Networking for SMES in Uganda: A conceptual paper

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Small and Medium Enterprises (SMEs) are considered a sector with significant contribution to the economical growth of both developed countries and emergent countries. However, SMEs are facing challenges for their survival with their limited resources. There is also considerable lack of empirical studies focusing on networking between SMEs in developing countries. Promotion of networking approaches with other organizations could be a good start to develop and increase competitiveness of SMEs. The primary objective of this paper is to identify networking factors that influence the competitiveness of SMEs and to develop a hypothesized model that can be tested on SMEs. The outcomes of networking factors can help to improve the survival rate of SMEs, and may offer great opportunities for business competitiveness, locally and globally.

Key words: Networking, small and medium-sized enterprises, competitiveness.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are universally acknowledged as effective instruments for employment generation and economic growth (Basil, 2005; Damirchi and Rahimi, 2011; Johan, 2007). In Uganda, SMEs play a crucial role in creating job opportunities that make the attainment of equitable and sustainable growth and development possible (Turyakira, 2012).

It is estimated that there are over 1,069,848 SMEs in Uganda, providing employment and income generation opportunities to low income earners of the economy (Hatega, 2007; Uganda Ministry of Finance, Planning and Economic Development July, 2011). Despite their enormous contributions to economic growth, more than half of SMEs in Uganda fail during their first year (Harorimana, 2009; Tushabomwe-Kazooba, 2006).

Hence, their high failure rate is a cause for concern.

In an era characterized by global competition, technological advances and innovation, business networking plays a vital role in increasing the competitiveness of SMEs (Lin and Zhang, 2005). Networking is a useful way for SME owner/managers to expand marketing expertise and improve their performance (Hakimpoor et al., 2011). As such, networking in form of clusters, strategic alliances and business collaborations has become popular among the SMEs as a competitive tool.

Although empirical studies have been done on business networking in developed countries (Thrikawala, 2011), little attention has been given to developing countries. Despite the academic interest in business networking and its impact on SMEs' competitiveness, inadequate theoretical and empirical studies exist in Africa; particularly in Uganda.

Therefore, the purpose of this paper is to identify...
networking factors influencing the competitiveness of SMEs and to develop a hypothesized model that can be tested on SMEs. The paper is mainly based on a literature synthesis of recent studies done on networking, both in developed and developing countries. The outcomes of networking factors can help a great deal in improving the survival rate of SMEs, and may offer great opportunities for business competitiveness, locally and globally. For the purpose of this paper, small and medium-sized enterprises in Uganda are considered as businesses which employ more than 5 but fewer than 100 persons.

Nature and potential outcomes of networking factors in SMEs

This section describes the nature and potential outcomes of networking factors with respect to SMEs, as indicated in the subsequent sub-sections.

Networking

Business network refers to a free business association, capable of creating structures and processes, joint decision making and integrating the efforts of members to design and produce goods and services, and exchanging information and other resources (Trequattrini et al., 2012). Networking in SMEs refers to the network process that is undertaken by SME owner-manager in managing the business activities (Hakimpoor et al., 2011). In Niu’s study (2010), it is argued that the benefits of networking involvement enable trusting relationships among businesses. Furthermore, SMEs harvest from individual ties in their networks, including suppliers, customers, friends and relatives, for various purposes (De Jong and Hulsink, 2012). Relationships can be developed on the basis of trust (Gibb, 2006).

In this paper, networking refers to a free association of businesses with the aim of sharing information, resources and capabilities through clusters, strategic alliances or business collaborations. Networking involves communication and information exchange for mutual benefit (Camarinha-Matos and Afsarmanesh, 2006).

The notion of networking has been especially attractive as a means by which SMEs can collaborate in order to compete more effectively in the global marketplace. Many businesses have placed increasing emphasis on adopting strategic alliances as a competitive choice (Akoorie and Pavlovich, 2003). Strategic alliances create interdependence between autonomous economic units, bringing new benefits to the partners in the form of intangible assets.

