = 4.42, SD = 0.495). Finally, 67.8% (175) of the respondents agreed that they have to know their network actors before they start doing business with them (mean = 4.2, SD = 0.663). The results findings show that SMEs are very proactive in the networking strategies. The process of proactivity in networking for an SME may involve collaborative relationships with different partners, each offering significant resources such as complementary know-how, subsidies, new technologies, research and training (Pullen *et al*, 2010),

**Table 4.3 Networking Proactivity**

		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std. Deviation</b>
I always choose my network actors before marketing	Freq.	0	0	0	149	109	4.42	0.495
	%	0	0	0	57.8	42.2		
I make my self-known to my networks actors	Freq.	1	0	10	114	133	4.47	0.612
	%	0.4	0	3.9	44.2	51.6		
I have to know my network actors before I start doing business with them	Freq.	2	8	0	175	73	4.2	0.663
	%	0.8	3.1	0	67.8	28.3		
I keep in touch with contacts you've made in the past.	Freq.	0	0	0	133	125	4.48	0.501
	%	0	0	0	51.6	48.4		

#### 4.1.6 Networking Diversity

This section of the analysis sought to establish the influence of networking diversity on financial performance. The results are as presented in table 4.4. It was confirmed by 70.2% (181) of the respondents that their network actors are geographically diversified (mean = 4.7, SD = 0.469). Also, 56.6% (146) of them strongly agreed that their network actors are of different age (mean = 4.57, SD = 0.497). Further, 55 (142) of the respondents agreed that their network actors provide different services/products (mean = 4.42, SD = 0.547).

Finally, 61.2% (158) of the respondents strongly agreed that they make sure their network actors are from different ethnicity (mean = 4.42, SD = 0.902). This shows that there was high networking diversity among SMEs. The diverse network has the benefit of reducing the uncertainty of innovation, enhancing communication and exchange of resources, and speeding up the transfer of knowledge and technology. Therefore the diverse network can facilitate the SME's ability to obtain in-tangible resources quickly hence yielding high performance, (Elfring 2003).

**Table 4.4 Networking Diversity**

		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std. Deviation</b>
My network actors are of different age	Freq.	0	0	0	112	146	4.57	0.497
	%	0	0	0	43.4	56.6		
My network actors provide different services/products	Freq.	0	2	1	142	113	4.42	0.547
	%	0	0.8	0.4	55	43.8		
i make sure my network actors re from different ethnicity	Freq.	0	24	1	75	158	4.42	0.902
	%	0	9.3	0.4	29.1	61.2		
my network actors are geographically diversified	Freq.	0	0	1	76	181	4.7	0.469
	%	0	0	0.4	29.5	70.2		

#### **4.1.7 SME Performance**

This section of the study put into account SME performance. The results are illustrated in table 4.5. According to majority 54.7% (141) of the respondents there has been an increase in staff turnover (mean = 4.43, SD = 0.527). Similarly, majority 62.8% (162) of the respondents noted that there has been an increase in the number of new product launches (mean = 4.34, SD = 0.529). As well, 48.4% (125) of the respondents state that there has been an increase in process efficiency (mean = 4.33, SD = 0.65). Further, 58.5% (151) of them stated that there is increase in customer loyalty (mean = 4.28, SD = 0.683).

Besides, majority 72.9% (188) affirmed that there is an increase in operating income (mean = 4.27, SD = 0.446). Moreover, 57.8% (149) of the respondents confirmed that there has been an increase in customer satisfaction (mean = 4.25, SD = 0.724). In the same way, 59.7% (154) of them stated that there has been an increase in sales growth (mean = 4.22, SD = 0.738).

