

NETWORKING AND SUSTAINABLE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA

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ABSTRACT

The main objective of this study was to investigate the impact of networking on the sustainable performance of small and medium enterprises (SMEs). A quantitative approach was used, and a self-administered questionnaire was employed during the data collection process. Correlation and regression analyses were performed to determine the relationship between networking and sustainable performance. The Cronbach's alpha was used as a measure of reliability. The results of the study revealed that networking positively impacts on the sustainable performance of SMEs. Recommendations to improve the networking of SMEs are suggested. These recommendations offered meaningful insights into SME owners, government, non-government organisations and other organisations for the improvement of their businesses while providing room for future research studies.

Keywords: Networking, Sustainable Performance, Small and Medium Enterprises (SMEs), Resource Dependency Theory, South Africa.

INTRODUCTION

Machirori (2012) defines networking as a set of continuous and sustained relationships which involve collaboration and cooperation which is mutually beneficial to all parties involved. The author advanced that the various definitions of networks suggest that networking is comprised of information and resources sharing, reduction of transaction costs and social interactions that exist between individuals. The importance of networking to SMEs is supported by the transaction cost theory by Coase (1937); which was further advanced by Williamson (1985); the social network theory (Moreno, 1937) the resource dependency theory by Pfeffer and Salancik (1978) and the network closure theory (Coleman, 1988). Networking has been identified as one tool that can be utilised by SMEs to improve their performance (Machirori, 2012). Networking allows a firm to establish links and relationships with mutual goals for the purpose of cost-effective economic transactions (Schott & Wickstrøm, 2016). Networking can supply firms with resources in a flexible manner and at a reduced cost and facilitate knowledge flows and technological improvements by the way it helps to stimulate product or process innovation (Vanhaverbeke, et al., 2009). Networking is widely seen as a key element in entrepreneurial success (Jack, 2010). Networking with other people allows managers to access new resources, opportunities and information, which can lead to desired SME performance (Naudé et al., 2014). Networking often advances the opportunity of losing strategic information and competence to partners. Therefore, some networking relationships might not be valuable (Semrau & Werner, 2012). In terms of this opinion, this study maintains that networking is likely

to be valuable if partners are skilled to launch sustainable relationships that balance resources and capability needs. In this regard, this study embraces networking capability based on the significance of the strategy to SME performance. Lately, firms are becoming more aware of the importance of sustainable performance reporting. A growing number of companies are keen to adopt a broader and more comprehensive performance measurements model for their business (Hakala, 2011). As a result, 40-60% of firms have already started expanding their traditional financial performance measurements to a sustainable performance model that incorporates environmental and social initiatives (Hubbard, 2009). Since the use of the traditional financial performance measurements model, this move is no longer applicable and adequate for companies. The traditional performance focuses only on profitability, and has been criticised as a historically focused lagging indicator that serves only the interest of shareholders (Slaper and Hall, 2011). For this reason, sustainable performance indicators that focus not only on profitability, but also social and environmental performance have been adopted as the most capable and comprehensive measures of firm performance (Lozano, 2012).

LITERATURE REVIEW

Pfeffer & Salancik (1978) argue that the success of a business is highly influenced by the interaction of a business with its environment. The theory contends that businesses are resource deficient (AbouAssi, 2013; Lama & Shrestha, 2011) to overcome the external influences on their own. Hence, they must rely on each other and their environment to acquire resources such as financial, physical and human resources which they do not have. In this regard, the survival as well as the growth of a business highly depends on the networking which the business engages in. The Resource Dependency Approach of businesses being resource-insufficient and being highly influenced by their external environment specially holds true for SMEs (Wincent, Anokhin & Ortqvist, 2010). Consequently, SMEs rely on networks to receive the necessary resources and information to withstand competition as well as changes that occur in their industry. In conclusion, the Resource Dependency Approach emphasises the notion that businesses may not have all the necessary human, physical and financial resources to overcome changes and influences from the external environment (Lama & Shrestha, 2011). Therefore, businesses must depend on one another by creating networks in order to access the resources they lack to stay in competition as well as to grow their business (AbouAssi, 2013).

Networking and Financial Performance

Vermeulen et al. (2016) state that networking is an agreement between firms to do business together in ways that goes beyond normal company-to-company dealings but fall short of a merger or a full partnership. Findings by Tooksoon & Mudor (2012) showed that the business network was statistically significant & positively associated with financial performance. Ge Hisrich & Dong (2009) studied the impact of networking on the performance of SMEs. The study was conducted by taking a total sample of 227 firms from three cities in China. The study found that the outcome of the network was positively related to firm financial performance. In addition to this, some previous studies have shown that networks with other firms are positively associated with the financial performance of the firm (Prashantham & Dhanaraj 2010). It is hypothesised that:

H₁: There is a significant positive relationship between networking and financial performance of SMEs.

