THE INFLUENCE OF SOCIAL CAPITAL ON THE GROWTH OF SMES IN NAIROBI COUNTY, KENYA

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A RESEARCH PEPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE IN MASTER OF BUSINESS ADMINISTRATION BY THE UNIVERSITY OF NAIROBI

November, 2014

DECLARATION

This report is my original work and to the best of my knowledge has not been presented to any other institution.

Signed: ……………………………   **Date…………………………**

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 D61/63191/2010

This report has been submitted for examination with my approval as the university supervisor.

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ACKNOWLEDGEMENTS

DEDICATION

This paper is dedicated to my dear wife for her support, prayers and encouragement.

God bless her abundantly.

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ABSTRACT

This study aimed at establishing the influence of social capital on the growth of SME's in Nairobi County. Descriptive research design was used. The target population consisted of all SME's operating in the Nairobi Business District with a sample of 100 taken. Respondents were CEO's or persons in charge of finance department. A questionnaire was used to collect data. The response rate represented 57% of the overall study. In the analysis, growth indicators of profitability, number of employees and sales turnover were used as the dependent variables. Trust, Civic engagement and culture were the variables used to measure social capital. Correlation and regression analysis were used to analyse the relationships. The study found out that social capital affects the growth of SME's. However, the nature of the relationships differed with each growth indicator and each social capital variable. A further research can be undertaken to understand why culture and civic engagement variables have negative effects on the growth of SME's. A thesis can be developed and tested to understand the relationship in a better way.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Worldwide, Small and Medium Size Enterprises (SMEs) are recognized as engines of growth and development. They are the backbone of economy in many developed nations all over the world. The enterprises cut across every sector of the economy. They include general trade like wholesale and retail, services, farm activities and manufacturing. 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 and Hughes, 2003).

Social capital and growth are two concepts that impact many other aspects of small and medium enterprises. Studies on the interaction between social capital and growth are of interest due to their associated strategic implications regarding SMEs. In order to build new dynamic capabilities to cope with turbulent and unpredictable markets, SMEs need to leverage their network relationships that provide access to information. These dynamic capabilities may in turn positively influence on growth (Carlos, 2011).

Researchers have been investigating the effects of social capital on the performance of institutions (Carlos, 2011). Different studies have been carried out on the interactions between social capital and growth whereby many authors have suggested that SMEs need to carry greater leverage in order to maximize value of the firm. According to Paul et al (2009), social capital played a significant role in innovation. It positively influenced incremental and radical innovative capabilities.

1.1.1 Social Capital

Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions (Musimba, 2012). Social capital is about the value of social networks, bonding similar people and bridging between diverse people, with norms of reciprocity (Dekker & Uslaner, 2001). A narrow view of social capital, according to the World Bank (1998), can be seen as a set of horizontal associations between people, consisting of social networks and associated norms that have an effect on organizations productivity and well-being. Social networks can increase productivity by reducing the costs of doing business. Social capital facilitates coordination and cooperation.

A broader understanding of social capital accounts for both the positive and negative aspects. It includes vertical as well as horizontal associations between people, and behavior within and among organizations, such as firms. This view reckons that horizontal ties are needed to give organizations a sense of identity and common purpose, but also stresses that without "bridging" ties that transcend various social divides like religion, ethnicity, socio-economic status, horizontal ties can become a basis for the pursuit of narrow interests, and can actively preclude access to information and material resources that would otherwise be of great assistance to the organization (World Bank, 1998). Social capital can have a negative effect on a firm's value (Portes and Landholt 1996). Communities, groups or networks which are isolated, parochial, or working at cross-purposes to society's collective interests can actually hinder economic and social development.

Measuring social capital may be difficult, but it is not impossible, and several studies have identified useful proxies for social capital. It can be measured using trust, customer capital, civic engagement or as a function of longevity. Owing to its external nature, knowledge embedded in customer capital is the most difficult to codify. One manifestation of customer capital that can be leveraged from customers is often referred to as "market orientation". Hsiu-Yueh (2006) indicate that market orientation involves market intelligence pertaining to current and future needs of customers, dissemination of intelligence horizontally and vertically within the organization, and organization wide action or responsiveness to market intelligence.

Once it has been decided which how social capital is to be measured, for example by measuring civic engagement through household surveys, cultural factors may be taken into account in designing the survey instrument. Newspaper readership may be a better indicator of civic engagement in countries where the literacy level is high (Putnam, 1993).

Knack & Keefer (1997) used indicators of trust and civic norms from the World Values Survey for a sample of 29 market economies to measure social capital. They used these measures as proxies for the strength of civic associations in order to test two different propositions on the effects of social capital on economic growth, the "Olson effects" and "Putnam effects". The Olson effects suggest that associations stifle growth through rent-seeking while the Putnam effects suggest that associations facilitate growth by increasing trust.

1.1.2   Growth

Growth can be defined as an increase in size as the result of firm growth over a period of time. Here, firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour, appropriate management and opportunities for profitable investments. Lumpkin and Dess (1996) point out that it is essential to recognize the multidimensional nature of growth. Thus, research that only considers a single dimension or a narrow range of growth may result in misleading descriptive and normative theory building. Research should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating growth, especially among privately held firms. This is consistent with the view of Zahra (1993) that both financial and non-financial measures should be used to assess organizational performance.

Chong (2008) declares that there are four main approaches to measure the performance of organizations. These are the goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization to obtain its resources. The stakeholder approach and the competitive value approach evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these, goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owners' managers for the evaluation process. The goal

approach is a better fit for the SMEs where targets are being set internally based on the owners-managers' interests and capability to achieve.

According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial and non-financial measures. Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction. Atieno (2009) observes that the financial measures are objective, simple and easy to compute and understand. However, financial measures suffer from being historical and are not readily available in the public domain, especially for SMEs. In addition, profits are subject to manipulations and interpretations. The solution to the limitations of financial measures is to apply the non-financial measures, though subjective in nature, as supplements to the financial measures. The combinations of these two measures help the owners-managers to gain a wider perspective on measuring and comparing their performance. Meilan (2010) agrees that this is a holistic approach and Balanced Scorecard approach to performance evaluation for SMEs.

1.1.3 Relationship between Social Capital and Growth

Arrow (2000) contributes to the discussion about the contribution of Social capital to growth by highlighting the importance of cooperation and trust within the firm. 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 collective behavior takes account of its effects on the welfare of others, alongside its own. 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.

Empirical work on social capital, which covers a wide spectrum of social science disciplines, attribute differences between firms in the level and rate of economic and social development to differences in the available stock of social capital. Firms with relatively higher stocks of social capital, in terms of generalized trust and widespread civic engagement, seem to achieve higher levels of growth, compared to firms with low trust (Brown & Ashman, 1996; Heller, 1996; Knack & Keefer,1997; Krishna & Uphoff, 1999; Ostrom, 2000; Uphoff, 2000; Rose, 2000).

According to these studies, social capital contributes to efficiency and growth by facilitating collaboration between individual conflicting interests towards the achievement of increased output and equitable distribution. Additionally, recent literature has focused on the determinants of social capital. This constitutes the first step towards developing a consistent and integrated

framework concerning the nature of social capital and its relationship to socioeconomic growth. A number of studies have empirically tested the impact of individual- and aggregate-level factors on the components of social capital, that is, on social trust and group membership (Helliwell, 1996; Brehm & Rahn, 1997; Krishna & Uphoff, 1999; Glaeser et al, 2000;Costa & Kahn, 2001; Rothstein & Stolle, 2001). Some of these tend to emphasize the role of individual factors in determining the incentive of individuals to invest in social capital, such as personal income and education, family and social status; others offer greater weight to the effect of more institutional or systemic factors, such as income inequality, confidence in government, impartiality of policy-making bodies, and prior patterns of cooperation and association amongst individuals in a group.

1.1.4 SMEs

There is no universal definition of small and medium enterprise. Definitions vary from country to country. In Australia, for example, SMEs are defined as enterprises employing between five and 199 employees (Kotey & Folker, 2007). In Indonesia, they are business enterprises with 5-99 employees (Mira, 2006). The World Bank (2002) has also defined SMEs. Micro enterprises have 1–9 employees; small scale enterprises have 10–49 employees and medium have 50–249 employees. However, in the majority of countries, this definition did not match the local definition, in which cases the local definition took precedence.

In East Africa most SMEs started as small family businesses or small group called 'chamas'. The support and recognition of the role and importance of micro and small enterprises in Kenya dates back to the colonial period. Active participation in this sector by the government began in 1992 when the government developed Sessional Paper No. 2 on Unemployment where the government identified its primary challenge as its ability to find ways to help accelerate the expansion of

SMEs as a strategic avenue of job creation in Kenya (GoK, 1992). In the 1986 Sessional Paper No. 1 on Economic Management for Renewed Growth, the government acknowledged the increasing importance of the informal sector in economic development with respect to employment creation, particularly in the face of the economic crisis and structural adjustment policies that were prevailing at that time (GoK, 1986).

In 1989, the government published a document entitled, "A Strategy for Small and Medium Enterprises (SMEs) Development in Kenya: Towards the year 2000. The document focused on the constraints the sector was experiencing. Sessional Paper No. 2 of 1992 on Small enterprises and Jua Kali Development in Kenya set out a policy framework to enhance assistance to individual entrepreneurs and small scale enterprises. This was expected to precipitate the transition of micro and small enterprises into medium-sized enterprises by among other strategies, facilitating easy access to credit and information to this sector (GoK, 1992).

Small and Medium Enterprises (SMEs) are dynamic entities. Some grow into larger enterprises while others stabilize without changing the scale of operation. Others disappear (Bhalla, 1992). The Sessional Paper No. 2 on Small Enterprise and Jua Kali Development in Kenya set out a comprehensive policy framework to promote the growth and catalyze the transition of SME. This was to be achieved by enhancing direct assistance to these enterprises by primarily facilitating access to finance, credit, and information to this sector. Micro enterprises were then expected to register positive growth (GoK, 1992).

According to the Global Economic Report, Kenya ranks 98th Country out of 133 in global competitiveness in 2009-2010, a 5 point drop from the 2008-2009 ranking when it was 93rd (World Economic Forum, 2010). Though favorable in the African context, this rating is lower than that of key trading partners in Africa particularly Egypt and South Africa who rank 70th and 45th respectively (GCI, 2010) The rating is also significantly low from the global perspective. According to World Bank Report an issue of concern for Kenya is low intellectual capital utilization by SMES owners among key comparator countries that impact negatively on Gross domestic Product (World Bank, 2010).

According to Kenya Economic Survey 2008 out of the total new jobs created, micro, small and medium enterprises (MSME)s created 426.9 thousand new jobs out of a total of 474.5 thousand new jobs in Kenya (Economic Survey, 2009). In the same year, the sector contributed KSh. 806,170 million of GDP, which is 59 percent of total GDP (RoK, 2009). The Kenya economic survey 2010 notes that this same sector generated 390.4 thousand new jobs which translated into 87.6 percent of the total jobs generated in 2009 (RoK, 2010).

Kenya's development plans for the 1989-1993, 1994-1996 and 1997-2001 periods put special emphasis on the contribution of small and medium size enterprises in the creation of employment in the country (RoK, 1989, 1994, 1997, 2009). Job creation in this sector went up by 5.1 percent in 2011. The increase was 445,900 indicating a higher growth in absolute terms compared to the increase of 437,300 registered in 2010. Analysis by province shows that Nairobi County recorded a 5.4 increase (RoK 2012). According to the Sessional paper No.2 of 2005, SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries. Kenya, as of now, has about 1.6 million registered SMEs consisting about 96% of all business

enterprises which have employed 5.1million people accounting 75% of total labour to contribute 20% to Kenya's GDP

1.2 Statement of the Problem

SMEs play significant role in the economic development by creating employment, wealth creation, poverty eradication and creation of new firms (Kioko, 2010). This sector contributed to about 70% of the GDP in 2011 of Kenya (ROK, 2012). In the global economy, SMEs are largely recognized as engines of growth and development and are the backbone of economy in many developed nations (Zhou, 2007). SMEs have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. The 2012 Enterprise Baseline Survey revealed that there are 17 million Small and Medium Scale Enterprises in Nigeria, employing 32.41 million persons and makes a contribution of about 46.54 per cent to the nation's Gross Domestic Product in nominal terms. In Malaysia SMEs contribute to about 32% to the country's GDP (World Bank, 2012). According to World Bank (World Bank,2012) in general, the SME sector can contribute to the GDP of high income countries by as much as 51 percent and the middle and low income countries SMEs can produce up to 39 percent and 16 percent respectively of local GDP (World Bank,2012).

