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SOCIAL CAPITAL AS A PROGNOSTICATOR OF SMALL AND MEDIUM ENTERPRISES PERFORMANCE: EVIDENCE FROM OYO STATE

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Abstract

The study investigated the influence of social capital on the performance of SMEs in Ibadan metropolis, Oyo State, Nigeria. The study adopted a descriptive research design. Purposive sampling technique was used to sample 100 SME operators/managers. A structured questionnaire was adopted as data collection tool. Data was analyzed using descriptive statistical techniques and regression analysis. The study established that social capital measured by structural social capital relational social capital and cognitive social capital predicted the performance of SMEs. The study, therefore, concluded that social capital is strong predictor of SMEs performance. Subsequently, the study recommended that SME operators need to take

Introduction

The pivotal role Small and Medium Enterprises (SMEs) in sustainable economic growth and development has attracted the attention of scholars across the globe and it has been documented in the literature. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports (Dunne & Hughes, 2013). 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

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time to participate in social organizations as such activities would help in marketing and networking of the business. 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.

Keywords: *Structural Social Capital, Relational Social Capital, Cognitive Social Capital, SMEs, Performance*

Said to have the highest proportion of SMEs among the industrialized countries, accounting for more than 99% of total enterprises (Pinho, 2013). 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 (Pinho, 2013). India had 13 million SMEs in 2008, equivalent to 80% of all the country's businesses (Pinho, 2013). While in Malaysia, the SMEs contribute to about 34% to the country's national GDP. In Nigeria, Ihua (2009) affirms that about 97% of the entire firms in Nigeria are SMEs and they employ over 50% of the working population as well as contributing up to 50% to the country's industrial output.

The study of Ojokuku and Sajuyigbe (2014) also reaffirm that SMEs count for over 70% of the workforce in both formal and informal employment. By implication, SMEs is an alternative paradigm to sustainable economic growth and development.

Despite the aforementioned contributions of SMEs to sustainable economic growth and development, the sector is suffering from economic doldrums in terms of growth and expansion. To support this observation, Ojokuku and Sajuyigbe (2014) note that the failure rate of SMEs in Nigeria is between 70% and 80%. This indicates that many SMEs do not fulfill destines and die prematurely, resulting in lost jobs and wealth for their state in which they are based. In another study, Olowe, Moradeyo, and Babalola (2013) postulate that many SMEs in Nigeria could not reach the growth stage of their life cycle. Most of them die SMEs die within their first five years of existence, another smaller percentage goes into extinction between the sixth and tenth year (Onugu, 2005).

Social capital has been well researched in advanced countries and emerging economies, and there is growing empirical evidence that social capital contributes significantly to SMEs' growth and expansion (Kavee & Mburu, 2016; Le et al., 2014; Fatoki, 2011). According to Kavee and Mburu (2016), social capital means connections among individuals, based on norms and networks of cooperation and trust, which spills over to the market and state to enhance collective action between formal actors and achieve improved social efficiency and growth. Acquaah (2008) defines social capital as the actual and potential resources embedded in net-working relationships that are accessed and used by managers of business enterprises for conduct of enterprise business activities.

Social capital has received a lot of research attention in developed and developing nations and it has measured and conceptualized in many different ways. However, the construct has not been explored and is still remains challenging construct in Nigeria especially in the SME sector. This study, therefore, intends to fill the gap in knowledge by examining the influence of social capital on SMEs' performance with particular reference to Oyo State, Nigeria.

Research Questions

The following questions were the focus of this study

i. To what extent does structural social capital influence the performance of small and medium enterprises?

ii. To what extent does relational social capital influence the performance of small and medium enterprises?

iii. To what extent does cognitive social capital influence the performance of small and medium enterprises?

Objectives of the Study

The general objective of this study was to establish the effect of social capital on the performance of small and medium enterprises in Oyo state, Nigeria. Specific objectives include, to:

i. Examine the influence of structural social capital on the performance of small and medium enterprises.

ii. Assess the influence of relational social capital on the performance of small and medium enterprises.

iii. Determine the influence of cognitive social capital on the performance of small and medium enterprises.

Research Hypothesis

H_{01}: There is no statistically significant influence structural social capital on the performance of small and medium enterprises.

H_{02}: There is no statistically significant influence of relational social capital on the performance of small and medium enterprises.

H_{03}: There is no statistically significant influence of cognitive social capital on the performance of small and medium enterprises.

