

Reevaluation of an Experimental Model to Determine the Impact of Entrepreneurial Networking on Small Business Success

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Abstract

Previous studies by the authors (O'Neill, Soni, Coldwell & Edmonds 2007; and O'Neill & Soni 2009) laid the foundation for the development of an experimental model to measure the impact of entrepreneurial networks on the success of businesses and consequently empirically tested this model among 38 small businesses belonging to networking groups within the Chambers of Business in Pietermaritzburg and Durban. In this article the theoretical background to the development of the experimental model is revisited and the model is empirically tested among a further 34 small businesses belonging to a small enterprise development agency in Pietermaritzburg. The findings of this group are consequently compared to the previous study in order to determine whether the same trends could be observed among diverse samples. Although both empirical studies researched only 72 small businesses selected through convenience sampling, which can be argued is by no means adequate to make any generalisations from, it is nevertheless potentially beneficial from an exploratory point of view to determine whether the experimental model of networking and its components have any value as potential contributors to small business success or not.

Keywords: Business success, competitive advantage, critical success factors, entrepreneur, entrepreneurial firm, entrepreneurial networking, small business, testable model.

1.0 Introduction

Businesses do not operate in isolation and it can therefore be argued that all businesses need some kind of networking. The need for external assistance to strengthen an often-weak base of resources is even more crucial in the case of the small business sector that often cannot survive or grow without the networks that facilitate such external assistance. As there is still much uncertainty on the requirements of effective and efficient networking, this paper will explore the nature and characteristics of networking as well as the factors that determine business success in the literature.

In this paper a review of the literature on entrepreneurial networking largely based on the previous study of (O'Neill *et al.* 2007) will be conducted, followed by the presentation and discussion of the experimental model to determine the impact of entrepreneurial networking on small business success. The research methodology to empirically test the experimental model will then be dealt with, followed by the discussion of the findings, summary, caveats and suggestions for further research.

2.0 Literature Review

Networks can be defined as reciprocal patterns of communication and exchange (Powell 1990). Networks refer to 'the coming together' of a group of enterprises or people to use their combined talents and resources in order to achieve results which would not have been possible if they operated individually (Dean, Holmes & Smith 1997). Premaratne (2002) defined networks as personal relationships between an entrepreneur and his/her external actors. These external actors (or outsiders) can be individuals or organisations and are not directly employed by the entrepreneur. Networks have the potential to facilitate collective action for mutual benefit (Taylor, Jones & Boles 2004). A network can be regarded as a series of reciprocal relationships that have the potential to generate customer value and build sustainable competitive advantage for the entrepreneur. Competitive advantage can be seen as an advantage gained over competitors that enables the business to offer greater value to customers at lower prices or by providing more benefits that justify higher prices (Kotler, Armstrong, Saunders & Wong 2002). A network is a structure where a number of nodes (entities) are related to each other by specific threads (links). Both threads

and nodes are loaded with regard to resources, knowledge and understanding as a result of complex interactions, adaptations and investments within and among firms over time. Networking is then a social construction that exists only as a result of the individual's understanding and use of the network (Goudis & Skuras 2000). Networking is important to develop entrepreneurship as it enables entrepreneurs to develop relationships with the outside world. These relationships in turn help the entrepreneurs to achieve their goals and may provide special assistance to entrepreneurs in small businesses despite the fact that they usually have limited resources relative to larger businesses (Premaratne 2002).

Although a universally accepted definition of entrepreneurship does not exist (Republic of South Africa, National Strategy for Fostering Entrepreneurship Study 2001), the following definition of an entrepreneur will be used as a guideline for this article: 'an entrepreneur is a person who generates change through innovation, finds new combinations of resources, takes calculated risks, reorganises and improves existing operations and leads economic activity in times of uncertainty in order to realise a profit'. Based on the definitions of networking and entrepreneurship, entrepreneurial networking refers to the connection or relationship with other entrepreneurs or parties such as organisations or individuals which would result in a reciprocal pattern of communication with the underlying objective of improving the position of both the entrepreneur and the party with whom he/she is networking. Implicit in this objective of entrepreneurial networks is the notion that entrepreneurial networking takes place for a reason. This would further imply that entrepreneurial networking is characterised by a specific goal. The absence of a specific goal would result in aimless networking and consequently disqualify the networking in question from being entrepreneurial networking.