Furthermore, 61.6% (159) of the respondents stipulated that there increase in market share (mean = 4.14, SD = 0.848), 69.8% (180) of them asserted that there is increase in sales revenue (mean = 4.09, SD = 0.703) and 59.7% (154) of them noted that there is increase in on-time customer service (mean = 4.05, SD = 0.959). Additionally, 77.9% (201) of the respondents postulated that there is time to market new products (mean = 3.98, SD = 0.601), 40.7% (105) of them asserted that there has been an increase in employee training (mean = 3.98, SD = 0.98). Similarly, 77.5% (200) of them noted that there is increase in operating costs (mean = 3.81, SD = 0.647) and 42.6% (110) of them stated that there is increase in employee satisfaction (mean = 3.71, SD = 0.885). In addition, 46.5% (120) of the respondents affirmed there increase in cash flows, 53.9% (139) of them asserted there increase in return on investment (mean = 3.42, SD = 1.159), 63.6% (164) increase in customer response time and 48.8% of the respondents echoed that there is decrease in the number of customer complaints (mean = 2.76, SD = 0.985).

**Table 4.5 SME Performance**

		DT	D	NC	I	IT	Mean	Std. Deviation
Sales Revenue	Freq.	0	17	2	180	59	4.09	0.703
	%	0	6.6	0.8	69.8	22.9		
Operating income	Freq.	0	0	0	188	70	4.27	0.446
	%	0	0	0	72.9	27.1		
Sales growth	Freq.	0	16	0	154	88	4.22	0.738
	%	0	6.2	0	59.7	34.1		
Operating costs	Freq.	1	17	26	200	14	3.81	0.647
	%	0.4	6.6	10.1	77.5	5.4		
Cash flows	Freq.	2	71	26	120	39	3.48	1.074
	%	0.8	27.5	10.1	46.5	15.1		
Return on investment (ROI)	Freq.	12	72	2	139	33	3.42	1.159
	%	4.7	27.9	0.8	53.9	12.8		
On-time customer service	Freq.	11	15	1	154	77	4.05	0.959
	%	4.3	5.8	0.4	59.7	29.8		
Customer response time	Freq.	12	72	0	164	10	3.34	1.07
	%	4.7	27.9	0	63.6	3.9		
Number of customer complaints	Freq.	12	126	33	86	1	2.76	0.985
	%	4.7	48.8	12.8	33.3	0.4		
customer satisfaction	Freq.	0	14	1	149	94	4.25	0.724
	%	0	5.4	0.4	57.8	36.4		
Market share	Freq.	11	1	8	159	79	4.14	0.848
	%	4.3	0.4	3.1	61.6	30.6		
Customer loyalty	Freq.	0	11	1	151	95	4.28	0.683
	%	0	4.3	0.4	58.5	36.8		
Process efficiency	Freq.	0	1	23	125	109	4.33	0.65
	%	0	0.4	8.9	48.4	42.2		
Staff turnover	Freq.	0	1	1	141	115	4.43	0.527
	%	0	0.4	0.4	54.7	44.6		
Employee training	Freq.	2	26	36	105	89	3.98	0.98
	%	0.8	10.1	14	40.7	34.5		
Employee satisfaction	Freq.	0	25	74	110	49	3.71	0.885
	%	0	9.7	28.7	42.6	19		
Number of new product launches	Freq.	0	2	1	162	93	4.34	0.529
	%	0	0.8	0.4	62.8	36		
Time-to-market new products	Freq.	0	12	13	201	32	3.98	0.601
	%	0	4.7	5	77.9	12.4		

#### 4.1.8 Correlation Results

Pearson Product-Moment Correlation ( $r$ ) was used to analyze the relationships that are inherent among the independent and dependent variables as well as among the independent variables/ factors. Table 4.6 presents the results.

A significant correlation exists between networking intensity and SME performance (0.370) – Pearson correlation significance at 0.01 and 0.000 significance < 0.05 which implies significant correlation. Also, there is a significant correlation between networking strength and SME performance (0.466) – Pearson correlation significance at 0.01 and 0.000 significance < 0.05 which implies significant correlation.

Another significant correlation exists between networking proactivity and SME performance (0.172). Pearson correlation significance at (0.001) and 0.006 significance <0.05 which implies significant correlation. Finally, the correlation results indicated that networking diversity is positively related with SME performance as shown by a coefficient of  $r = 0.130$  which is significant at  $p < 0.05$ .