Businesses also network through collaboration, which involves mutual engagement of participants to solve a problem together. This implies mutual trust and thus takes time, effort, and dedication. A collaborative network consists of a variety of entities that are largely autonomous, geographically distributed, and heterogeneous in terms of their operating environment, culture, social capital and goals, that collaborates to better achieve common goals (Camarinha-Matos and Afsarmanesh, 2006).

Clusters as a component of networking are viewed as geographically proximate groups of independent but interconnected businesses in a particular field, linked by commonalities and complementarities. They are often concentrated in a particular national region, and sometimes in a single town, but increasingly ‘cluster of clusters’ are emerging across regional and even national borders. They may be collaborating or competing; and they may be institutionalized or non-institutionalized (European Commission, 2002).

It is argued that in an SME network, businesses that trust their partners are more likely to engage in networking with them. Businesses that have developed trust towards their partners within the SME network are more likely to turn to those businesses than try to network with organizations outside the SME network. After all, a business only possesses a certain amount of resources, and networking is resource demanding (Wincent, 2005). The success of a business relationship lies in the development and the growth of trust and commitment amongst partners (Brink and Berndt, 2004). Trust is the first element needed in business relationship building and it is the first stage in the networking process hence, the most important aspect. Trust lays the foundation for a common ground, where SMEs can successfully meet their expectations (Zaheer and Harris, 2006).

The commitment of businesses to developing and maintaining relationships is essential to cultivate the level of trust and interdependency between partners that motivates exchange of resources (Carson et al., 2004; Clarke, 2006). Relationship commitment is vital as a precursor of network development (Johanson and Vahlne, 2006). Commitment is viewed in terms of the willingness and investment of a business in developing and maintaining relationships with partners (Tanga, 2011). It is empirically supported that businesses involved with networks have a relatively higher survival and success rate and that the primary variables influencing such performance are inherently social in nature (Smith, 2004). Previous studies (Cruickshank and Rolland, 2006; Inkpen and Tsang, 2005) acknowledge that joining a strategic network has a valuable path for SMEs striving to gain a sustainable competitive advantage within their business environments. It is evident that networking, whatever its form, has an impact on a business’s survival and success (Grandori and Soda, 1995). Networks enable businesses to concentrate on core competencies, and to achieve economies of scale and scope through their loosely integrated form (Smith, 2004).

According to Kariv et al. (2009), networking enhances a
business’s competitiveness. SMEs rely on their networks to support and enhance their business efforts to be competitive (De Klerk and Saayman, 2012). A well-networked business enjoys higher growth rates and competitiveness (Hakimpoor et al., 2011). SMEs with more open networks and diverse connections have greater opportunities to develop successful businesses than an individual with many connections within a single or closed network (Harris et al., 2012).

Marketing networks serve as a means of facilitating business activity in transition economies, and have been widely recognised in the literature as affecting businesses’ strategic choices and performance (Batjargal and Liu, 2004; Chung-Leung et al., 2008). According to Watson (2007), networking appears to be significantly positively associated with business’s survival; and both formal and informal networks are associated with SME survival, but only formal networks are associated with growth.

Although it has been emphasized that SMEs can increase their competitiveness when participating in strategic networks, it is hard to determine which firm has better prospects for building competitiveness compared to other firms in the network. Lack of this knowledge may cause strategic SME network participants to lose interest in the long-run and stop using these networks as a tool for competitiveness building (Wincent, 2006). As such, attention to factors related to competitiveness development within strategic SME networks has been limited. Despite the potential to improve their competitiveness when participating in an SME network, members face external challenges, such as free riding, opportunism, and uncertainty of outcomes, when operating with partly independent members that can be competitors (Human and Provan, 2000). Nevertheless, achieving a competitive advantage position and enhancing business performance relative to their competitors are the main objectives that businesses in particular should strive to attain. The extent and the strength of networks constitute a significant competitive advantage for SMEs (Johanson and Vahline, 2009). For the purpose of this study, competitiveness refers to a business’s ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and growth rate.