In Kenya, 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 (ROK, 2011). They eventually stagnate and lack continuity (Tera, 2011). Sessional paper No. 2 of 2005 shows that despite the significant role by the SMEs, they have continued to experience many constraints like poor access to market and financial services and unfavorable polices. These have inhibited the

realization of its full potential (ROK, 2005). Would the failure be caused by lack of utilization of social capital by 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 growth of small enterprises. A study by Musimba (2012) on the Role of Human and Social Capital in Internationalization of ICT SMEs in Kenya concludes 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.

All these studies are essential to the understanding of the contribution of social capital to the growth of SMEs. However, the studies do not fully elaborate on how the social capital initiate, develop and maintain network relationships, and how these impacts on growth of SME's. This study therefore sought to answer the following question: Is social capital a contributor to the performance and growth of small and medium enterprises in Kenya?

1.3 Objectives of the Study

The objective of this study was to investigate the influence of social capital on the Growth of SMEs in Kenya.

1.4 Importance of the Study

The findings of this study will be invaluable to the small and medium enterprises as they will be able to understand vividly the factors that influence their growth. The recommendations given in

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the study will help the SMEs by equipping them with adequate tools to get the solutions to the problems posed by the identified factors thereby sustaining themselves.

The development partners who are usually interested at helping the SMEs grow will have an understanding of a wide variety of factors that affect SMEs and the extent to which the identified factors affect SMEs. Equipped with the right information, they will be able to develop adequate policies that will benefit the SMEs & finally. Scholars and researchers who would like to debate or carry out more studies on SMEs will find this study useful as a basis of carrying out more studies in Kenya. The findings of these studies will develop a base from which researchers and scholars will formulate theses statements and proposals and carry out more studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter consists of four sections. The first section discusses the theoretical literature related to the study of SMEs' Growth. It is further broken down into four sections which discuss the various theories that support the study. The first sub-section discusses on The Social theory and how it forms a basis of the study. The second subsection discusses the Accounting Profitability Theory. The third and the fourth subsections discuss Signaling/ Information theory and Schumpeter theory of Innovation respectively. The second section examines empirical literature related to the concepts in the research. It enables the researcher to understand why the small and medium businesses are formed. It points out the social capital variables that affect growth and how they do that. The third section revisits the critical literature review related to the objective of the study. Section four is the summary that is in line with the problem statement and discusses why the SME's are collapsing at a high rate.

2.2 Theoretical Literature

This study is informed by several theories: The Social Theory, The Accounting Profitability Theory, Signaling Theory, and Schumpeter Theory of Innovation.

2.2.1 The Social theory

According to Coleman (1998), Social theories are frameworks of empirical evidence used to study and interpret social phenomena. It encompasses ideas about how societies and communities change and develop methods by interacting, share power and the social structure, gender, ethnicity and civilization. This theory takes precedence over other natures of social life, class, social institutions and transmission (Murphy, 2012). Some new and small firms are established and owned by more than one individual. Compared to single-founder firms, firms with more partners are able to draw upon wider social and business networks and may accumulate a wider variety of knowledge and get new ideas (Newell, 2004). The reasoning behind this is that firms with larger teams are more likely to have access to resource and knowledge relevant to social capital compared to firms with smaller teams.

According to the theory of social capital, however, different resources not only lie outside one's social group but they also reside in a different level of the social hierarchy. In order to access new resources, therefore, people need to reach up or down in the social hierarchy. While people may use weak ties to access lower status individuals, Laumann's prestige principal states that people prefer to associate with others of similar or somewhat higher social status rather than lower status individuals (Laumann, 1966; Lin, 2001a: 69). The importance of weak ties for gaining access to new resources is critical to Lin's conceptualization of social capital and forms the basis for his 'Strength-of-Weak-Ties' proposition. This proposition draws extensively from Granovetter's (1973) strength of weak ties argument that stresses the advantage of weak bridging ties for linking into other networks to gain information about new jobs and new market.

Whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called "civic virtue." The difference is that "social capital" calls attention to the fact that civic virtue is most powerful when embedded in a sense network of reciprocal social relations (Putman, 1995).

2.2.2 Accounting Profitability Theory

According to Hicks (1946), the accountants' profitability indicates "the amount which a firm can spend or consume without impoverishing themselves." and this reflects sustainability. Accordingly, profitability of SMEs is linked to their financial sustainability. All things being equal, profits can be considered to be a key variable in measuring a firm's financial sustainability (Glautier and Underdown, 2001).

Previous studies on SMEs have defined sustainability from profitability point of view. They consider profitability as a high standard measure of SMEs growth (Cull et al, 2007; Brau and Woller, 2004; Chavez and Gonzalez-Vega, 1996). Using this approach, SMEs are considered sustainable if and only if they are able to cover all their operating and financing costs from their own generated revenue, mainly through profits from operations. They further define sustainability as the stage of financial operations where all the costs of the SMEs are fully met from the gross incomes, and where the expenses are not subsidized, partly or fully met from outside sources (Thapa et al., 1992).

2.2.3 Signalling Theory

According to Westerfield (1999), Signalling Theory involves interpretation and transfer of information about business to the market and from the market to the firm. It rests on the transfer and interpretation of information at hand about a business enterprise to the capital market and the impounding of the results perceptions into the terms on which services are made available to the entrepreneur. In other words the flow of funds between an enterprise and capital market is dependent on the flow of information between them. For example, managers decision to make acquisition or divest, repurchase outstanding shares and decisions by outsiders like institutional investor deciding to with hold a certain amount to equity or debt finance.

According to Kumar (2007), the emerging evidence of signaling theory to small enterprises is mixed. Until recently, there has been no substantial and reliable empirical evidence that signaling theory accurately represent situations in SMEs social networking or that it adds insights that are provided by modern theory (Beck, 2006). According to Cooper and Schindler (2003), this theory states that communication between an organization, other organizations, the suppliers and customers and capital market depends entirely on flow of information between these entities. It is the theory that involves strategies for organizations and enterprises to effectively demonstrate their capabilities in and mingling with potential investors and customers.

Beck (2006) said that the ability of SMEs to signal value to potential investors, only the signal of the disclosure of earnings forecast were found out to be positively and significantly related to enterprise value amongst the following; a percentage of equity retained by owners and the net proceeds raised by an equity issue. This theory is effective for business expansion and growth.

2.2.4 Schumpeter Theory of innovation

In this theory, Schumpeter first proposed five categories of innovation to include; new products, new methods of production, new source of supply, exploitation of new market and new ways of organization business (Schumpeter, 1939). This can be best adopted by networking with customers, workers, suppliers and other stake holders in any firm. Schumpeter (1934) used the concept of equilibrium as a theoretical construct. He coined a phrase to describe this equilibrium state: "the circular flow of economic life." Its chief characteristic is that economic life proceeds routinely on the basis of past experience (Schumpeter, 1934). Schumpeter reduced his theory to three elemental and corresponding pairs of opposites: the circular flow which is the tendency toward equilibrium on the one hand versus a change in economic routine or data on the other; statics versus dynamics, and entrepreneurship versus management. The first pair consists of two real processes; the second, two theoretical apparatuses; the third, two distinct types of conduct. The theory maintained that the essential function of the entrepreneur is distinct from that of capitalist, landowner, laborer, and inventor.

Schumpeter (1939) argued that under perfect competition among firms, all of them would produce the same goods and sell them for the same price and have access to the same technology. He saw this as less important kind of competition, he wrote that what counts is competition from the new market, new technology, and new source of supply. Schumpeter admitted that the entrepreneur's basic function is almost always mingled with other functions. "Pure" entrepreneurship is difficult to isolate from other economic activity. But "management" does not describe the truly distinctive role of the entrepreneur. According to Schumpeter, people act as entrepreneurs only when they actually carry out new combinations, and lose the character

of entrepreneurs as soon as they have built up their business, after which they settle down to running it as other people run their business (Schumpeter, 1934).

2.3 Determinants of SME growth

2.3.1 Trust

Social capital contributes to growth by highlighting the importance of cooperation and trust within the firm and the market. The interdependence between decisions of individual agents and the emergence of externalities and common goods makes cooperation imperative to maximizing social welfare. The superiority of social cooperation has long been documented in economic and social thought. 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. 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 and Crispin (1999).

2.3.2 Civic Engagement

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 (1996), Brehm and Rahn (1997), Glaeser et al, (2000),Costa and Kahn (2001), Rothstein and Stolle (2001), 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.

In his research comparing north and south Italy, Putnam (1993) examines 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.

2.3.3 Cultural factors

The cultural factors that can affect or improve social capital of firms include differences in language, tribe, political systems, level of education and the level of industrial development. Johansson and Wiedersheim-Paul (1978) expanded the concept with other dimensions such as, political and environmental and proposed the following definition, later also adopted by Johansson and Vahlne (1990). 'Cultural factors is a sum of factors that prevent the flow of information between firm and the market'.

Ojala (2009) in his findings of his study indicate that cultural factors have an impact on the market entry, the survival SMEs and entry to new markets.

2.4 Empirical Literature

Sohail & 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.

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.

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)

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needed to leverage their network relationships that provide access to novel sources of information. These dynamic capabilities may in turn positively influence international performance.

Paul et al (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.

2.4 Summary

The information on the background of the study reveals SMEs have very low survival rate. The collapse ratio of SMEs is alarming for developing countries as well as developed countries (Hodgetts & Kuratko 2004). Past studies indentified that a significant number of new SMEs fail within first five years of their business operation (Zimmerer et al 2008; Hodgetts & Kuratko 2004). Several studies from Australia, USA and England showed that approximately 80% to 90% of SMEs fail within 5-10 years (Zimmerer et al. 2008; Hodgetts & Kuratko 2004; Ahmad et al. 2011). Ministry of Economic planning report on SMEs (RoK, 2007) show that three out of five SMEs fail within their first three years of operation in Kenya, resulting to low economic development and loss of jobs (RoK, 2012). This implies that SMEs in Kenya are threatened for survival as a competitive enterprise.

The literature available in this chapter shows that performance is a key ingredient of SMEs growth for production of innovation and creativity (Cabrita & Bontis, 2008). Most of the studies conducted on the role of performance have focused on the developed countries outside Africa; Kenyan SMEs contribute heavily to the GDP. Yet, there is little or no empirical evidence available to this study on how social capital affects growth in this important sector of the economy. It is therefore imperative to explore the actual situation on how this important sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the method that was used in undertaking the study to ensure reliability and validity of the research. Section 3.2 highlights the Research Design. Section 3.3 discusses Population and Sample. Section 3.4 presents the Data and Data collection instruments. Section 3.5 presents Data Analysis method used.

3.2 Research Design

Descriptive research design was used in this study. The study used primary data to carry out the analysis. Descriptive research reports the status of events and issues the way they are. This research involved the gathering of data in order to describe events. The data was organized, tabulated, depicted and described by use of visual aids like graphs, tables and charts. By using this design, an incisive analysis of the effects of social capital on the growth of SMEs was carried out. The design was the most suitable for this study.