**Table 4.6 Correlation Results**

		SME performance	networking intensity	networking strength	Networking proactivity	networking diversity
SME performance	Pearson Correlation	1				
	Sig. (2-tailed)					
networking intensity	Pearson Correlation	.370**	1			
	Sig. (2-tailed)	0				
networking strength	Pearson Correlation	.466**	.459**	1		
	Sig. (2-tailed)	0	0			
Networking proactivity	Pearson Correlation	.172**	0.077	.289**	1	
	Sig. (2-tailed)	0.006	0.216	0		
networking diversity	Pearson Correlation	.130*	-0.064	0.019	.295**	1
	Sig. (2-tailed)	0.037	0.305	0.755	0	

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

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

**4.1.9 Model Summary**

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance) that is explained by all the four independent variables (networking diversity, networking strength, networking proactivity and networking intensity). The four independent variables that were studied, explain only 26.7% change in financial performance as represented by the  $R^2$ . This therefore means that other factors not studied in this research contribute 73.3% of the change in financial performance.

**Table 4.7 Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.517a	0.267	0.255	0.36008

a Predictors: (Constant), Networking diversity, Networking strength, Networking proactivity, Networking intensity

**4.1.10 ANOVA Model**

The study used ANOVA to test the relationships since the sample size was small, and the variables are few. Further ANOVA removes some of the random variability so that significant differences can be found more easily and also helps look at interactions between factors.

The sum of squares is a mathematical approach to determining the dispersion of data points. The degree of freedom (df) is the number of independent components minus the number of parameters estimated. F-statistics is a measure of the correlation between variables drawn at different levels of a subdivided population. Residual of a sample is the difference between the sample and the estimated function value. Significance indicates the relationship between variables. The significance value is 0.000 which is less than 0.05 and the F critical (value = 23.017) thus the model is statistically significant in predicting SME financial performance.

**Table 4.8 ANOVA Model**

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	11.937	4	2.984	23.017	.000b
Residual	32.802	253	0.13		
Total	44.74	257			

a Dependent Variable: SME performance

b Predictors: (Constant), Networking diversity, Networking strength, Networking proactivity, Networking intensity

**4.1.11 Hypothesis Testing**

The results of multiple regressions, as presented in table 4.9 revealed that networking intensity has a positive and significant relationship with SME performance with a beta value of  $\beta_1 = 0.21$  (p-value = 0.000 which is less than  $\alpha = 0.05$ ). Therefore, the researcher rejects the null hypothesis and it is accepted that for each unit increase in networking intensity (for instance increase in networks to market products), there is 0.21 unit increase in SME performance. Also, the relationship between networking intensity and SME performance was stated by the t-test value = 3.457 which implies that the standard error associated with the parameter is less than the effect of the parameter.

The results of table 4.9 also showed that the standardized coefficient beta and p value of networking strength were positive and significant (beta = 0.364,  $p < 0.05$ ). Thus, the researcher rejects the null hypothesis and it is accepted that, networking strength has a positive and significant effect on SME performance. Thus, high level of cooperation between the business and network actors results in increase in SME performance. The effect of networking strength is shown by the t-test value of 5.756 which implies that the effect of networking strength surpasses that of the error by over 5 times.

As shown in table 4.9, p-value is not significant ( $p > 0.05$ ), and the beta value of networking proactivity was positive (beta = 0.011). Therefore, the researcher accepts the null hypothesis networking proactivity has no significant effect on SME performance. Finally, the effect of networking proactivity is shown by the t-test value of 0.186 which implies that the effect of networking proactivity surpasses that of the error.

Finally, networking diversity has a positive and significant effect on SME performance with a beta value of  $\beta_4 = 0.133$  (p-value = 0.019 which is less than  $\alpha = 0.05$ ). Therefore, the researcher rejects the null hypothesis and it is accepted that for each unit increase in networking diversity (such as diversification of network actors in terms of age, ethnicity and geographic locations) there is 0.133 unit increase in SME performance. Also, the effect of networking diversity was stated by the t-test value = 2.356 which implies that the standard error associated with the parameter is less than the effect of the parameter.