Although prescriptive parameters with regard to the optimum level is provided in the literature, entrepreneurial networking could be characterised by:

- the network size (depth and width);
- extent of network activity (for example frequency of contacts);
- network diversity; and
- success / failure of the networking with regard to achieving its

preconceived goals to add value to the enterprise (Edmonds 2005: 63).

According to Jenssen and Greve (2002) a large body of literature has shown a positive association between networking and entrepreneurship or small business performance. The effects of networking may, however, not always be positive and will depend on the size, type and developmental stage of the firm as well as its competitive strategy (Ostgaard & Birley 1994). According to Sandberg and Logan (1997) research, which examined the composition and size of entrepreneurs' networks found that neither could be conclusively linked to performance. As entrepreneurs are likely to implement multiple networks (Sandberg & Logan 1997), research should go beyond examining the composition and size of an entrepreneur's networks and pay ample attention to differentiating among the uses, purposes and the value of the resources they provide in order to underscore the importance of focused networking. The researcher should rather interpret the entrepreneur's networking as 'the consequences of strategic decisions' concerning targeted markets and the resources needed to compete in them (Sandberg & Logan 1997). Shane and Venkataraman (2000) suggested in this regard that the important question for the researcher is: 'why, when and how some people and not others discover and exploit opportunities?'

Burt (2002) argued that a well-structured network will obtain higher rates of return for the entrepreneur than badly structured networks. In this regard the 'structural hole argument' holds that the structural hole is an opportunity to facilitate the flow of information between people and control the form of projects that connect people from the opposite sides of the hole (Burt 1998). Structural holes are gaps between non-redundant contacts. Unless the hole is spanned, it will act as a buffer in similar fashion than an insulator in an electric circuit. The entrepreneur who identifies and spans the hole, creates a bridge between otherwise disconnected networks and determines whose interests are served by the bridge.

Networks rich in the entrepreneurial opportunities offered by structural holes, could be regarded as entrepreneurial networks as they present the opportunity for entrepreneurs who are skilled in building interpersonal bridges to span structural holes (Burt 1998). In this regard Aldrich (1999) asserted that successful entrepreneurs are not necessarily

those who create structural holes but rather those who know how to use the structural holes they find. A variant of the structural hole argument attributes advantage to the occupation of a bridging position within a network. In this regard Mc Evily and Zaheer (1999) surveyed 227 job shop manufacturers in Midwest USA and found that lower density networks were associated with greater acquisition and deployment of capabilities necessary for competitiveness in the metalworking segment of the automotive industry. The benefits of the structural hole argument were also supported by the research findings of Baum, Calabrese and Silverman (2000) in Canada during the six year period (1991-1996) when comparing 142 start-up biotechnology firms with 471 firms founded prior to 1991. The research showed that alliance partner heterogeneity had a positive effect on subsequent financial performance and innovative capability.

Singh, Hills and Lumpkin (1999) surveyed 256 consulting entrepreneurs in the information technology industry and found that in the early stage of the entrepreneurial process, entrepreneurs appear to benefit from diverse information flows. This could most probably be attributed to the diverse needs during the start-up process. Davidsson and Honig (2003) conducted a study among nascent entrepreneurs (n=380) and a control group (n=608) in Sweden and followed the development process for 18 months. The study found that being a member of a business network had a statistically significant positive effect on the business in general. Human and Provan (1997) in a comparative qualitative study of two networks of small and medium sized manufacturing enterprises in the USA's wood product industry found that network exchanges appeared to add more value with regard to learning about your own organizational capabilities than about market exchanges. It further enhanced knowledge with regard to awareness of who their real competitors were (Human & Provan 1997).