Concept of Social Capital

Prior studies have no consensus definition of social capital. Social capital was viewed from different perspectives by different authors. For instance, Sohail and Jayant (2013) views social capital as a resource that reflects the character and attributes of individuals within a company; brought through collective and mutual trust with a view to achieving goal orientation. It comes in form of cognitive, structural and relational social capital. In another study, Kavee and Mburu (2016) are of the opinion that Social capital is the connections among individuals, based on norms and networks of cooperation and trust, which spills over to the market and state to enhance collective action between formal actors and achieve improved social efficiency and growth. Pantoja (2009) sees social capital as a networks together with shared norms, values, and understandings that facilitate co-operation within or among groups.

According to Kostova and Roth (2012), social capital is the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action. The study of Woolcock (2008) views social capital as one of those intangible assets such as goodwill, sympathy, and fellowship, that count most in the everyday lives of people. Hau, Kim, Lee and Kim(2013) also describe social capital as the tangible or virtual resources, individuals obtain through their networks. In a similar study, Aldridge, Halpern, and Fitzpatrick (2012) posit that social capital is related to dense networks, often consisting of connections with self-employment. In the same vein, Beth, Akhalkatsi, Roberts, and Gardiner (2007) notice that social capital is the mobilization, use and benefit gained through accessing present and future resources through social networks. Acquaah (2008) also defines social capital as the actual and potential resources embedded in net-working relationships that are accessed and used by actors for actions. Acquaah (2008) further groups social capital into internal and external social capital. According to the author, internal social capital deals with the structure and social networking relationships among actors within a system organization, while external social capital focuses on the structure and social networking relationships.

Concept of SMEs

There is no universally accepted definition of SMEs as it has varied from country to country. For example, in Kosovo, a small enterprise is an enterprise that employs up to nine (9) employees during the previous 12 months and had total turnover of EUR 500,000 or less, while a medium enterprise is enterprise which employs between ten to forty-nine employees during the previous 12 months had total turnover of 2.4 million Euros or less (Blanchot, Nolan & Whittemore, 2013). In China, SMEs are defined as having up has up to 2,000 employees; while a medium-sized business has between 301 and 2,000 employees; and a small business has less than 300. In Tanzania, SMEs are defined as micro, small and medium-size enterprises in non- farm activities which include manufacturing, mining, commerce, and services. A micro enterprise is defined as a firm with fewer than five employees whereas a small firm is a firm with 5 to 49 employees, a medium enterprise is a firm with 50 to 99 employees.

Small and medium scale enterprises (SMEs) are understood in India as enterprises where the investment in plant and machinery or equipment is between Rs. 25 lakhs (the US $ 0.04 million) to Rs. 10 crores (US$1.6 million) in case of manufacturing industry and between Rs. 10 lakh (the US $ 0.02 million) to Rs. 5 Crore (the US $ 0.8 million) in case of a service sector enterprise. The Companies Act 2006 of the United Kingdom refers to a small scale company as a firm employing less than or equal to fifty workers with a maximum turnover of 5.6 million pounds and a statement of account at a maximum of 2.8 million pounds. The Act also defined a medium scale company as a firm employing a maximum of two hundred and fifty workers, a maximum of 22.8 million pounds turnover and a maximum of 11.4 million pounds balance sheet.

In Nigeria, National Council on Industry defines SMEs as an industry with a labour size of 11-100 workers or a total cost of not more thanN50 million, including working capital but excluding cost of land. While Medium Scale

Industry is an industry with a labour size of between 101-300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding the cost of land. The Central Bank of Nigeria (CBN) also defines SMEs as any enterprise with a maximum asset base of N200, 000,000 (200 million Naira) excluding land and working capital with the number of staff employed by the enterprise expected to be not less than 10 and not more than 300.

Theoretical Framework

The underpinning theory for this study is social network theory, because the previous studies have linked the theory to social capital. For instance, Tsai (2006) argues that social network theory views social relationships as consisting of nodes and ties. Nodes are the individual actors within the networks, and ties are the relationships between the actors. In the same manna, Premaratne (2002) observes that social relationships are crucially important to the entrepreneurial process because the information needed to start and grow a business is passed to the entrepreneur basically through the existing social networks of friends. Covin and Lumpkin (2011) also aver that entrepreneurs are embedded in a larger social network structure that constitutes a significant proportion of their opportunity structure.