**Table 4.9 Coefficient of Estimate**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.886	0.297		6.361	0
Networking intensity	0.148	0.043	0.21	3.457	0.001
Networking strength	0.239	0.042	0.364	5.756	0
Networking proactivity	0.01	0.054	0.011	0.186	0.853
Networking diversity	0.11	0.047	0.133	2.356	0.019

a Dependent Variable: SME performance

## 4.2 Discussion of the Findings

The study has established that networking intensity has a positive and significant effect on financial performance ( $\beta = 0.21$ ,  $p < 0.05$ ). In agreement with the results, a study by Chimucheka, T, (2013) on Networks and Performance of Small and Medium Enterprises (SMEs) in Different Stages of the Life Cycle revealed that there is a relationship between performance and entrepreneurial networks in both the start-up stage and the growth stage of the firm. Consistently, Carson, et al., (2004) conducted a study on Networking among SMES in UK and found out that SME owner-managers tendency to use marketing networks in doing marketing results in high performance of SMEs.

The results have also revealed that networking strength has a positive and significant effect on financial performance ( $\beta = 0.364$ ,  $p < 0.05$ ). In line with the findings of the study, networking strength makes it possible for enterprises to learn from each other, change ideas and experience to improve product quality thereby improving their financial performance (Gilsin, 2005). Also, Witt, (2004) echoes that small scale entrepreneurs are unable to introduce innovative improvements to products and processes thus making it challenge for them to take advantage of emerging market opportunities. Nonetheless, this can be made possible through networking strength whereby SMEs can specialize in their own business and give way to network actors to improve their efficiency in production.

However, networking proactivity has an insignificant effect on financial performance ( $\beta = 0.011$ ,  $p > 0.05$ ). As opposed to the study findings, networking proactivity enhances the generation and sharing of new ideas among network actors hence leading to improvement in the overall performance of the SME (Kivimaki *et al*, 2000). In the same way, Jonash & Sommerlatte, (1999) argue that as technology evolves and becomes more complex, proactive networks become the key to successful innovation and improved financial performance. In the same way, Van Aken & Weggeman (2000) argue that the exchange of knowledge and proactive ideas about marketing between lead firms and their suppliers results in improved financial performance. Furthermore, contrary to the findings of the study, Terziovski (2003) found that proactive networking allowed small firm to achieve business excellence by learning from failures, including experts and the allocation of resources to support communication linkages.

Finally, networking diversity has a positive and significant effect on financial performance ( $\beta = 0.133$ ,  $p < 0.05$ ). Consistently, Elfring (2003) posits that diverse network can facilitate the SME's ability to obtain in-tangible resources quickly hence yielding high performance. Also, cognate to the results, Elfring & Hulsink (2003) echo that social network plays an important role in capturing resources making it possible for SMEs to get the needed resources at the lowest cost. According to Renzulli et al., (2000) non-kin networks which include friends, co-workers, consultants, and group or association members contribute to improved SME performance since diverse networks depended on family, relatives and family to gain information causes the entrepreneurs to access the same type of information which might provide low levels of new, quality and varied information hence it is a drawback to them. From the foregoing, it can be inferred that networking diversity contributes to improved financial performance.

## 4.3 Interpretation of the Findings

The background information has indicated that most (41.5%) of the SMEs have been in operation for 11 to 15 years. This implies that the SMEs have been in operation long enough to engage in strategic networking. Besides, it is evident that SME's suffer a shortage of skilled labour since a few (2.7%) of the SMEs have between 31 and 40 employees. Such shortage can be solved through strategic networking.

Results on the specific objectives imply that networking has been used since the start of the business and the SMEs plan on using networking to market their products. Also, network actors have relation beyond business and high level of cooperation. They are also committed to each other and have strong trust with their network actors. Furthermore, the SMEs ensure that they know their network actors before they start doing business. They thus make themselves known to network actors and choose network actors before marketing. To sum, there is a clear indication of networking diversity characterized by network actors that are of different age, ethnicity and geographic locations.

According to the regression equation, taking all factors into account (networking intensity, networking strength, networking proactivity and networking diversity) constant at zero was be 1.886. The regression model had positive coefficients.