The research of Hoang and Antocic (2003) with regard to previous publications on entrepreneurship, sociology and the role of networks in the entrepreneurial context, suggested that current research work seeking to explain entrepreneurial success is limited by considerable conceptual vagueness with regard to both the resources required for success and how we measure the networks that help to promote those measures. Mapping networks of general information flows may be too far removed from resource flows and more closely linked to an outcome such as business

performance (Hoang & Antoncic 2003). Network data derived from detailed lists of relevant business resources may have more predictive power especially if more attention is paid to how network data is elicited in order to verify the reliability of the source. The uniqueness of the industry researched should, however, be borne in mind and generalizing of findings done with caution (Human & Provan 1997). Entrepreneurial successes and failures are an important contingency that may shape network activity and structure (Hoang & Antoncic 2003). Network research can assist practitioners to meet organizational objectives and help to proactively change networks to improve the performance and effectiveness of their organizations (Nobria & Eccles 1992).

In order to link the potential effect of entrepreneurial networking to business success and the eventual development of a testable model to measure business success, some perspectives on both business success and critical success factors as found in the literature, are consequently considered. Business success can be defined as a clear indication that the business has progressed with regard to a sustained level of growth, continued increase in net profit, continued increase in its asset base while additional factors such as increase in market share, increase in number of employees and age of the business may also be used as indicators of success. The perspective taken by the person determining critical success factors in a business will determine the nature of the critical success factors themselves as each person may have his/her own perception of success and each business will have its own unique critical success factors. These could be some of the major reasons why there is no agreement with regard to a universally accepted list of critical success factors in a business. A generic approach would link critical success factors to issues such as:

- the ability to select the correct target market
- the superior ability to select a target market that has long term growth potential (Davidsson & Honig 2003)
- the sustainability of the business
- appropriate planning for start-up requirements regarding the factors of production (capital, labour, natural resources and entrepreneurship)
- a healthy balance between owners' equity and loan capital

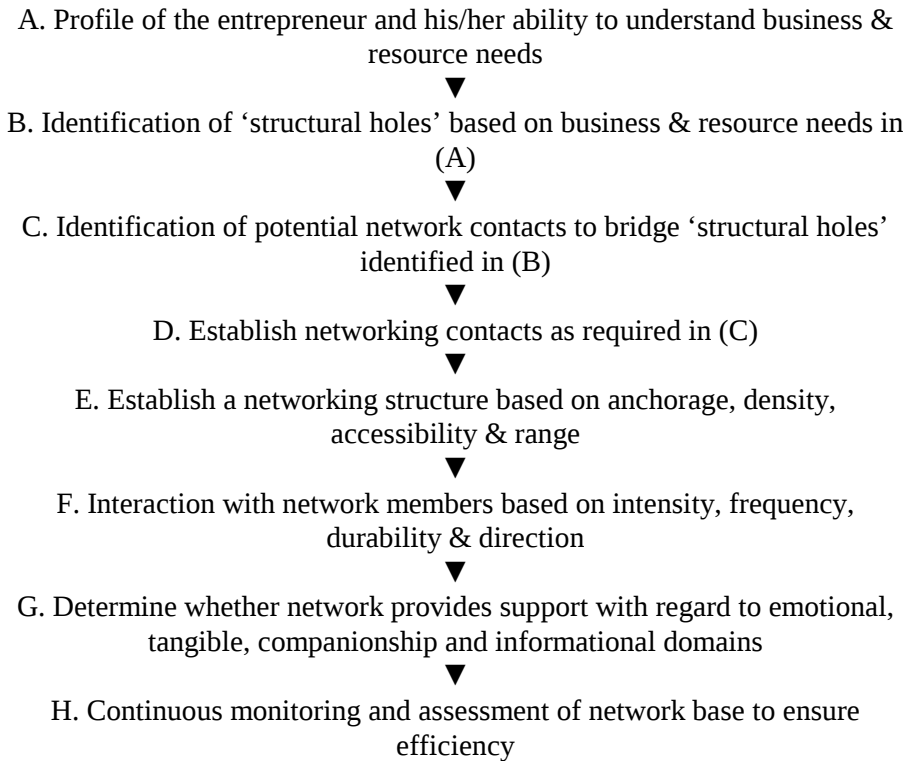
- a clear and realistic vision and mission
- a sustainable competitive advantage (Scarborough & Zimmerer 2003)
- a market-orientated approach
- a feasible business idea
- a realistic strategic or business plan based on solid market research
- core competencies such as superior quality, service, flexibility, innovation and responsiveness(Scarborough & Zimmerer 2003)
- growth potential
- alertness to ensure a continuous flow of new innovations in the market (Nieman *et al.* 2003)
- ample environmental scanning techniques with regard to competition and relevant stakeholders and
- unique knowledge in the field of operation (Hitt *et al.* 2001).