Traditionally, business competitiveness has been measured using only financial indicators such as profit, market share, sales, and growth rate (Guzmán et al., 2012; Man et al., 2002; Singh et al., 2008). However, many researchers have suggested the use of subjective and objective measurements in order to measure performance, mainly because, in this context, performance, which is relative to its industry or sector, represents an indicator of their competitiveness level (Guzmán et al., 2012). The survey of five owners-managers of SMEs established that most SMEs use a hybrid approach in measuring competitiveness due to their concerns on meeting the financial as well as non-financial returns. Financial measures include profits and sales turnover while non-financial measures are the long-term growth rate and market share of the business (Chong, 2008). The financial performance can also be an effective measure of market share (Gorynia, 2005), and is generally defined as the return of capital, the return of sales and the improved measures for the comparison of the performance of businesses (Corsten and Felde, 2005). Hence, most SMEs use profitability, market share, sales and growth rate as measures of competitiveness over a period of time. Based on these notions, the following hypotheses are presented:

H1a: There is a positive relationship between networking and the SMEs’ trust.
H1b: There is a positive relationship between networking and the commitment of SMEs.
H1c: There is a positive relationship between networking and the competitiveness of SMEs.

Trust

Trust is an essential trait in networking (Kanagaretnam et al., 2010). Reliance on a particular type of trust depends on the developmental phase of the venture (Martinez and Aldrich, 2011). It is imperative for the SMEs to maximize the opportunities for building trust and learning from all of the stakeholder relationships (Gibb, 2006). Trust substitutes the cost of monitoring, decreasing transaction costs and increasing the efficiency of the collaboration (Casals, 2011) while enhancing competitiveness. The networks need to institutionalize the efforts to foster trust and commitment rather than treating them to be a natural consequence of the quality of interactions or individual efforts of the boundary spanners (Yaqub et al., 2010).

Trust can be conceptualized both as a calculation of risks and benefits, but also more socially, toward other people as well as toward society as a whole (Liljeblad, 2005). According to Coote et al. (2003), trust exists when one party has confidence in the honesty, reliability, and integrity of their partner. Trust is an aspect that is proactively pursued by all parties concerned and is a long-term commitment that is achieved through patience and endurance (Koot et al., 2003). As such, trust enhances cooperation and flexibility, lowers costs and increases the potential for businesses to share their expertise and knowledge (Nielsen, 2005). For the purpose of this study, trust refers to the degree of confidence the individual partners have in the reliability, honesty, integrity, benevolence and competence of each other.

According to Sahay (2003), a crucial relationship exists between trust and collaboration. Trust has a positive influence on commitment, and improves the relationship between business partners (Narayandas and Rangan, 2004). Despite increased interest and the acknowledged...
role of trust in a business’s competitiveness, there have not yet been any theoretically and empirically coherent attempts to measure trust in an inter-organizational context (Seppänen et al., 2007).

Although the primary objectives of the network activities relate to the support of business activities, social variables such as trust have been established as the primary determinants of the success of such business relationships (Smith, 2004). Relationships that are built on trust and confidence in each other are very valuable, in that it will minimize costs involved and will help to build sustainable competitive advantages for SMEs (Wickham, 2004). Trust also minimizes the levels of social litigation needed and it fosters and promotes social arrangements and contacts (Koniordos, 2005). Previous studies (Gibb, 2006) established that the entrepreneur, who had subsequently developed the most appropriate contacts into acquaintances, built them into transactional relationships and turned into partnerships. The partners were then turned into friends, the friends then into “family” and the family into networks whom he could trust and exchange favours with. Against this background, the following hypothesis is developed:

\[ H_2: \text{There is a positive relationship between achieving trust and the competitiveness of SMEs.} \]

Commitment

Commitment has been defined and measured in different ways over the years, and its antecedents are based mainly on studies of dyadic relationships between individuals or businesses (Andréson et al., 2012). Commitment is measured in terms of the frequency of communication between an SME owner-manager and each network member (Carson et al., 2004). According to Andréson et al. (2012), commitment is defined as the allegiance of those representing the participating businesses to the network as a unit. For the purpose of this study, commitment refers to short-term sacrifices and allegiances made by partners to the relationships in order to realize long-term benefits. Positivistic research has led to an understanding that the concept of commitment is multidimensional and differentiated (McKenna, 2005). It comprises affective commitment which reflects an employee’s emotional attachment to, identification with, and involvement in an organization.