This design has its merits and demerits. Given that the human mind cannot extract the full import of large volumes of data, descriptive statistics are important for reducing the available data to manageable forms. When using this design, an in-depth and narrative description of numbers organizes the data into patterns that are easy to understand. The descriptive research has a weakness in confidentiality. Subjects may not be frank and truthful because they may say what

the researcher wants to hear. This may distort the validity of the results obtained from the field (Kothari, 2004).

3.3 Population

The target population of this study consisted of all the SME's operating in the Nairobi Central Business District. The CBD was chosen because it has SME's from all sectors. Data available from the Nairobi City Council revealed that there are 1000 properly registered SMEs in the manufacturing, trading and service sector in Nairobi Town.

3.4 Sampling

The study used stratified random sampling. In this technique, a population is stratified first and then random sampling is done. Stratification is done when members of a target population are divided into homogeneous groups before sampling. After the members have been put into homogenous groups, they are randomly picked using the simple random sampling. This process is preferred because no element of the population is left out. The strata are collectively exhaustive. Sampling error is reduced if the procedure is used (Mugenda, 2003).

In the sampling procedure, the SMEs were stratified in three sections. They included the service sector, the manufacturing sector and the trade sector. In the population, the service sector had 449 SMEs, the manufacturing sector had 234 SMEs while the trade sector had 327 SMEs. Table 3.1 shows these figures. A list of the population was drawn from each sector. Simple random sampling was then be carried out in each sector. Mugenda (2003) recommends that a sample

representing 10 % of the population is adequate for representation. 10 % of the population from each stratum was picked. The information is shown in Table 3.1.

Table 3.1: Summary of Respondents sector

Strata	Population	Sample	Percentage
Manufacturing	234	23	23
Trade	327	32	32
Service	449	45	45
Total	**1000**	**100**	**100**

3.4 Data Collection

This study used questionnaires as the data collection method. A questionnaire is a data collection instrument that has a series of questions and other prompts whose purpose is to gather information from respondents. Questionnaires are preferred to other data collection instruments because they are cheap; they do not require efforts on the side of the questioner and always have standardized answers. Its disadvantage is that it gives the user limited chance of expressing anything. Again, given that they are in writing form, they necessitate the user to read before giving answers (Kothari, 2008).

The researcher issued the questionnaires to the chief executive officers of the SMEs selected. The questionnaires were delivered personally, in hard copy, to the respondents. Even though the

firms were reluctant to share their financial records due to the proprietary nature of the information, the researcher assured them of the confidentiality of the data.

3.5 Data Analysis

The study will use quantitative and qualitative analysis to interpret the data collected. The data from the completed questionnaires and from the financial records will be recorded. It will then be entered in a computer using descriptive statistics. The descriptive statistics approach will be adopted for analyzing and presenting the data in this research. This approach is important because it enables the researcher to meaningfully describe distribution of scores using statistical measures of central tendencies, dispersions and distribution (Mugenda, 2008).

The analysis related the dependent and the independent variables of the research. Here, the independent variables of the research included the social capital aspects of trust, civic engagement and cultural factors. Each of these factors was related to the growth of the SMEs. The variables defining growth of the SMEs were obtained from the financial information obtained from the financial records. These include the net worth of the business, the profitability and the net assets. Graphs and tables were used to relate these variables. Linear regression was used to numerically find the relationship between the variables. Social capitals (the independent variables) were regressed on SME's growth (dependent variable) to assess the strength of the potential positive relationship between social capital and SME growth. The overall regression equation is:

$$\text{Growth}(Y) = \beta_o + \beta_1 \text{TRUST}_+ \beta_2 \text{EGMNT} + \beta_3 \text{CULTURE} + \text{¢}$$

Where:

β_o is the regression coefficient, β_1, β_2, and β_3 are the slopes of the regression equation and $\cent$ is an error term, normally distributed about a mean of 0 and, for purposes of computation, the c is assumed to be 0.

3.5.1 Dependent Variable

Growth is the dependent variable and will be measured based on three growth indicators. They included the annual sales turnover, the profitability and the improvement in the number of employees in the previous three years.

3.5. 2 Independent Variable

Trust, Engagement and Cultural factors were measured using a questionnaire which was represented as a percentage of the respondents in the county. Microsoft Excel was used to generate the final score which was presented in the form of graphs. The importance of social capital will be assessed by the positive sign and statistical significance of β_1 and β_2.

3.5.3 Control variable

The size of the firms was used as a control variable. Even though some organizations were recorded as SMEs in Nairobi, they had long exceeded their population of employees such that they did not fit to be included in the analysis. The responses from such firms were not included in the analysis of this report.

CHAPTER FOUR

FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter covers data analysis, findings and discussions of the research. The data was collected from the SMEs in Nairobi CBD. Out the 100 targeted subjects of study, 57 filled and returned their questionnaires. This represented 57 % overall response rate. The response rates for each stratum have been illustrated in table 4.1. This rate was considered satisfactory for analysis. The questionnaire responses were broken down into manageable categories, coded and thereafter quantitatively analyzed to get insights and make inferences. These were subsequently presented in tables, graphs and in equation forms.

Table 4.1.1 **The Response Rate**

Strata	Questionnaires Administered	Questionnaires Returned	Response Rate
Service Sector	45	23	51.1 %
Manufacturing Sector	23	11	47.8 %
Trade Sector	32	23	71.8 %

4.1.2 Number of Years in Operation

During the study, the respondents were asked to indicate the number of years that they have been operating. The questionnaire tested the years of operation in five categories. They included less than 2 years, 2-4 years, 5-8 years, 9-10 years and over 10 years. The answers were categorized in the three strata. In the manufacturing sector SMEs, 15 % have been in operation for less than 2

years, 23 % have been operating between 2-4 years, 17 % have been operating between 5-8 years and 40 % have been operating 9-10 years. 5 % had operated for more than 10 years. In the trade sector SMEs, 21 % have been in operation for less than 2 years, 25 % have been operating between 2-4 years, 10 have been in operation for between 5-8 years and 42 % have been operating 9-10 years. 2 % had operated for more than 10 years. From the results, in the service sector SMEs, it was found that 23 % have been in operation for less than 2 years, 27 % have been operating between 2-4 years, 9 % had been in the market between 5-8 years and 33 % have been operating 9-10 years. 8 % had operated for more than 10 years. Figure 4.1 gives a summary of the findings about the years of operation of the sampled SMEs.
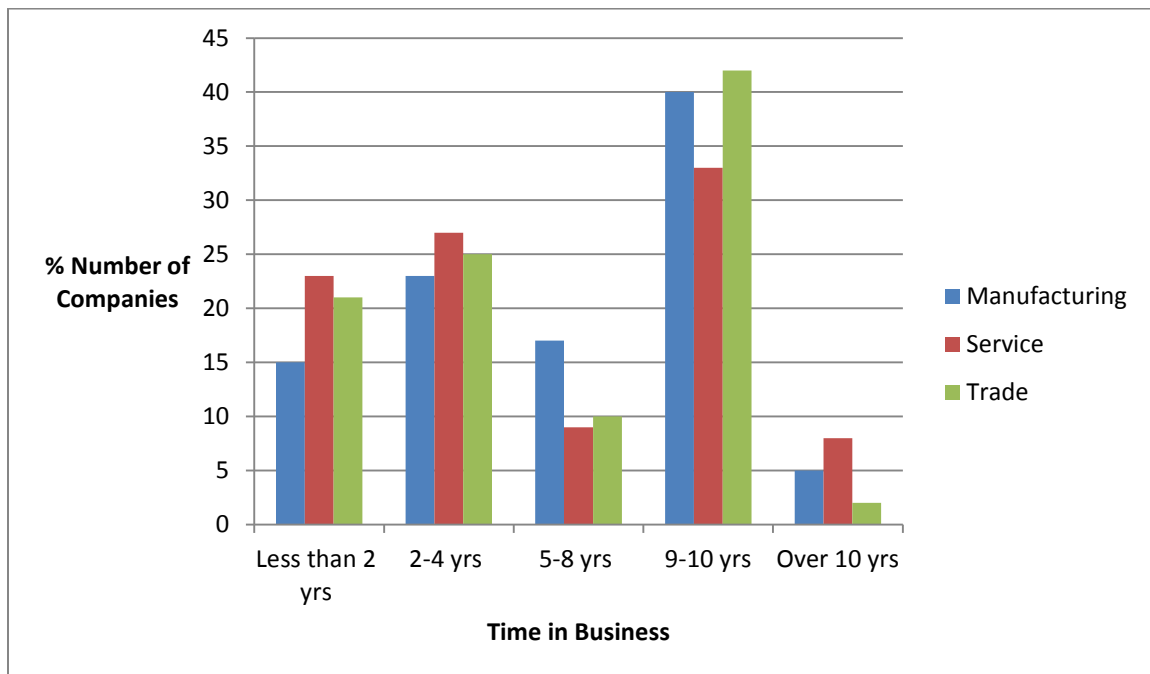

Figure 4.1: The number of years in business

From the figure, it is clear that most of the SMEs studied have been in operation between 9-10 years. Few of the studied SMEs have been in business for more than 10 years.

4.1.3 Number of Employees

In the study, the questionnaire sought to establish the number of full time employees that each SME had employed in its business. From the research findings, it was established 31 % of the manufacturing sector had employed between 1-10 employees, 11 % had 11-30 employees, 54 % had 31-70 employees, 3 % had between 71-99 employees while 1 % had 100 and over employees. In the service sector stratum, 23 % of the respondents had employed between 1-10 employees, 49 % had 11-30 employees, 15 % had 31-70 employees, 6 % had between 71-99 employees while 7 % had 100 and over employees. 40 % of the trade sector employs between 1-10 employees. 14 % employs 11-30 employees, 21 % had 31-70 employees, 18 % had between 71-99 employees while 7 % employed 100 and over employees. Figure 4.2 shows the graphical representation of the number of employees in the SMEs studied.
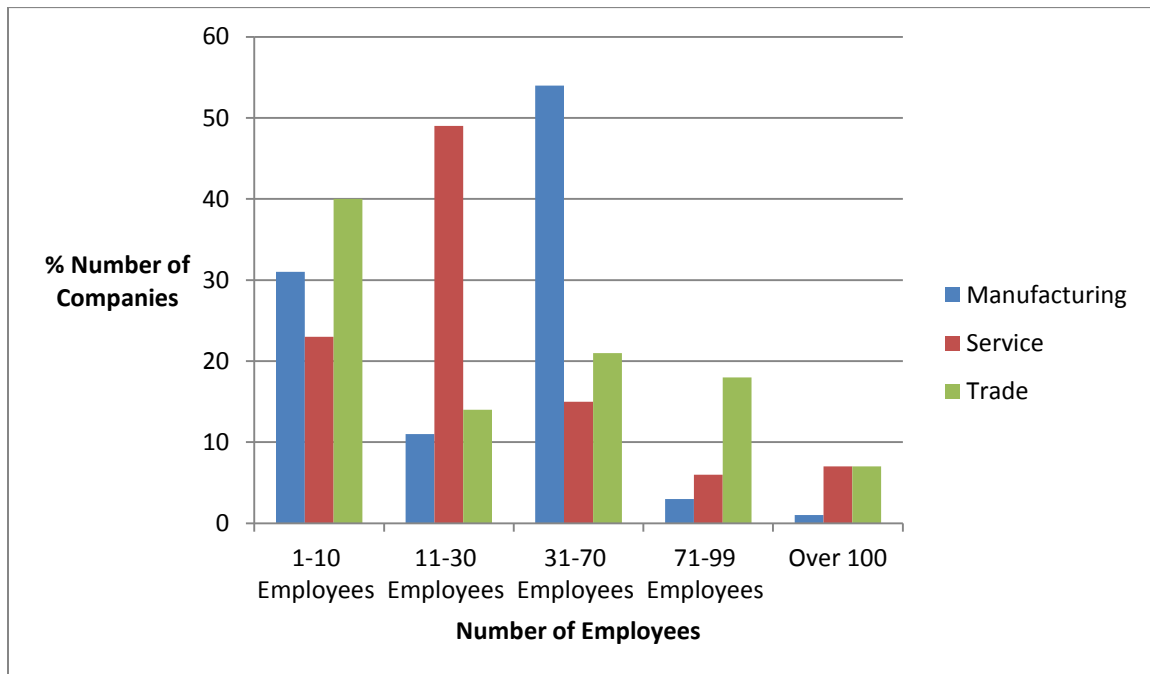

Figure 4.2: The Number of Employees per Sector

4.1.4 The Annual Sales Turnover

The research tested the annual sales turnover of the sampled population. The turnover was categorized into five groups. They included less than 500 000 shillings, between 500 000 and 1 000 000 shillings, between 1 and 10 million shillings, between 10 million and 20 million shillings and over 20 million shillings. In the manufacturing sector, 0 % reported an annual sales turnover of less than 500 000 shillings. 2 % had an annual sales turnover of between 500 000 and 1 000 000 shillings. 12 % had a sales turnover of between 1 million and 10 million shillings. 34 % had an annual sales turnover of between 10 million and 20 million shillings. 52 % reported a sales annual turnover of over 20 million shillings.

