



SOCIAL CAPITAL AND SME PERFORMANCE IN RIVERS STATE

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ABSTRACT

This study examines the link social capital and SME performance in Nigeria, precisely in Rivers State. The target population comprise of 165 selected SMEs in Rivers State. Krejcie and Morgan table was adopted to determine the sample sized which amounted to 116 operators of SMEs. In line with this decision, 116 copies of the questionnaire were distributed to operators of these SMEs. However, only 87 copies were retrieved, out of which only 79 were considered valid and were used for the analysis. This analysis was conducted using Kendall rank correlation coefficient through the aid of Statistical Package for social Sciences (SPSS). The outcome of the analysis brought about the conclusion that, social capital allows entities to connect and enjoy mutual benefits such as; cooperation, understanding, reciprocity, shared trust, good sense of identity, standard ethical and disciplinary norms, compassion, tolerance, forbearance, good professional relationship, diversity management skills, networking, collective productivity, and trust. All of which are ingredients to achieving optimum performance. It is therefore recommended that, operatives of SMEs should consider imbibing social trust in its activities because it produces increased collaborative efficiency and reduces operational cost, thereby demonstrating high financial benefits. Again, operators of SMEs should make policies that depict trust in regulatory institutions as it enables dissent and open flow of information between the organizations and such institutions.

KEYWORDS: Social Capital, Social Trust, Trust in Institutions, and SME Performance.

INTRODUCTION

The National Bureau of statistics (NBS) reported a sharp increase in unemployment rates in Nigeria from 19% to 20.9%, which doubled to over 43.3% by the third quarter of 2018 (SMEDAN, 2017; Elebeke, 2018;). Even so, the government over the years appears to have failed in its responsibility in creating sufficient jobs to balance the equation (Tende et al., 2020). This trend seems to have propelled private individuals to delve into Small and Medium-Sized Enterprises (SMEs) in an attempt to create jobs and earn a living. Interestingly, these SMEs are increasingly becoming major sources of employment creation (Aceleanu et al., 2014; Al-Abri et al., 2018), around the world. In Nigeria, SMEs have contributed largely in terms of employment generation, and growth and development of the economy, as well as marketing and distribution of goods and services. Although, the need for having highly performing SMEs have prompted the government to infuse funds into the SME industry to help them (SMEs) to be better positioned to solve problems of unemployment in the economy, and enable them perform optimally (Kanu, 2015). Some researchers believe that SMEs have contributed to developed economies by 98%; hence SMEs are

perceived as key economic catalyst in developing and industrialized economies (Leirraga & Oberhofer, 2015; Ipinnaiye et al., 2016; Rekik & Bergeron, 2017).

As pointed out earlier, the optimum performance of SMEs is pivotal to the attainment of increased job creation and economic development for developing economies. Performance in this sense represents the attainment of goal in comparison between stated objectives and actual objectives achieved (Ipinnaiye et al., 2016). In the light of this, several factors can hinder SME performance. These factors includes; lack of adequate training and experiences, lack of insufficient profits, poor infrastructure or lack of it, low demand for products and services, lack of adequate government support, expensive utility bills, lack of credit facility, low level entrepreneurial education for business operators, and lack of local production (Ipinnaiye et al., 2016; Rekik & Bergeron, 2017; Sinkovics et al., 2018). Although, these deficiencies stated above could also be traceable and/or attributable to high level of poverty, poor government policies, financial malpractices, lack of adequate regulatory capabilities in terms of government agencies, parastatals, and



business owners. All of which is a breeding ground for poor, inadequate, and frail performance of SMEs.

The place of high performance cannot be compromised in the scheme of things in any organization. This is because performance could help in boosting employee engagement, productivity, and social capital as it; (1). Helps in the attainment of organizational goals, (2). Aid in the creation of developmental strategies of employees and management, (3). It gives room for feedback between employees and management. (4). It provides a platform for adequate and optimum review processes. (5). Increases business focus on delivering business results, and so on. Some researchers (Anggadurita & Mustafied, 2014; Arend, 2014; Kanu, 2015; Choongo, 2017) seem to have this believe that adequate performance management could elongate the life-span of SMEs. They further pointed out that; (1). It could help organizational leaders set goals that are SMART (specific, measurable, achievable, realistic, and time-bound). (2). It will improve the level of productivity of the workforce through a “culture of shared responsibility” to enable employee adequately maximizing time. (3). It permits management to constantly evaluate achievements by practically connecting actual performance to predetermined performance. (4). It allows continuous communication between all stakeholders, especially employees and management thereby permitting constant feedback procedure. These are indicators that such organization seems to enjoy a culture of shared responsibility and value which are the bedrock of social capital.