Apart from the above-mentioned generic critical success factors, the business owner needs to continuously ensure that the unique critical success factors pertinent to his/her specific business are identified and responded to in order to survive and grow. In this regard, effective networking could be most beneficial, especially in areas where the small business, in particular, does not avail of the same resources as large businesses (Starr and MacMillan, 1990; Ramachandran & Ramanarayan 1993). Brown and Butler (1995) further emphasised the point by arguing that smaller firms involved in networks that result in gaining superior information would improve their ability to identify opportunities on which to focus their limited resources. This in turn could lead to the establishment of a competitive advantage.

Testable Model

Based on the literature review and previous research, an experimental testable model was developed to measure the impact of entrepreneurial networking on business success. A testable model can be defined as an instrument that will enable the researcher to measure a specific phenomenon, trend or variable. The testable model based on the conceptual framework should contain the following aspects.

... Impact of Entrepreneurial Networking on Small Business Success



3.0 Research Methodology

The main research question that this study addresses is the following:

What is the perceived impact of the experimental model developed for entrepreneurial networking on the success of selected small businesses in Pietermaritzburg and Durban?

Overall Purpose

To determine from owners/managers/officers of the businesses in the study, through the use of a semi-structured questionnaire, the perceived impact of the experimental model of networking developed in a previous study on small business success of a select group of businesses in Pietermaritzburg

and Durban and compare it with the responses of two developmental groups of small enterprises.

Research Design

The study employs both an exploratory and a descriptive research design. This was considered necessary as an exploratory design helps to provide the theoretical insight and knowledge base on the subject that in turn would be useful in helping to describe findings arising from the empirical research. A descriptive design would normally address the question of 'what is' which is appropriate in this study as it seeks to answer the question of 'What is the perceived impact of the experimental model of networking on the success of select small businesses in Pietermaritzburg and Durban?'

Sampling

Permission to participate was sought and obtained from respondents who were members of a networking group of both the Pietermaritzburg and Durban Chambers of Commerce. The participation of each group was obtained at their monthly meeting venues. Each group was briefed on the purpose of the study and given the opportunity of either participating in the study or not. In addition to these two groups, a further two groups of entrepreneurs were invited by ABSA Small Enterprise Development Agency in Pietermaritzburg to attend lectures on entrepreneurial networking and participated in the survey as well. Those who agreed to participate completed an informed consent form.

Essentially, the study employed a convenience non-probability sample. The main reasons for using a convenience sample were to obtain information quickly and cost-effectively. Consequently, the study makes no claims of generalisability of the findings and should be considered an exploratory study.

Data Collection

Data was collected through a semi-structured questionnaire (for which ethical clearance was obtained from the UKZN Research Office) that was to be completed by the respondents at the respective Chamber's monthly meeting venue and the mentioned lecture. Content validity is claimed for the

questionnaire as the questions were primarily based on a thorough review of the relevant literature (O'Neill *et al.* 2007).

Questions were developed for all the components of the experimental model developed in the previous study by O'Neill *et al.* (2007). The questions were mainly of a dichotomous and Likert scale type, which helped in reducing the time spent by respondents and the response rate in completing the questionnaire.