The results from the service sector indicated that no company had an annual sales turnover of below 1 million shillings. 46 % of the sampled service SMEs had an annual sales turnover of between 1 and 10 million shillings. 32 % had a turnover of between 10 million and 20 million shillings. 22 % had over 20 million shillings as the annual sales turnover. In the trade sector, 2 % of the respondents reported to have had an annual sales turnover of between 500 000 and 1 000 000 shillings. 15 % had an annual sales turnover of between 1 million and 10 million shillings. 46 % reported that they had an annual sales turnover of between 10 million and 20 million shillings. 37 % of the respondents in the trade sector reported to have over 20 million shillings in sales turnover. Figure 4.3 shows the distribution of annual sales turnover for the three sectors tested during the research.
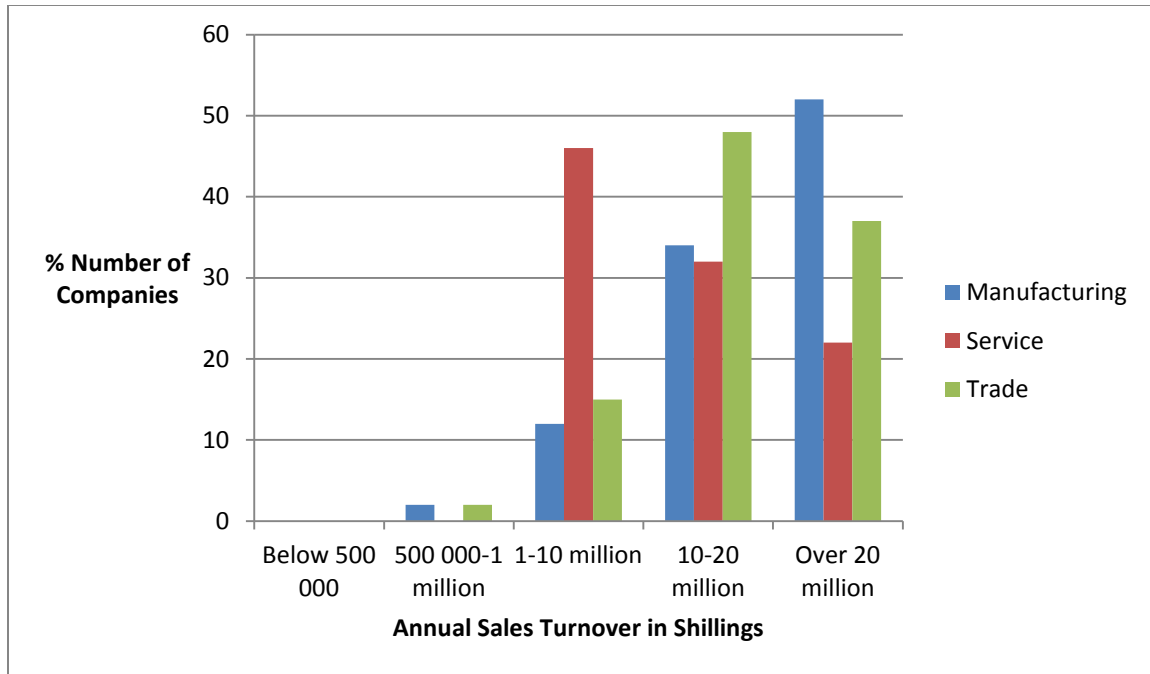
Figure 4.3: Annual Sales Turnover

From the figure, the manufacturing sector is the one that reported the highest annual sales turnover. This can be related to the number of employees in the sector. The sector has the highest number of employees. This translates to high productivity in the sector. The largest number of the service sector has an annual sales turnover of between 1 and 10 million shillings. The modal class for the trade sector is between 10 and 20 million shillings in annual sales turnover.

4.2 Growth in the SMEs

The study tested growth in the SMEs on three levels. It included the improvement in profitability, the improvement in the sales turnover and the growth in the number of employees in the previous three years. The respondents were asked to select one of the answers that related to their observation of growth in their organization. The answers ranged from greatly improved, constant, decreased and greatly decreased. As well, they were tested in terms of expansion of

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business outside Nairobi. The results were analyzed in terms of the percentage responses from each of the three categories of the SMEs.

Most of the SMEs in the manufacturing sector recorded great improvement in its profitability in the previous three years. 65 % of the respondents averred that in the previous three years, the profitability of their organizations had greatly improved. This indicates that 65 % had an improvement in growth in terms of profitability. 20 % responded that their businesses had remained constant in terms of growth in profitability. 5 % reported a decrease in their profitability. In the service sector, 67 % reported an improvement in profitability in the previous three years. This illustrates that 67 % experienced growth in terms of profitability. 14 % stated that their companies had remained constant in terms of profitability in the previous three years. 19 % reported a decrease in profitability. 54 % of the trade sector reported growth in profitability in the previous three years. 34 % reported a constant profit in the previous three years. 6 % reported a decrease in profitability while 6 % reported great decrease in their profitability.

In the evaluation of the growth in the number of employees, 58 % of the manufacturing sector reported a great improvement in the previous three years. 31 % of the respondents stated that the number of their employees had been fairly constant in the previous three years. 11 % reported a reduced workforce in the previous three years. 71 % of the service sector that was studied reported a great improvement in the number of the employees engaged over the previous three years. 19 % stated that their number of employees had remained constant. 10 % reported a reduction in the number of employees for the previous three years. In the trade sector, 54 % of the respondents stated that they had a great improvement in the number of employees recruited in the previous three years. 32 % reported to have experienced a constant number of employees.

14 % indicated that the number of employees in their firms had reduced in the previous three years.

The performance of the annual sales turnover was also evaluated. In the analysis, 67 % of the manufacturing sector respondents confirmed that they had a great improvement in their annual sales turnover. 18 % stated that their annual sales turnover had remained constant while 15 % reported a drop in their annual sales turnover. 53 % of the service sector recorded great improvement in the annual sales turnover in the previous three years. 32 % stated that they had had a constant annual sales turnover. 15 % reported a reduction in the annual sales turnover in the previous three years. 57 % of the trade sector had a greatly improved annual sales turnover in the previous three years. 21 % reported that their annual sales turnover had been constant in the previous three years. 22 % reported a decrease in the annual sales turnover.

The study also investigated the expansion of the SMEs beyond Nairobi. In the responses, 23 % of the manufacturing sector respondents reported to have expanded beyond Nairobi. 43 % of the service sector had expanded beyond the Nairobi County while 12 % of the trade sector had expanded their businesses outside Nairobi. Table 4.2 and figure 4.4 show the responses in terms of the four variables of growth are reported by the three sectors.

Table 4.2: Percentage of companies that experienced growth in previous three years

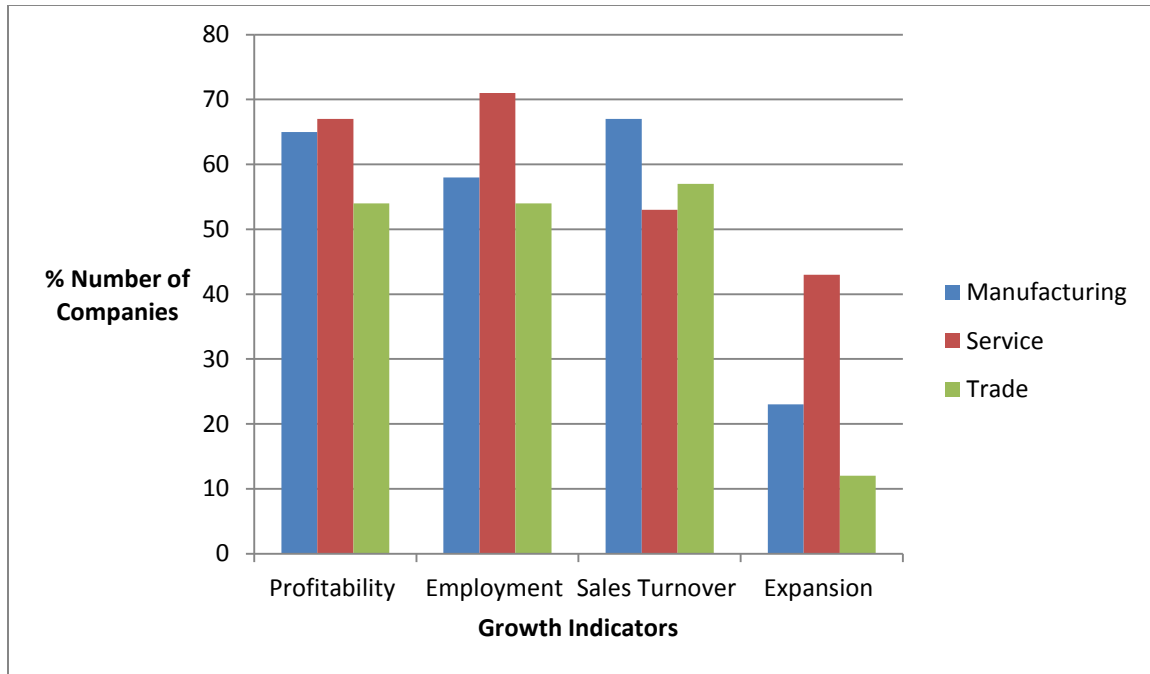| Sector	Profitability	Employment	Sales Turnover	Expansion
Manufacturing	65	58	67	23
Service	67	71	53	43
Trade	54	54	57	12

Figure 4.4: Percentage of companies that experienced growth in previous three years

4.3 Social Capital

The research evaluated the social capital variable using three items. It used civic engagement, trust and culture. Trust was evaluated on three factors. The respondents were asked to rank their level of trust in fellow employees, trust in managers and trust in other SMEs within their sector. The ranking was from number 1 through to number 5. Number 1 meant a very small extent of trust while 5 meant a very large extent of trust. For purposes of analysis, percentages were allocated to these numbers. Number 1 was allocated a 20 % score, number 2 a 40 % score, 3 a 60 % score, 4 an 80 % score and 5 a 100 % score. The responses for the three levels of trust were averaged. For instance, if a respondent was evaluated to have a 3 on fellow employee trust, a 2 on managers' trust and a 4 on SMEs trust, an average was computed as follows:

$(60 \% + 40 \% + 80 \%) \div 3 = 60 \%$

Here, the SME would be reported to have a 60 % overall level of trust. In the analysis, the overall level of trust in each sector was averaged. On the social capital variable of trust, the manufacturing sector scored an average of 59 %, the service sector recorded an average of 56 % while the trade sector recorded a trust level of 48 %.