This means that the variables are positively associated indicating that an increase in the independent variable (networking intensity, networking strength and networking diversity) leads to an increase in the dependent variable (SME performance).

## **Findings**

### **5.1 Summary of the Findings**

As shown in chapter four, networking has been used since the start of the business and the SMEs plan on using it to market their products. Also, networking strength is evident among the SMEs and their network actors. It is usually difficult for SMEs to achieve economies of scale because of their low production levels. However, with high level of cooperation between them and network actors, SMEs are able to take advantage of market opportunities that require large production. Therefore, networking strength is instrumental in providing financial stability which in turn leads to high performance.

Further, the study has established that sufficient efforts have been made to stimulate proactive networks. Particularly, the SMEs make themselves known to their network actors. They also choose their network actors before marketing and they ensure that they know them before they start doing business with them. There is therefore a collaborative relationship with proactive networks which is expected to lead to overall growth in financial performance of the SME in the long run.

Finally, there is diversification of networks in terms of age, ethnic background geographical location and services/products provided. This is a clear indication of a large range of networks that cuts across a number of backgrounds. Consequently, there is efficiency in resource allocation and quality of resources accessed. In addition, there is increased innovation resulting from improved transfer of knowledge and technology.

### **5.2 Conclusion**

In conclusion, networking intensity has a positive and significant effect on the financial performance of SMEs. The study has therefore produced new information and contributed to the existing body of literature by describing the connection between networking intensity and SME financial performance. The positive relations between the use of networking to market products and financial performance supports earlier views that have inferred that networking is important for the high growth of firms. Nonetheless, the results of this research need to be further studied to better understand the concepts behind this phenomenon.

Networking strength enables SMEs to improve their competitive position. Through the cooperation between SMEs and network actors, SMEs are able to overcome some of their challenges such as in research and development, training, innovation, production and marketing. Network actors aid the SMEs in achieving economies of scale and improving efficiency in production. Ultimately, the commitment between the network actors and the SMEs result to improved financial performance.

Proactive networking for SMEs enables SMEs to overcome financial and human resource limitations that prevent them from utilizing new technologies required for product innovation. Through the networks, the SMEs have access to new technologies as well as research and training. Despite the aforementioned benefits of networking proactivity, the study has revealed that networking proactivity has an insignificant effect on financial performance. This prompts the need for further research to augment the findings of the study.

Moreover, the study has established that networking diversity has a positive and significant effect on SME financial performance. SMEs can effectively access resources and speed up the transfer of knowledge and technology through network diversity. Therefore, there is reduced uncertainty of innovation, efficiency of resource acquisition and stabilized networks.

### **5.3 Recommendations**

The results of the study are indicative of a positive association between networking strength and financial performance. It is therefore necessary for SMEs to have high level of cooperation and commitment with their network actors. Also, SMEs need to make use of network actors so that they can introduce innovative improvements to products and processes that was enable them gain a competitive edge over competitors.

It is evident from the results of the study that networking diversity plays a key role in enhancing SME financial performance. It is therefore necessary for SMEs to have a broad external network that covers individuals from different age bracket, ethnic backgrounds and geographical locations.



With increased closeness and tightness of a network, the quality of resources can improve. Also, SMEs can benefit from product innovation through transfer of knowledge and technology.

To sum up, strategic networking is essential for SMEs. Therefore, SME managers need to actively engage in networking within and outside of existing networks and especially with those that are relevant to the business. Further, in order to venture in new markets, SMEs need new contacts and ties so that they can effectively make use of new technology and increase their growth.

#### 5.4 Further Research Recommendations

This study is not without limitations. For instance, the generalizability of this study's findings may be limited to SMEs within Uasin Gishu County. Thus, future research should attempt to gather information from a larger scope to establish if the results of the study hold. Also, it would be interesting if future study could generate the scenario of strategic networking among listed firms in Nairobi Securities Exchange. Secondly, the respondents of this study are from SMEs. It is possible that the pattern of networking may be different for large firms than it is for SMEs. Future studies should therefore allow for generalizations regarding this subject and needs to cover firms in different sizes and sectors.

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