4.0 Findings

Study Population

A total of 72 businesses were studied in the Pietermaritzburg and Durban areas. As this was a basic descriptive study of an exploratory nature where a convenience sample was used, no attempt will be made to generalise the results to the population as a whole. A notable difference in the response rate of the two studies, was that while all the members of the network groups responded, only 34 out of 42 usable questionnaires were completed by the members of the ABSA Enterprise Development Agency. This could be attributed to a few possibilities, such as less business experience than the former group, a lower level of networking-orientation or the nature of the measuring instrument. A more positive result could, for example, have been achieved if personal interviews have been conducted or if the questionnaire had been translated into Zulu as the ABSA group predominantly consisted of Zulu-speaking people.

Section 1: Profile of the Respondents

72% of the respondents had passed matric. The majority of the respondents in this study are within the age group 25-36 years. Male respondents in the study were more than twice as many as the female respondents which is in line with the national proportions of business ownership. Respondents spent an average of 5 hours per week on developing and maintaining contacts.

Section 2: Networking and Business Success

A 5-point Likert scale was used to obtain this information. It should be noted

that a median or modal score of 4 and above represents agreement that networking has contributed to the respondent's business success and that a median or modal score of 4 and above was obtained with regard to all the questions regarding the positive effect of networking on business success. An interesting finding, however, was that the older the business, the stronger the perceived contribution of networking has been to the success of the business with a median or modal score of 5.

It is therefore evident that the majority of the respondents (and especially the older businesses) have a positive perception of the contribution of networking to their businesses' success and perceive that networking has contributed positively to their businesses establishing a competitive advantage.

Perceptions of Networking

Regarding the general perceptions of networking in relation to their businesses, median and modal values of 4 and above represent positive perceptions. It is clear from the statements in the table below, that respondents are generally in agreement that networking has been helpful to their businesses.

Perceptions of Networking's Contribution To Business Success

	Median	Mode	Valid N
Q3.5.1- Networking helped to select correct target market	4.00	4.00	N=68
Q3.5.2 - Networking helped provide superior ability in selecting growth target market	4.00	4.00	N=68
Q3.5.3 - Networking increased sustainability of the business	4.00	4.00	N=68
Q3.5.4 - Networking has assisted business in appropriate planning	4.00	4.00	N=67

Q3.5.5 - Networking has helped provide a healthy balance between owners' capital and loan capital	3.00	4.00	N=65
Q3.5.6 - Networking has given the business a clear and realistic vision and mission.	4.00	4.00	N=66
Q3.5.7 - Networking has created a sustainable competitive advantage for the business	4.00	4.00	N=62
Q3.5.8 - Networking has helped the business create a market-oriented approach	4.00	4.00	N=66
Q3.5.9 - Networking has assisted in making the business feasible	4.00	4.00	N=65
Q3.5.10 - Networking has helped my business create a realistic business plan	4.00	4.00	N=63
Q3.5.11A - Networking has developed my core business competencies regarding - Service	4.00	4.00	N=64
Q3.5.11B - Networking has developed my core business competencies regarding - Flexibility	4.00	4.00	N=60
Q3.5.11C - Networking has developed my core business competencies regarding - Innovation	4.00	4.00	N=58
Q3.5.11D - Networking has developed my core business competencies regarding - Responsiveness	4.00	4.00	N=58
Q3.5.11E - Networking has developed my core business competencies regarding - Growth Potential	4.00	4.00	N=64
Q3.5.12 - Networking has made me more alert to ensure a continuous flow of innovations	4.00	4.00	N=65

Q3.5.13 - Networking has helped me implement environmental scanning techniques more efficiently	4.00	4.00	N=65
Q3.5.14 - Networking has given me unique knowledge in the field of operation	4.00	4.00	N=66

All the levels of the testable model were perceived to be important to business and networking success. However, certain aspects of levels A, F and G of the experimental model, although perceived to be important, were comparatively regarded not as important as the other levels of the model. These were issues pertaining to anchorage, range, emotional support, material support and tangible support.