The study analyzed the level of civic engagement among the employees in the SMEs. Four factors were used to test the civil engagement. They included participation in voting, attending meetings of the organization, being involved in decision making and helping chart the way forward for the organization. For each factor, four categories were given where the respondent was supposed to pick one. The scores ranked from 1 to 4. 1 meant that the respondent had never engaged in any civic duties. 2 meant the engagement was only once. 3 meant more than once and 4 meant more than 10 times. These scores were assigned percentages. Number 1 was assigned 0 %, number 2 was assigned 10 %, number 3 was assigned 50 % and 4 was assigned 100 % civic engagement. The scores were averaged per respondent. The average represented the civic engagement of the respondent. For example, if a respondent selected 1 for engaging in voting of leaders, 3 on attending meetings of the organizations affairs, 4 for participating in decision making at the organization and 3 for charting ways about the sustainability of the SME, the average score for the civic engagement would be computed as follows:

$(0 \% + 50 \% + 100 \% + 50 \%) \div 4 = 50 \%$

The average for all the respondents in each of the three categories was calculated. The manufacturing sector recorded an average of 61 % in civic engagement. The trade sector had 59 % civic engagement while the service sector had 64 % civic engagement score.

The social capital variable of culture was investigated using four factors. They included education, language, regulations and tribe. The test sought to know which of these and to what extent affected the social capital of the organizations that were studied. The score was ranked from 1 to 5. 1 meant that the factor, for instance education, affected the social capital of the organization to a very less extent. 5 meant such a factor affected the performance of the organization to a very large extent. For analysis purposes, the scores were allocated percentages. 1 was allocated 20 %, 2 was allocated 40 %, 3 was 60 %, 4 was assigned 80 % while 5 represented 100 % effect on the performance of the organization. The responses from each factor were added and then divided. The average was taken as the score in culture from the respondent. The manufacturing sector had 55 % score in cultural influence of social capital. The service sector had 69 % of the culture affecting the social capital. In the trade sector SMEs, the culture affected the social capital to an extent of 57 %. Table 4.3 and Figure 4.5 show the results of the scores in social capital from the three sectors analyzed.

Table 4.3: Social Capital Performance

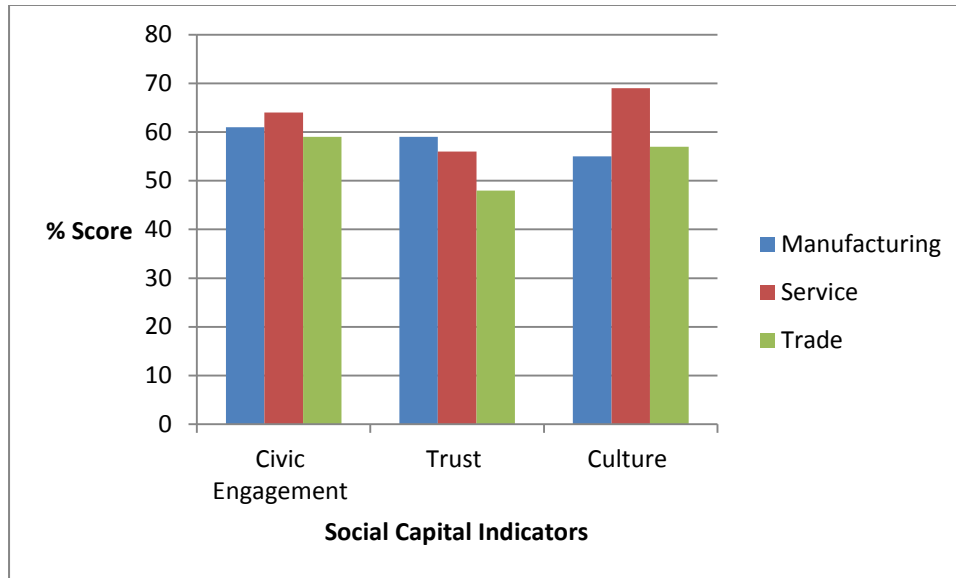| Sector	Civic Engagement	Trust	Culture
Manufacturing	61	59	55
Service	64	56	69
Trade	59	48	57

Figure 5.5: Social Capital Performance

Correlation and regression analysis were carried out to determine the relationship between the growth variables and the social capital variables. Each growth variable was regressed against the three social capital variables using a multiple regression analysis. Table 4.4 shows the correlation coefficients between the three growth indicators and the social capital variables.

Table 4.4: Correlation between the growth indicators and the social capital variables

Sector	Profitability	Employment	Sales Turnover	Expansion	Trust	Civic Engagement	Culture
Manufacturing	65	58	67	23	59	61	55
Service	67	71	53	43	56	64	69
Trade	54	54	57	12	48	59	57
					Correlation		
Indicator				Trust	C.Eng	Culture	
Improvement in Profitability				0.917001	0.8799	0.509403739	
Increase in employees' number				0.464974	0.9835	0.936102506	
Improvement in Sales Turnover				0.487757	-0.386	-0.80583738	
Expansion				0.57628	0.9987	0.882342557	

The correlation results have shown the different relationships between the social capital variables and the indicators of growth. Trust has the highest positive coefficient of correlation. The coefficient of correlation is 0.917001. The social capital variable of trust is strongly and positively related to the improvement in profits of the SMEs. This indicates that the SMEs can build more on trust in order to improve their profits even more. The culture least affects the improvements of the profitability in the SMEs. It has the lowest coefficient of correlation, at 0.509403739. Civic engagement is strongly related to the improvement in profits in the organization.

The improvement in the number of employees is positively affected by the trust, civic engagement and culture. Of the three variables, trust is the lowest in terms of the strength of the relationship. It has a coefficient of correlation of 0.464974. Civic engagement is strongly related to the improvement in the number of employees in the SMEs. The coefficient of correlation is 0.9835. Culture is also strongly related to the improvement in the number of employees in the SMEs. The coefficient of correlation is 0.936102506.

The improvement in sales turnover, as a growth indicator, has confounding results of correlation. Trust is the only variable of social capital that is positively related to the improvement of sales turnover. The coefficient is 0.487757. The civic engagement and culture are negatively related to the sales turnover. The coefficient of correlation between the sales turnover improvement and the culture is -0.386. This means that the utilization of culture in the SMEs negatively affects the improvement of the growth of the annual sales turnover.

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In the questionnaires, some of the respondents stated that tribal relations sometimes derailed the smooth functioning of the SMEs. Nairobi is a cosmopolitan town. It follows that most customers could be coming from different cultural backgrounds. It is possible that the use of cultures from different parts of the country, for example, different languages, may not work well with the improvement of sales. This partly explains the reason why culture is shown to negatively correlate with the annual sales turnover. It would be proper for the SMEs to use the national languages to deal with the customers. Kiswahili and English should be used as the medium of communication. As well, the SMEs can consider encouraging the employees to use their first names because they could be culturally neutral. The use of religion to improve the sales in the SMEs could also be another reason for the negative correlation. As a cultural factor, religion can evoke emotions in the times of religious motivated terrorism. As a precaution, the SMEs can steer clear of using the religion as a way of improving their sales.

The negative correlation coefficients could also mean that the SMEs are using the wrong cultural factors to improve sales. Instead of using religion, language and tribe, the SMEs should explore other cultural building blocks to improve their sales. The cultural and personal traits like agreeableness, conscientiousness, extraversion and openness to experience. These traits can be positively exploited to synergistically come up with a good sales team. A good sales team will improve the annual sales turnover of the organization.

Civic engagement is also negatively correlated to the improvement of the sales turnover. From the analysis, the coefficient of correlation is -0.80583738. This means that an improvement in the civic engagement will negatively affect the performance of the annual sales turnover. This indicates that a politically sensitive workforce is likely to affect the sales turnover in a negative way. From this, it can be deduced that office politics have a negative impact on the sales

turnover. If the employees are politically sensitive, they may engage in labor agitation. Such a decision may negatively affect the sales. As well, if employees are engaged in the politics during the sales exercise, they may drive away the customers. During the period of national elective politics, it could be possible that the political affiliation of the employees may affect the performance of the sales team. This may partly affect the annual sales turnover. The issue of consultation could also be one of the reasons why the civic engagement has a negative correlation coefficient with the improvement in the annual sales turnover.

All the social capital variables have a positive coefficient of correlation with the expansion indicator of growth. This means that the SMEs have used culture, trust and civic engagement to expand their businesses. The trust variable is positively correlated to the growth indicator of expansion by 0.57628. Civic engagement is related by a positive correlation coefficient of 0.9987. The culture variable is correlated by a coefficient of 0.882342554. The results indicate that the SMEs can still explore the social capital variables for more expansion in business. They can engage the employees in positive ways to harness the benefits of these social capital variables.

A linear regression analysis was carried out to determine the regression equation between the indicators of the growth and the variables of social capital. The linear regression method was adopted as opposed to the multiple regressions because it would help bring out the way in which each growth indicator is affected by each variable of the social capital. In the regression analysis, a scatter plot was drawn. The plot was used to come up with the linear regression equation for each of the four growth indicators against the variables of the social capital that was tested in the
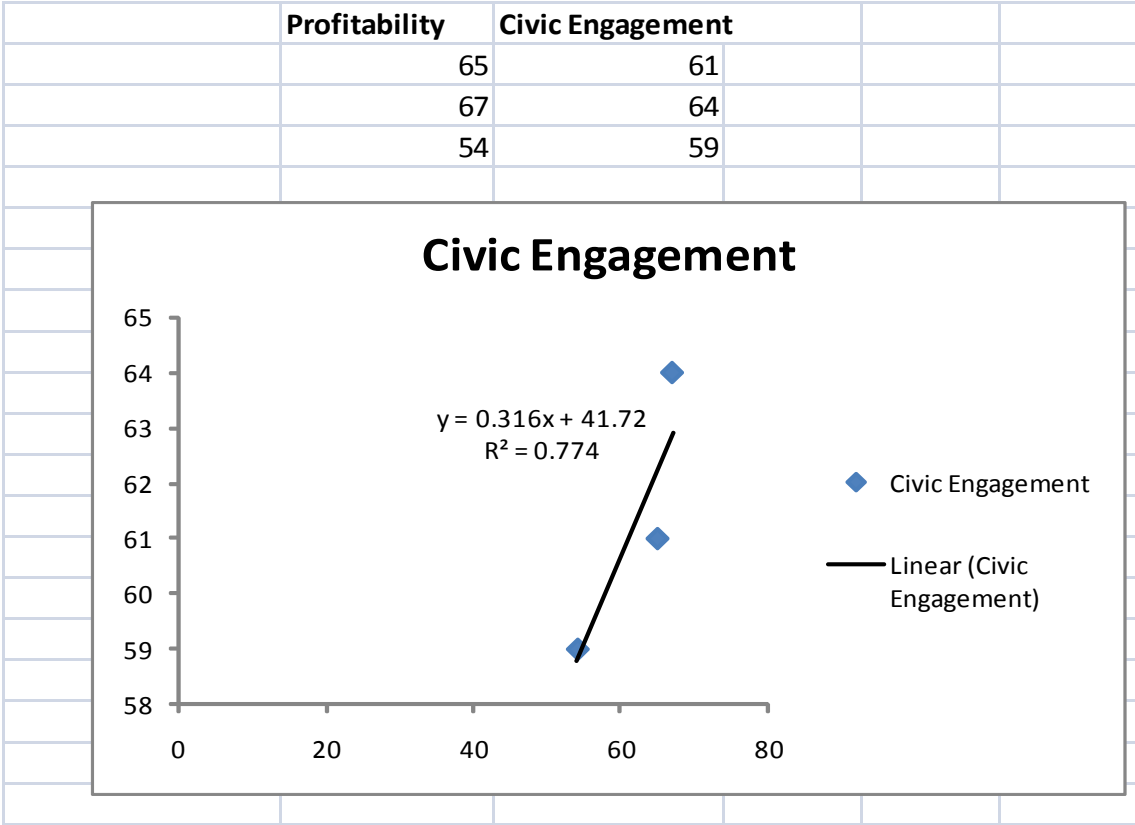
study. Each equation was then discussed with its implications. Tables 4.5, 4.6, 4.7 and 4.8 show the linear regression lines and equations between the indicators of the growth and the variables of social capital.