According to Sohail and Jayant (2013), individual may have the ability to recognize a given entrepreneurial opportunity exist, but might lack the social connections to transform the opportunity into a business startup. Shane and Cable (2002) agree that social capital through networking can be used to reduce information asymmetry in creditor/debtor relationships. Access to financial capital is one of the determinants of the success of SMEs. Ngoc et al. (2009) agree that networks also help a firm learn appropriate behaviour and therefore obtain needed support from key stakeholders and the general public. Okten and Osili (2004) examine the impact of social capital on the growth of SMEs. The results suggest that social capital has an influence on the growth of an SME, especially through contacts with other entrepreneurs. Social capital helps SMEs to tap resources in external environment successfully and pave the way to new markets. Oforegbunam and Okorafor, (2010) examine the effects of social capital development on the performance of small and medium scaled enterprises in the South Eastern Region of Nigeria. The result of the analysis shows that increased social capital development by sampled SMEs leads to significant improvements in their performances. Fatoki (2011) also examine the impact of human, social and financial capital on the performance of Small and Medium-Sized Enterprises (SMEs) in South Africa. The results indicate that there is a significant positive relationship between human capital and the performance of SMEs. Tundui and Tundui (2013) empirical analysis of social capital and enterprise performance in Tanzania results showed that social capital plays a significant role in the performance of women-owned businesses. The results demonstrated that business owners who received business support and advice from informal networks were more likely to experience profits increase in their enterprises than otherwise.

Methodology

The descriptive research design was used in this study. The descriptive research reports the status of events and issues the way they are. This research involved the gathering of data in order to describe the events. Purposive sampling technique was used to select one hundred (100) SMEs in Ibadan metropolis. A structured questionnaire was used to collect data for the study. The validity of the instrument was ascertained by the researchers through an expert in evaluation and measurement after corrections and proper scrutiny are done and ambiguous questions were avoided so as to ensure originality. To ensure reliability, measures were put in place to ensure that questionnaires are well filled by the respondents and not subject to the influence of the researchers. More so, the purpose of the questionnaire was well explained to the respondents to ensure that reliable information is supplied. Data analysis was performed with the aid of descriptive statistics and the ordinary least square method of estimation.

Results and Discussion

Table 1: Distribution of respondents by Structural Social Capital

Variable	SD	D	A	SA		
	1	**2**	**3**	**4**	M	SD
The management of the firm participates in social organizations e.g. business clubs etc.	4	65	27	4	2.31	.612

There is high level of network diversity among the employees	0	18	70	12	2.94	.544
There is high network density of customers	0	5	63	32	3.28	.550
The customer network size is growing			48	52	3.52	.502
Participation in social organizations (e.g. business clubs) by management has increased the number of new customers	7	59	24	9	2.36	.743
The diversity in firm's employee network has increased the level of new product/service innovation in the firm	1	24	57	18	2.92	.674
Network density among customers has increased profitability of the firm	1	6	71	22	3.14	.548
Growing customer network size has resulted to high sales volumes for the firm	1	5	65	28	3.22	.576

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 a 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 a 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 the 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 the 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 the profitability of the firm (M=3.14, SD=.548). And lastly, 93% of the respondents admitted that growing customer network size had resulted in high sales volumes for the firm (M=3.22, SD=.576).

Table 2: Distribution of respondents by Relational Social Capital

Variable	SD 1	D 2	A 3	SA 4	M	SD
There is high level of trust in the firm by the customers	0	10	73	18	3.08	.521
There is close relationships among employees in the firm.	0	2	68	30	3.28	.495
There is close relationships between employees and management of the firm	0	2	71	28	3.25	.481
There is close relationships between firm and the suppliers	0	0	71	29	3.29	.458
High level of trust in the firm by the customers has resulted in an increased market share	2	47	39	12	2.61	.720
The close bonding relationships between employees has resulted in high employee retention	0	1	78	2	3.21	.430
The close bridging relationships between employees and management of the firm has enhanced teamwork thus an increase in the profitability of the firm	1	6	78	15	3.07	.493
The close linking relationships between the firm and the suppliers has increased the firm's asset base	0	1	62	37	3.36	.503

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 were close relationships among employees (M=3.28, SD=.495). Ninety-nine percent of the respondents either agreed or strongly agreed that there were close relationships between employees and management of the firm (M=3.25, SD=.481). While all respondents (100%) either agreed or strongly agreed that there were 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 performance of SMEs.