Clausen et al., (2019), and Bashar and Bramlky (2019) proposes social capital as a set of shared value which allows the effective coming together of individuals to function as a group to achieve a common purpose through interpersonal relationship, shared trust, values, norms, cooperation, understanding, sense of identity, and reciprocity. Social capital is a concept that drives the notion that social entities (individuals, organizations, and other institutions) does not exist in isolation (Habersetzer et al., 2019). This disposition seems to suggest that social entities such as organization (in this context) does not exist in a vacuum. It thus exist in an environment that allows it to interact with all (internal, connected, and external) stakeholders such as; employees, suppliers and customers, and government or its regulatory agencies. This means that the firm interrelates and communicates with its environment or at least, the firm is expected to do so. In the event where the organization fails to consider social capital in their policy formulation stage, this has reportedly led to huge consequences which seem to have hindered innovativeness, learning, adaptability to the environment (Bashar & Bramley, 2019; Clausen et al., 2019; Habersetzer et al., 2019).

Intriguingly, social capital gives room for interactive learning, innovativeness, and adaptability because it describes the interrelationship between social entities, and demonstrates how the organization is expected to communicate with connected and external stakeholders such as; clients, customers, host communities, suppliers, competitors, regulatory agencies (Li et al., 2019; Lee et al., 2019), this has a way of helping the business to stay afloat and compete favourably with other competitors. Infact, some scholars have even suggested that social capital is a demonstration of goodwill and it benefits the organization. This seeing goodwill emanates from external sources, and its created through provision of services (by the organization) and investment (by the customers), indicating a symbiotic relationship between both entities (Carrillo-Alvavex et al., 2019; Li et al., 2019; Lee et al., 2019). Little wonder, He et al. (2019) suggested that there ought to be a psychological shift or adjustment towards facilitating a mutual understanding and cooperation among all social elements. This tends to suggest that social capital brings about interconnectedness between groups of people, amalgamation of mutual benefits, tolerance, reciprocity, patience, compassion, commonly acceptable standards, fellowship, and good relationship, standard ethical and disciplinary norms. All of which suggests commonly shared laws, rules, information, and regulatory disposition that promotes social sustainability through trust.

Several scholars (Aceleanu et al., 2014; Kanu, 2015; Ipinnaiye et al., 2016) at different times have attempted to ascertain the issues behind lack of optimum performance for SMEs and other forms of start-ups. However, none of these studies seem to have attempted to adopt a social capital approach to these examinations. Again, none of these studies has been extensive and broad enough to capture activities of SMEs in Nigeria, especially in Rivers State. In the light of these gaps, this study is designed to ascertain the in influence of social capital on SME performance in Rivers State, with the aim of finding a lasting solution to SME performance related issues (Aceleanu et al., 2014; Kanu, 2015; Ipinnaiye et al., 2016).

THEORETICAL FRAMEWORK

A deep literary search has been conducted and the theory of performance was adopted in an attempt to explain the reason behind poor performance SMEs and how social capital could be introduced to bring about lasting solutions to this menace. Again, the social exchange theory was adopted to give meaning to this thinking and to serve as an undergirded theory in this study, theory of performance is a multidimensional, multifaceted, and interdisciplinary field that studies performance while using it as a lens to view the world (Schechner, 2002; Madison, 2016; Allegue et al., 2019). As stated above, the