Table 4.5: Linear Regression between Profitability and Trust

		Profitability	Trust			
		65	59			
		67	56			
		54	48			

Response of Profitability against Trust
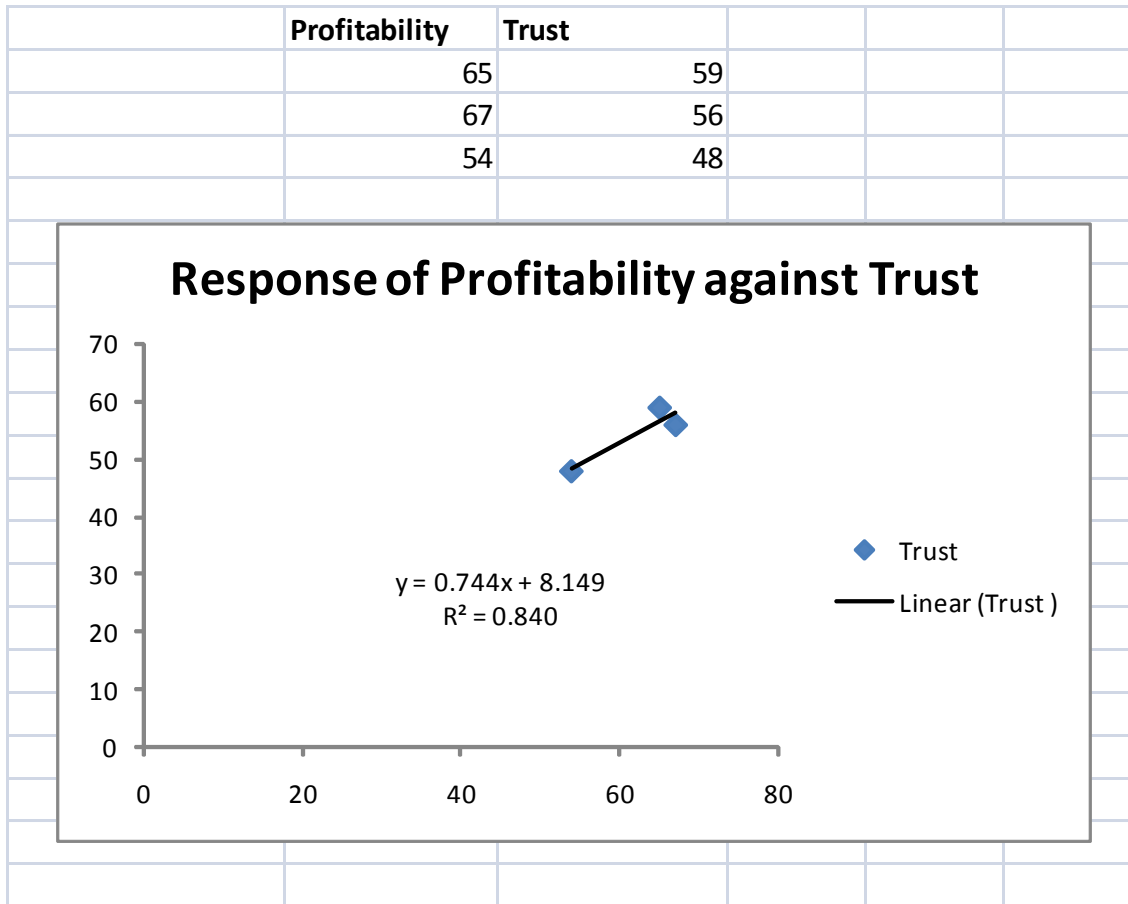
$y = 0.744x + 8.149$
$R^2 = 0.840$

From the table and the graph, the linear regression model is given as $y = 0.744x + 8.149$. $R^2 = 0.840$. This equation agrees with the correlation analysis that the growth indicator of profitability is positively and strongly related to the social capital variable of trust. The coefficient of determination shows the goodness of fit of the line. The value for the coefficient of determination shows that the line has fit well in the equation. The 84 % of the total variation in profitability can be explained using the linear relationship developed in this regression.

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Table 4.6: Linear Regression between Profitability and Civic Engagement

	Profitability	Civic Engagement		
	65	61		
	67	64		
	54	59		

Civic Engagement

$y = 0.316x + 41.72$
$R^2 = 0.774$

- Civic Engagement
- Linear (Civic Engagement)
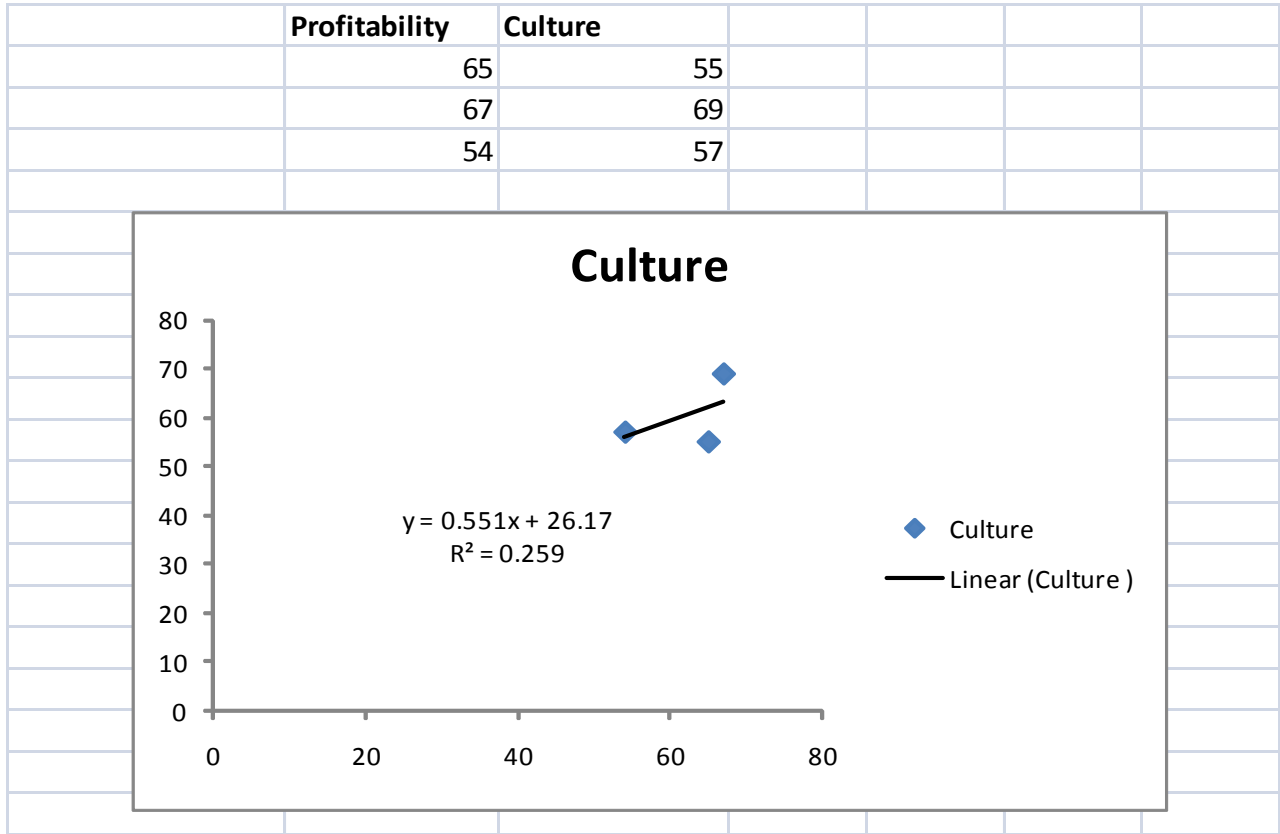
Profitability is positively related to the civic engagement although the slope is too steep.

$y = 0.316x + 41.72$

The gradient is 0.316. The coefficient of determination is 0.774. This is an indicator of a sound goodness of fit. It means that 77.4 % of the changes in the profitability can be explained using the civic engagement of the employees. The remaining 12.6 % cannot be explained.

Table 4.7: Linear Regression between Profitability and Culture

	Profitability	Culture				
	65	55				
	67	69				
	54	57				

Culture

$y = 0.551x + 26.17$
$R^2 = 0.259$

♦ Culture
— Linear (Culture)

From Table 4.7, the coefficient of determination is 0.259. This indicates that culture can only explain 25.9 % of the changes that occur in the y axis. It the 74.9 % cannot be accounted for by the regression model. This shows that the goodness of fit is not sound. Culture is thus weakly related to the profitability of the SMEs and it can only explain 25 % of the profitability changes that take place.

Table 4.8: Linear Regression between Improvement of Employment and Trust

	Employment	Trust				
	58	59				
	71	56				
	54	48				
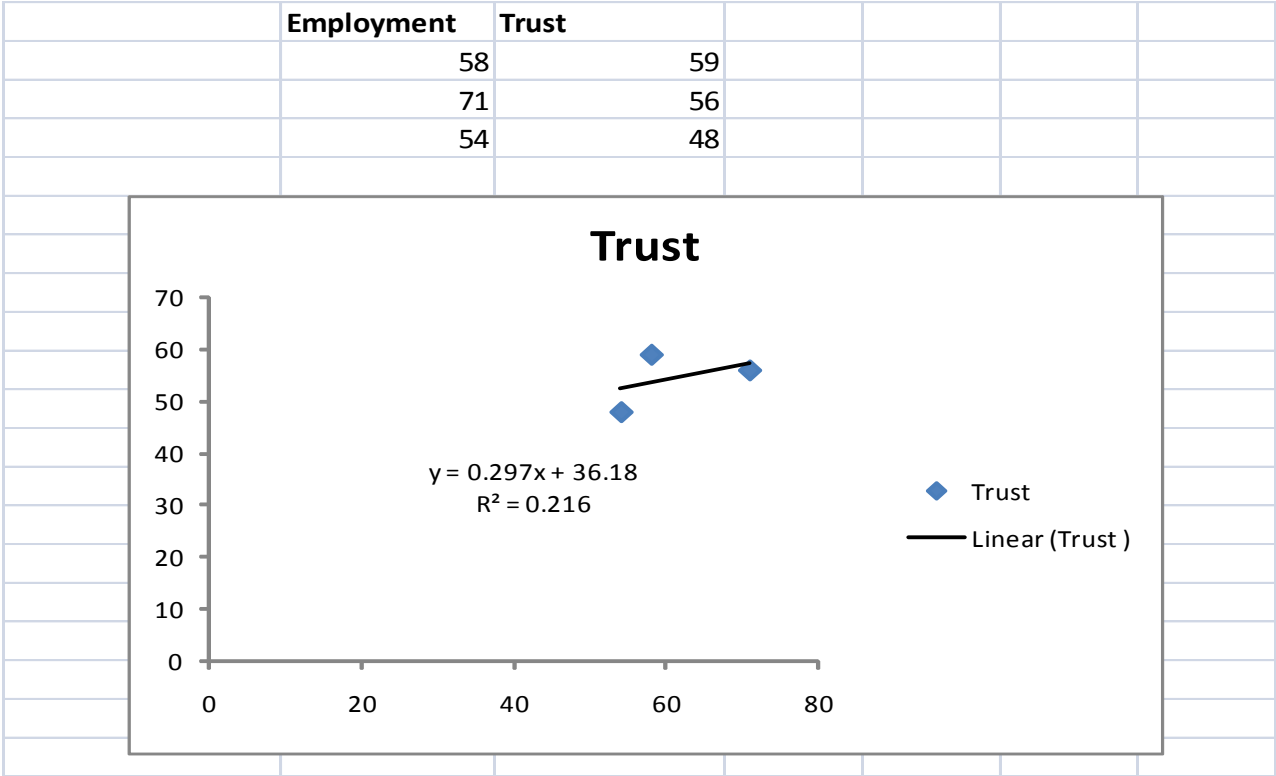
The regression model is y= 0.297x+36.18

There fitness of the line is poor. The coefficient of determination is 0.216. This shows that the improvement in the employment can only be explained up to 21.6 % by the equation. The remaining 78.4 % cannot be explained by this model.