Table 3: Distribution of respondents by Cognitive Social Capital

Variable	SD **1**	D **2**	A **3**	SA **S4**	Mean	SD
The firm share same business goals with key suppliers	2	47	51	0	2.49	.540
The firm and customers often agree on what is in the best interest for both parties	1	41	41	17	2.74	.744
The firm share same business values with key suppliers	0	5	66	29	3.25	.574
Shared business goals with key suppliers has led to an increase in the asset base	3	41	45	11	2.64	.535
Strong mutual understanding between the firm and customers has resulted in retaining existing	0	1	72	27	3.26	.715

customers and an increase in the number of new customers						
Shared business values with key suppliers has led to an increase in new product/service innovation in the firm	0	1	75	24	3.23	.462

The findings on the existence of cognitive social capital elements in the firm revealed that 51% of the respondents agreed that the firm share the same business goals with key suppliers (M=2.49, SD=.540). Fifty-eight percent 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). The majority (95%) of the respondents either agreed or strongly agreed that the firm shared the 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 the firm showed that 56% of the respondents either agreed or strongly agreed that sharing the same business goals with key suppliers had resulted in an increase in the asset base (M=2.64, SD=.535). The 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 4: Regression of Structural Social Capital on the Growth of Medium Enterprises

Model 1	R = .296[a]	R Square = .087	Adjusted R Square = .078	F = 9.48	
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	T	p- value
(Constant)	1.967	.216		9.123	.000
1 Structural Social Capital	.228	.074	.296	3.080	.003

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 4 indicate that structural social capital explained 8.7% of the variability of SMEs performance (R^2=.087, F(1, 99)=9.48, p<.05) and the strength of the relationship was weak (r =.296). As shown in Table 4, the linear regression ANOVA showed that structural social capital statistically significantly predicted the performance of SMEs F(1,99)=9.48, p<.05. The regression coefficient findings as indicated in Table 4 revealed that structural social capital predicted the performance of SMEs (β=.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 performance of the SMEs.

Table 5. Regression of Structural Social Capital on the Growth of Medium Enterprises

Model 1	R = 631[a]	R Square = .399	Adjusted R Square = .393	F = 66.322	
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	T	p- value
(Constant)	.439	.270		1.624	.108
1 Relational Social Capital	.696	.085	.631	8.144	.000

The model summary as presented in Table 5 showed that relational social capital explained 39.9% of the variability of medium enterprises' growth (R^2 =.399, F(1,99)=66.32, p<.05) and the strength of the relationship was moderate (r=.631). As shown in Table 5, the linear regression ANOVA showed that relational social capital statistically significantly predicted SMEs' performance F(1,99)=66.32, p<.05. The regression coefficient findings as indicated in Table 5 revealed that relational social capital predicted the performance of SMEs (β=.696, p<0.5).

Table 6: Regression of Cognitive Social Capital on the Growth of Medium Enterprises

Model 1	R = .408[a]	R Square = .167	Adjusted R Square = . 158	F = 19.99	
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	p- value
(Constant)	1.250	.310		4.03	.000

1 Cognitive Social Capital	.491	.110	.408	4.47	.000

The model summary as presented in Table 6 showed that cognitive social capital explained 16.7% of the variability of SMEs performance (R^2 =0.167, F(1,99)=19.99, p<.05) and the strength of the relationship was weak (r=.408). As shown in Table 6, the linear regression ANOVA showed that cognitive social capital statistically significantly predicted the performance of SMEs F(1, 99)=19.99, p<.05. The regression coefficient findings as indicated in Table 6 revealed that cognitive social capital predicted the performance of SMEs (β=.491, p<0.5).

Conclusion and Recommendations

The study investigated the influence of social capital on the performance of SMEs in the Ibadan metropolis, Oyo State, Nigeria. The study adopted a descriptive research design. Purposive sampling technique was used to sample 100 SME operators/managers. A structured questionnaire was adopted as data collection tool. Data were analyzed using descriptive statistical techniques and regression analysis. The study established that social capital measured by structural social capital relational social capital and cognitive social capital predicted the performance of SMEs. The study, therefore, concluded that social capital is strong predictor of SMEs performance.

Subsequently, the study recommended that SME operators need to take time to participate in social organizations as such activities would help in marketing and networking of the business. 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.

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