Networking and Social Performance

Marques et al. (2010) revealed that the traditional measure of firm performance, that is, mainly through financial performance, is limited because it does not consider other measures of performance. According to Masocha (2018), social performance emphasises that firms at the same time achieve profits and societal well-being. The division of social sustainability requires firms to accomplish their internal affairs by ensuring employee motivation through mechanisms that result in value for the firm (Groenewald & Powell, 2016). Business owners and their employees form networks through the diverse personal relations they have with the outside world (Nardos, 2015). These relationships play a vital role in the foundation of networks. Hence, it is hypothesised that:

H₂: There is a significant positive relationship between networking and social performance of SMEs.

Networking and Environmental Performance

According to Nardos (2015), networks can be generally defined as interactive relationships that individuals, businesses and other stakeholders including the environment. Networking is described as the process of building long term associates with the purpose to have access towards information and resources (Lama & Shrestha, 2011). Kusabake (2012) finds that networking leads to the achievement of sustainability goals in Japan. The findings of the study by Liao (2018) show that structural and relational capital positively affect environmental innovation and performance. Chen et al. (2019) find that green networking can enable a firm to achieve environmental goals through a firm's relationships that help it to access relevant environmental knowledge, information and resources. It is hypothesised that:

H₃: There is a significant positive relationship between networking and environmental performance of SMEs.

RESEARCH METHODOLOGY

This study followed the quantitative research design and a self-administered questionnaire was employed during the data collection process. The participants in the survey were small and medium enterprises in Polokwane in the Limpopo Province of South Africa. The participants were conveniently sampled, and the self-administered questionnaire method was used to collect data. The questionnaire was pre-tested with twenty SME owners in a pilot study. Pearson correlation and regression was used for analysis and the Cronbach's alpha was used as the measure of reliability. The questionnaire items were based on the five-point Likert Scale with "1 strongly disagree and 5 strongly agree" and adapted from previous studies (Ghazali, et al., 2017; Wang et al., 2019).

RESULTS AND DISCUSSION

Response Rate and Biographical Details

Three hundred questionnaires were distributed and one hundred and forty questionnaires were returned. The gender composition of the respondents was seventy-three males and sixty-seven females. All the respondents were between 21 and 60 years.

Sustainable performance		Networking
Financial performance	Pearson Correlation	0.725
	Sig. (2-tailed)	0.000
Environmental performance	Pearson Correlation	0.628
	Sig. (2-tailed)	0.000
Social performance	Pearson Correlation	0.658
	Sig. (2-tailed)	0.001

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

Table 1 points out a positive correlation between networking and sustainable performance, which is highlighted with financial performance ($r=0.725$, $p<0.05$) environmental performance ($r=0.628$, $p<0.05$), and social performance ($r=0.658$, $p<0.05$). The results of Pearson correlation between networking and sustainable performance is very strong since the Pearson's r values are closer to 1. The results conclude that changes in networking strongly correlates with changes in the sustainable performance of SMEs. This is supported by the sig. value of less than .05, confirming a positive correlation between networking and the sustainable performance of SMEs.

Variable	Unstandardised B	Standard error	Beta	t-value	Sig.
Financial performance	0.015	0.279	0.345	0.055	0.010
Environmental performance	0.464	0.251	0.250	1.642	0.009
Social performance	0.210	0.178	0.185	1.178	0.004

SIG<0.05

Table 2 shows the results of the linear regression; that there is a significant ($B=0.345$, $P<0.05$) relationship between networking and financial performance. Furthermore, the results indicate a positive relationship between networking and financial performance, a significant ($B=0.250$, $P<0.05$) relationship between networking and environmental performance and a positive relationship between networking and environmental performance. The results further show a significant ($B=0.185$, $P<0.05$) relationship between networking and social performance and a positive relationship between networking and social performance. Overall, the results show that networking has a positive impact on the sustainable performance of SMEs. The results are consistent with findings by Desta (2015) that not all networks have equal importance for growth. The results are further supported by a study done by Minai et al. (2012) which showed that networking permits SMEs to gain access to different opportunities and resources, which are essential and contribute to sustainable growth. Kregar & Antončič (2016) find that there is a significant positive relationship between business networks and sustainable performance of small

firms. The findings of this study is consistent with the results of Leroy (2012) which analysed the impact of networks on SME performance. The study used sales, profitability, satisfaction with performance compared to competitors, and overall SME performance as indicators of performance and concluded that there is a significant positive relationship between networks and SME performance.

CONCLUSION

The findings of the study indicated a significant positive relationship between networking and sustainable performance. The findings of the study can assist businesses to better comprehend how networking can promote sustainable performance. SMEs owners are recommended to exploit their strong ties in order to increase performance, and are advised to focus on developing stronger ties to achieve sustainable performance. Government Agencies such as the Small Business Development Agency and the National Youth Development Agency are advised to organise network formation activities which bring SME owners together through seminars and trade fairs to educate owners about the benefits of networking. The study has some limitations. Data was collected from only one province and from one hundred and forty respondents and this limits the generalisability of the findings of this study and the use of the convenience sampling method can lead to sampling bias.

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