Table 4.9: Linear Regression between Improvement of Employment and Civic Engagement

	Employment	Civic Engagement			
	58	61			
	71	64			
	54	59			

Civic Engagement

y = 0.278x + 44.34
R² = 0.967

◆ Civic Engagement

— Linear (Civic Engagement)
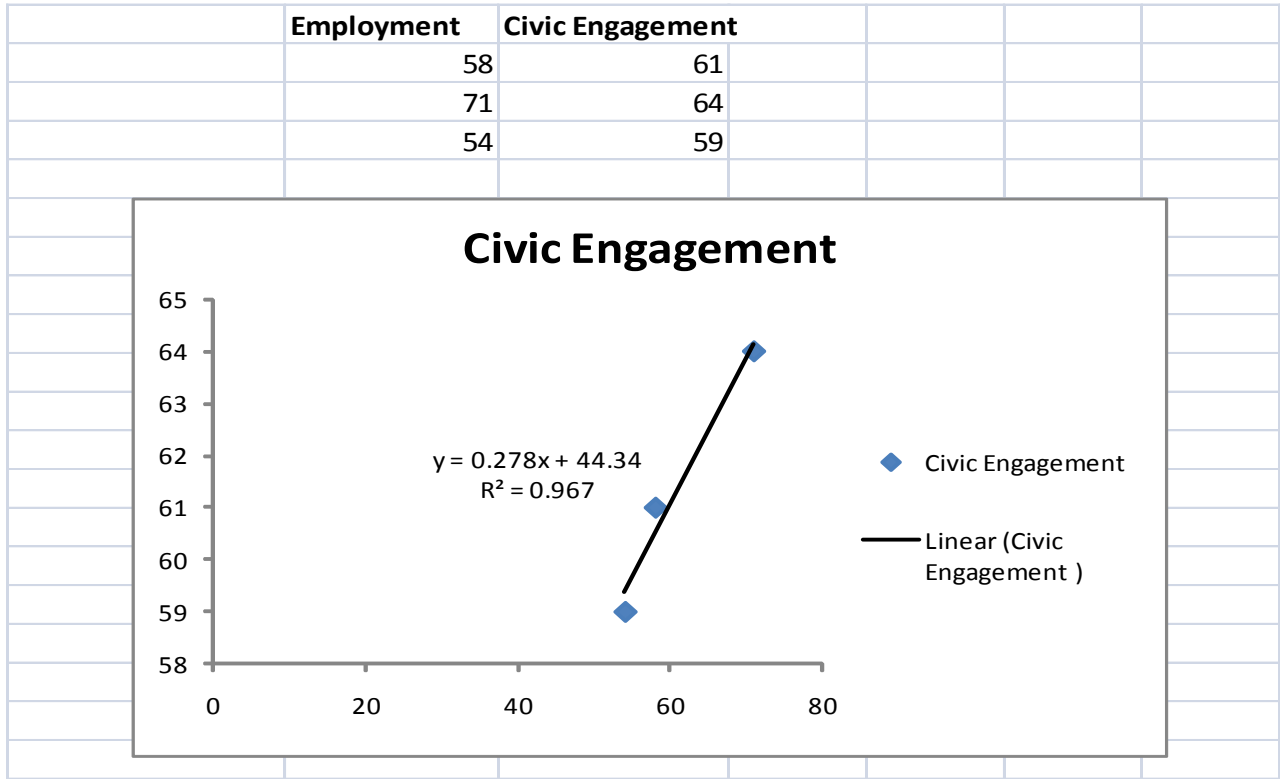
The regression model is expressed by

y= 0.278 x + 44.34

From the table, it is illustrated that the 96.7 % of the changes that may occur in the number of employees employed by the SMEs in the previous three years can be explained by the model of regression. The relationship between the numbers of employees engaged for the previous three years and the civic engagement variable of social capital is defined by the gradient 0.278.

Table 4.10: Linear Regression between Improvement of Employment and Culture

|	Employment	Civic Engagement			
	58	55			
	71	69			
	54	57			
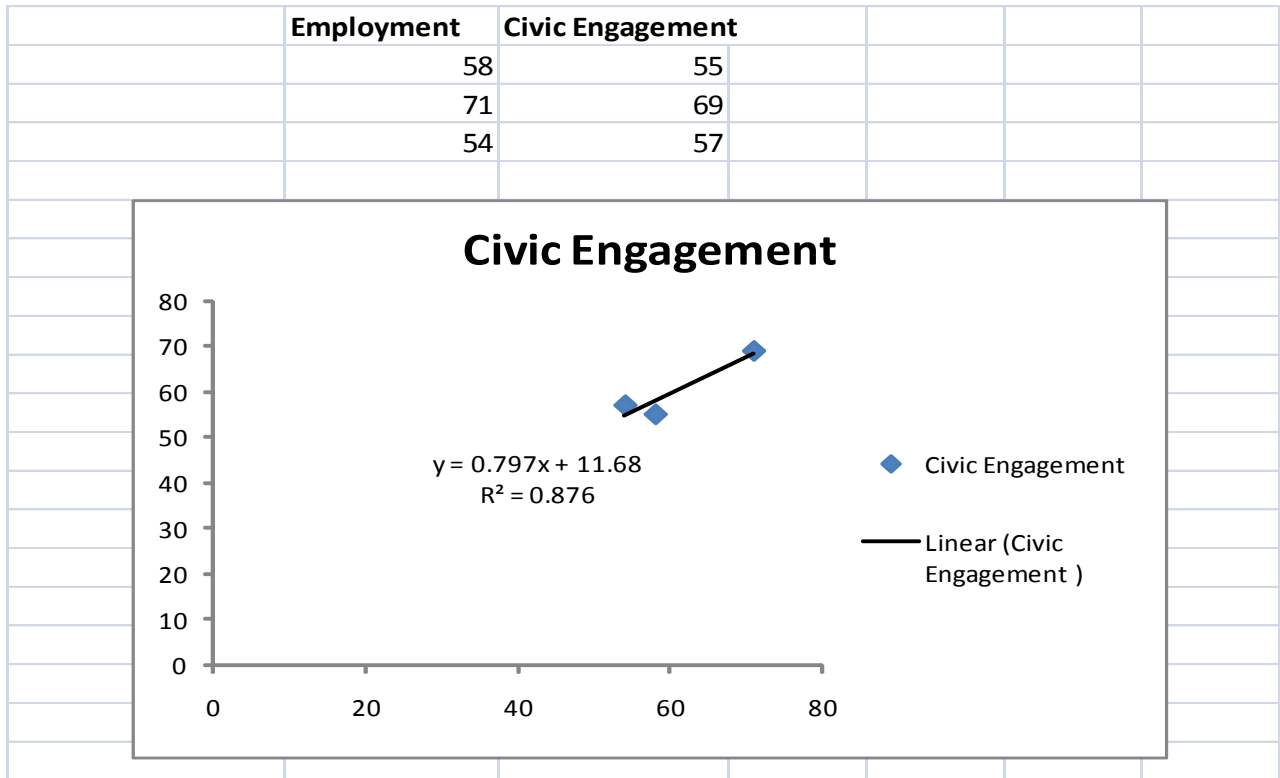
The regression model showing the relationship between the improvement in the number of employees and the culture is:

y= 0.797x+11.68

The coefficient of determination is 0.876. This indicates that the model can explain 87.6 % of the changes experienced in the improvement in the number of employees in the SMEs for the previous three years.

Table 4.11: Linear Regression between Improvement of Sales and Trust

		Sales Turnover	Trust				
		67	59				
		53	56				
		57	48				
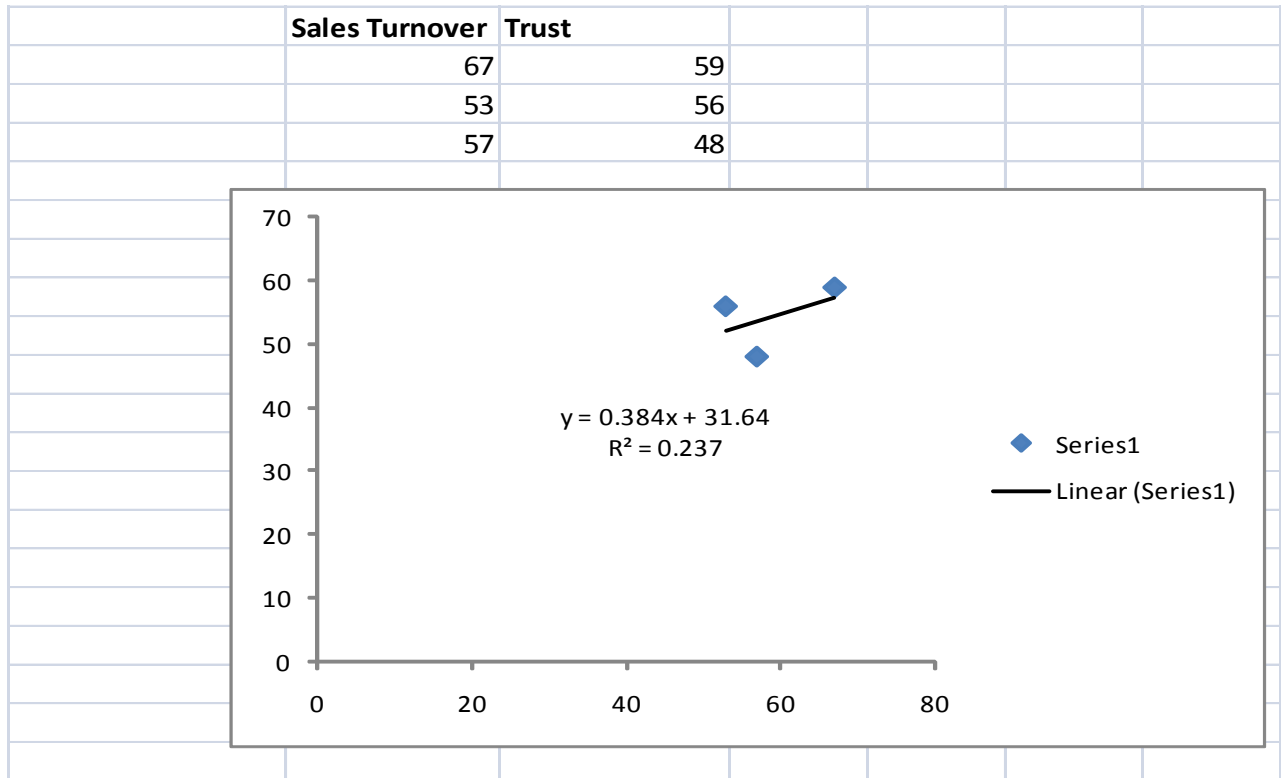
The regression model is expressed by y= 0.384x+31.64

The coefficient of determination shows that the model can only explain 23.7 % of the changes that take place in the sales turnover.