Normative commitment, on the other hand, reflects the view that an employee has a duty or an obligation to stay with an organization. According to Da Rocha et al. (2012), commitment has three different, but closely related, multi-dimensional constructs: market commitment, relationship commitment and commitment to internationalization.

Previous studies (Nolan et al., 2007) reveal that commitment is characterized by formal yet interdependent relationships, encompassing clear business goals with collective accountability for delivery to give the business a competitive edge. As such, commitment can be attitudinal or behavioural (Andréson et al., 2012). Attitudinal commitment concerns the process by which businesses come to think about their relationships, while behavioral commitment concerns the process by which businesses invest in their relationships (Sharma et al., 2006). In network contexts, it is not a case of a business tying itself to someone else in the network but rather of psychologically binding oneself by making a commitment or efforts to retain the relationship with the network (Johanson and Roxenhall, 2009). Based on the anecdotal and empirical evidence from the above, the following relationship is hypothesized:

\[ H_3: \text{There is a positive relationship between the commitment of SMEs and their competitiveness.} \]

Proposed hypothesized model

The literature study has revealed a number of networking variables that influence the competitiveness of SMEs. Based on these factors, the following hypothesized model is proposed (Figure 1).

Figure 1 illustrates how the independent variable (networking) is influenced by the mediating variables, namely trust and commitment. These, in turn, lead to increased competitiveness (dependent variable), which is measured by profitability, market share, sales, and growth rate. The various relationships hypothesized between the independent, mediating and dependent variables are summarized below:

\[ H_{1a}: \text{There is a positive relationship between networking and the SMEs’ trust.} \]
\[ H_{1b}: \text{There is a positive relationship between networking and the commitment of SMEs.} \]
\[ H_{1c}: \text{There is a positive relationship between networking and the competitiveness of SMEs.} \]
\[ H_1: \text{There is a positive relationship between achieving trust and the competitiveness of SMEs.} \]
\[ H_2: \text{There is a positive relationship between the commitment of SMEs and their competitiveness.} \]

METHODOLOGY

This is a conceptual paper that will follow a quantitative research paradigm. The hypothesized model could be tested using SMEs in Uganda drawn from various industrial sectors. Quantitative data could be collected using a structured questionnaire and analyzed using Statistical Programme for Social Scientists (SPSS) for Windows. An exploratory factor analysis could also be conducted, and Cronbach-alpha coefficients calculated to
determine the discriminant validity and reliability of the measuring instrument. Correlations could be analyzed using Structural Equation Modeling (SEM).

CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

SMEs play a crucial role and are considered to be one of the principal driving forces in the socio-economic development of modern economies, both developed and developing. However, with limited financial resources and managerial capabilities, SMEs in the majority of developing countries face tremendous difficulties to survive. It is acknowledged that networking among SMEs is an emerging approach to SME competitiveness in developing countries. Building a high-value network that makes a considerable contribution to a business' success is extremely important in today's competitive business environment. As the market realities change and businesses join forces under the umbrella of strategic alliances, collaborations and clusters, networking is an essential element that can increase the competitiveness of SMEs. Successful networking is created on the grounds of mutual trust, commitment, shared knowledge and valuable relationships that enable businesses to grow and survive by doing business directly with other businesses or by referring one another. Indeed, networking can be a business's best marketing strategy, especially for SME owners.

While this study sheds light on the relationship between networking and SME competitiveness, it has some limitations that must be taken into consideration. For example, subjective measures may be used to capture all the variables studied, which may contain biased responses from respondents. Literature on networking and SME competitiveness is also lacking, especially in developing countries like Uganda.

For SMEs to benefit from networking arrangements, they need to establish sincere interest to their partners by encouraging conversation. The goal of networking is to establish long-term mutually beneficial relationships with partners in order to boost profitability. SMEs should help promote other businesses as well in the context of creating mutually beneficial relationships. Governments need to provide an enabling environment and design policy frameworks that stimulate and accelerate forms of inter-business collaboration. Such networking arrangements will help SMEs co-operate and develop strategic alliances which can result in mutual benefits.

Conflict of Interests

The authors have not declared any conflict of interests.
REFERENCES