Level of Importance/ Unimportance to Business Success

Respondents completed a 5-point Likert scale question depicting level of importance of a number of networking-related issues to the success of their businesses. For this question, a low median or modal score of 2 or less shows a higher level of importance! On the basis of this information, it is clear from the table below that with the exception of a few statements, in general respondents from all three areas regard as being at least important to the success of their businesses the networking-related issues in the table below as depicted by the median and modal values of 2 and very important as depicted by the median and modal values of 1.

Perceived Importance of Networking

	Median	Mode	Valid N
Q3.6A - Importance of correctly identifying resource requirements for business success	1.00	1.00	N=65
Q3.6B1 - Importance of ability to broker connections between otherwise disconnected segments of business contacts.	2.00	1.00	N=65

Q3.6B2 - Importance of correctly identifying opportunities for success	1.00	1.00	N=65
Q3.6C1 - Importance of effectively linking people both inside and outside the business to take advantage of opportunities	1.00	1.00	N=66
Q3.6C2 - Importance of your ability to link people both inside and outside the organisation together	1.00	1.00	N=67
Q3.6C3 - Importance of your ability to identify contacts both inside and outside who can pursue opportunities by working together	1.00	1.00	N=66
Q3.6D - Importance of establishing a networking group	1.00	1.00	N=65
Q3.6E - Importance of being able to establish a networking structure based on Anchorage (ultimate goal of network)	2.00	2.00	N=65
Q3.6E - Importance of being able to establish a networking structure based on Range (differences in background between network members)	2.00	2.00	N=62
Q3.6E - Importance of being able to establish a networking structure based on Reachability (ease of contact between members)	1.00	1.00	N=64
Q3.6E - Importance of being able to establish a networking structure based on Density (greater diversity amongst network contacts/members)	2.00	1.00	N=64
Q3.6F - Importance of being able to address network interaction based on - Intensity (honouring obligations)	1.00	1.00	N=61

Q3.6F - Importance of being able to address network interaction based on - Frequency (regular contacts between members)	1.00	1.00	N=62
Q3.6F - Importance of being able to address network interaction based on - Durability (longstanding relationships between members)	1.00	1.00	N=62
Q3.6F - Importance of being able to address network interaction based on - Direction (goal-oriented behaviour of group)	1.50	1.00	N=64
Q3.6F - Importance of being able to address network interaction based on - Direction (emotional support from network members)	2.00	2.00	N=65
Q3.6G - Importance of addressing network content based on - Emotional support	2.00	1.00	N=64
Q3.6G - Importance of addressing network content based on - Tangible support (Financial)	2.00	1.00	N=65
Q3.6G - Importance of addressing network content based on - Tangible support (Material)	2.00	2.00	N=65
Q3.6G - Importance of addressing network content based on - Companion support	2.00	2.00	N=66
Q3.6G - Importance of addressing network content based on - Informational support	1.00	1.00	N=64

5.0 Limitations of the Study

The main limitation claimed by this study is that non-representative samples

were chosen on a non-probability sampling basis. Consequently, this study can be considered an exploratory study and no claim is made as to the generalisability of the results. The use of a questionnaire-based measuring instrument instead of in-depth interviews could also be seen as a limitation as the exact nature of networking practices and its actual impact on business success were not investigated in sufficient detail. A translated questionnaire could also have resulted in an improved response rate from the ABSA groups as well.

6.0 Conclusion

Despite the limitations mentioned, all the respondents indicated that networking has played an important role in their businesses. In addition, all three groups surveyed perceived that there are many networking-related issues that play an important role in the success of their businesses. The trend with regard to the positive response on the impact of entrepreneurial networking on business success was largely similar for all groups. The impact of factors such as level of business experience, the need for an alternative measuring instrument, a translated questionnaire and a more representative sample and the impact of culture on networking practices should, however, be considered in future research.

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