Table 4.12: Linear Regression between Improvement of Sales and Civic Engagement

	Sales Turnover	Civic Engagement			
	67	61			
	53	64			
	57	59			
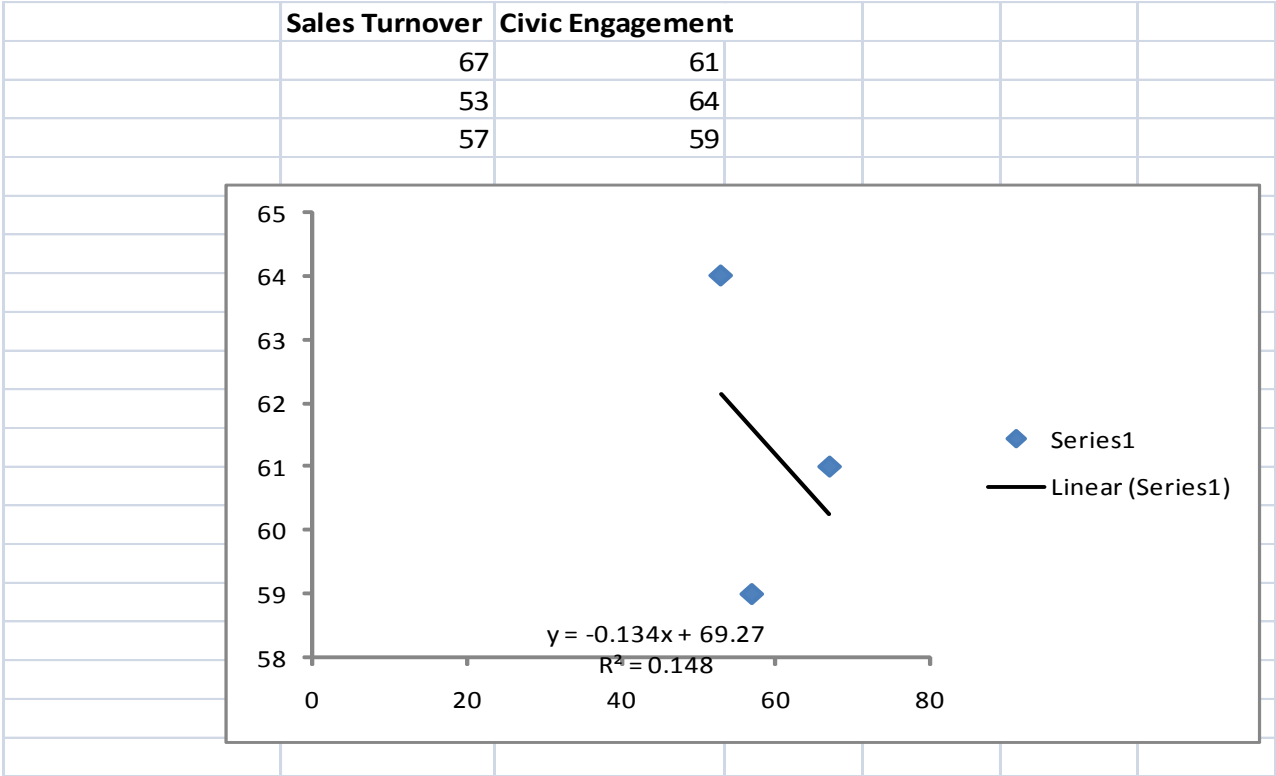
From the equation y= -0.134 x + 69.27, it is deduced that the civic engagement variable is negatively related to the growth in the annual sales turnover. The model can only explain the 14.8 % changes that take place in the sales turnover. The remaining 85.2 % of the changes cannot be accounted for by this model.

Table 4.13: Linear Regression between Improvement of Sales and Culture

	Sales Turnover	Culture				
	67	55				
	53	69				
	57	57				
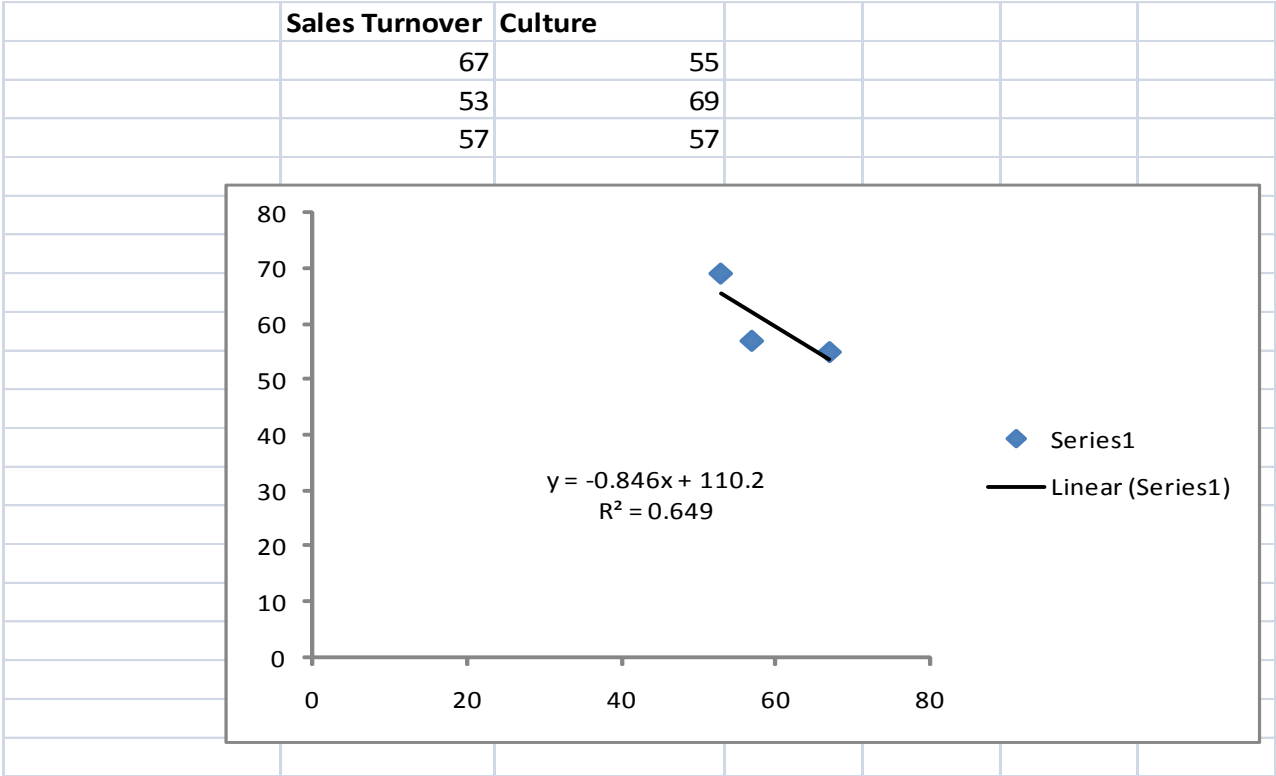
From this table, it is deduced that culture negatively affects the growth indicator of sales turnover. The regression model can explain the 64.9 % of the changes that take place in the annual sales turnover.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, the conclusion and the recommendations for further studies. The summary gives an overview of the entire work. It summarizes the results and the inferences. The conclusion section attempts to answer the question that prompted the study. The recommendation points out some of the weak points that might have been in the study and suggests areas that should be considered for further studies.

5.2 Summary

This study purposed to find out the relationship between the growth of SMEs and the social capital. In the analysis, the growth indicators of profitability, improvement of the number of employees, expansion of business and the improvement of the sales turnover were used as the dependent variables. Trust, civic engagement and culture were used as the variables for the measurement of social capital. Correlation and regression analysis found out that the social capital affects the growth of SMEs. However, the nature of the relationships differed with each growth indicator and each social capital variable.

The annual sales turnover is positively, though weakly related to the trust in the organization. However, culture and civic engagement negatively affect the growth of the SMEs. The correlation and the linear regression results show that when culture and civic engagement are highly pronounced in an organization, there will be a reduction rate of improvement of the annual sales turnover. This explains that if employees express their political inclinations at their

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places of work, it could negatively affect the performance of the sales. As well, if employees or employers used the cultural differences like religion, tribe and language during the sales exercise, there could be a negative effect on the performance of the SMEs.

The profitability and the improvement in the number of employees employed for the previous three years by the SMEs are positively influenced by the social capital variables of trust, civic engagement and culture. The linear regression models could explain most of the changes taking place in the growth indicators for the SMEs sampled. The positive correlation means that the management have correctly harnessed the social capital to improve the business performance and growth.

5.3 Conclusion

From the results presented in this section, it is concluded that the social capital affects the growth of SMEs. However, some of the variables are positively related to the growth of the SMEs while others have a negative relationship with the growth of the same. Culture and civic engagement negatively affect the sales turnover of the SMEs but positively affect profitability and the improvement in the number of the workforce. Trust positively affects all the growth indicators in the SMEs.

5.4 Recommendations for Further Studies

Even though the study has been exhaustive in achieving its objectives, there are areas of improvement that could be adopted. In future studies, it would be better to stratify the SMEs in terms of the number of the employees that they have and in terms of their annual turnover. The grouping of the SMEs in the manufacturing, the service and the trade sectors may lose the

significance of the classification of the SMEs using the conventional definition of East African countries.

The explanation to the negative relationship between the improvement in annual sales turnover and the social capital is not exhaustive. More studies need to be carried out to understand why the culture and civic engagement variables have a negative effect on the growth of the SMEs. A thesis can be developed and tested to understand this relationship in a better way. Further studies should also focus on finding out why the culture and civic engagement have a positive effect on other indicators of growth but not on the sales turnover. Document analysis should also be incorporated into such studies in future. Even though the respondents in this study gave their answers to the best of their knowledge, their information cannot be as objective as it would have been had document analysis been carried out by the researcher.

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APPENDICES

Appendix I: Questio*nnaire*

Dear Sir/Madam,

My name is Evans Rotich from the University of Nairobi. I am carrying out a Masters of Business Administration research titled: The Effect of Social Capital of the Growth of SMEs in Nairobi County. I kindly ask for your candid and honest feedback when filling the questionnaire. All information gathered will remain confidential and will be used for academic purpose only.

(All questions must be answered for a valid research)

PART 1

1. Please check category that best describes to company's primary area of business

   Manufacturing ☐   Trading ☐   Service ☐

2. Number of years in operation

   Less than 2yrs ☐

   2-4yrs ☐

   5-8yrs ☐

   9-10yrs ☐

   Over 10 Years ☐

3. How many numbers of full time employees does your firm have?

   10-30 ☐

   31-50 ☐

   51-70 ☐

   71-99 ☐

   0ver 100 ☐

4. What is the Annual sales turnover of you firm

   Below Ksh 500,000 ☐

   Ksh 500,000- 1Million ☐

   Imillion-10 million ☐

   10-20 million ☐

   Over 20 million ☐

5. What is the trend of the following in your business for the last 5 years?

	Greatly improved	**Constant**	**Decreased**	**Greatly Decreased**
Profitability				
Number of Employees				
Sales Turnover				

6. Does your firm trade in markets outside Nairobi?

Yes ☐   No ☐

PART II

7. TRUST

The following is a statement concerning factors that most firms adopt social capital. To what extent do you agree with statement given? 1. Means 'to a very small extent' and 5 means 'to a very large extent'

Statement	1	2	3	4	5
How much do you feel you can trust the people within your organization?					
How much do you feel you can trust the managers within your organization?					
How much do you feel you can trust other SMEs within your sector?					

8. Cultural factors

a) What are the most factors that affect social capital in your firm?

Language ☐   Tribe ☐

Regulations ☐ Level of education ☐

Others (specify)

b) How does your firm utilize social capital in dealing with cultural factors?

c) What is the influence of cultural factors capital on operations of your firm?

d) What measures would you recommend to aid the firm in dealing with the cultural factors?

9. Civic Engagement

To what extent do you agree with statement given? 1. Never 2. Only once 3. More than once
4. Absolute figure

Statement	1	2	3	4
In the past tear, how many times, if ever have you done any of the following: Participated in voting to elect leaders? Attended meetings on affairs of your organization? Participated in decision making either by way of being consulted or asked to make opinion? Charted way forward on how SMEs could remain sustainable?				