multidimensional, multifaceted and interdisciplinary nature of the term; “performance”, makes it broad to capture artistic, aesthetic, and firm performance. However, in this study, firm performance is the domain in which performance has been discussed. Firm performance represents achievements or earned results obtained by management and its functional areas in providing efficiency, competitiveness, effectiveness, and organizational success (Taouab & Issor, 2019). In this sense, several factors might be responsible for lack of optimum performance or lack of it. Some of these factors may include; (1) employee personal problem that usually affect their performance at work but are off-the-job related, (2). Breach of work practices, rules of engagement, and procedure which results into absenteeism, presentism, and inability to meet standard operational/occupational health and safety requirements, (3). Unsatisfactory work content in terms of its quantity, quality, and outcome (Allegue et al., 2009; Madison, 2006; Taouab & Issor, 2019). Interestingly, the problems listed above are related more organizational, than personal. Nonetheless, fathoming a way out would require a deeper look into the organization as a social system. Hence, the adoption of social exchange theory to examine the risk and reward of social interrelationships between social elements.

SOCIAL EXCHANGE THEORY

A sociologist of American descent; George C. Homans has been given the credit for the proposition and popularization of social exchange theory. This was captured in the publication by George C. Homans in 1958, titled, “Social Behaviour as Exchange”. In this article, Homans posited that social exchange theory is an ideology that is centered on a cost-benefit analysis in a relationship that exists between two or more entities (Emerson, 1976). Social exchange theory connotes social behaviours of social entities or parties in terms of the cost-benefit analysis to ascertain the risk and benefits of these entities in an interrelationship exchange process. Similarly, Emerson (1976) examined the interrelationship between social entities with recourse to power, resource availability and interdependency. Emerson (1976) believed that exchange in this sense is not a theory, but a framework that depicts a foundation from which further theories could be propounded and explained. For instance, the theories of equity, interactional justice, and inequality are some of such theories. On the hand, the basic assumptions of social exchange theory are that; (1). Humans cherish rewards and avoid punishment, (2). Humans are rational beings, (3). The set standard applied by humans to evaluate and determine cost and reward vary from time-to-time, and changes from person-to-person. On the other hand, there are basic assumptions of social exchange theory about

relationship which holds that; (1) Relationships are platforms for interdependency, (2). Relationships life or Relational life is a continuous process. Lastly, a sound relationship which is based on the tenets of social exchange theory is more likely to solve employees’ personal problems, problems related to work practices, and the issues of unsatisfactory work because social exchange theory allows for forbearance, tolerance, patience, reciprocity, compassion, unity of mutual benefits, and established commonly acceptable standard norms in line with standard ethical behaviours designed to repair behaviours that are out of place. This is one of the redefined ways to build social capital for a highly performing organization.

SOCIAL CAPITAL

Social capital represents a set of shared values that enable individuals to function together effectively as social groups towards achieving a common purpose through interpersonal relationships, shared understanding, a shared sense of identity, shared values, reciprocity, cooperation, and trust (Gedjalovic, et al., 2013; Aragon-Amonurriz, et al., 2019; Carreras & Bowter, 2019; Clausen et al., 2019). In essence, social capital depicts a scenario in which individuals come together to achieve a common purpose with clear-cut standard expected behaviours guided by norms and ethical principles that regulate behavioural outcomes through some basic features that are perceived to be part of this process includes; sense of belonging, participation, diversity, reciprocity, values, norms, outlook in life, feeling of trust and safety, collective power/productivity, networking with people of similar interest in recourse to bonding and bridging, and so on.

Although, Robison et al. (2012) argue that there is relative selfishness behind instituting a social capital structure. In their study, Robison et al. (2012) explained that an agent or party in a social relationship tend to allocate scarce resource based on their own person need and not based on the need of the group. Again, that resources are allotted to others by these social elements or parties only based on sympathy and not based on the original purpose by which the group was instituted in the first place. Robison et al. (2012), further stated the basic assumptions of a social capital motives. The assumptions of social capital motives are as follows: (1). Individuals seek validation by being consistent with their values of their ideal self. (2). Individuals seek the validation if others through winning their approval. (3). Individuals seek to belong and tries to win the sympathy of others. (4). Individuals who are sympathetic may be influenced by others to act in their interest.

Nevertheless, several scholars (e.g. Aragon-Amonarriz et al., 2019; Bashar & Bramley, 2019;



Carreras & Bowler, 2019; Clausen et al., 2019; Li et al., 2019; Lee et al., 2019) have examined several dimensions of social capital in relation to other concepts and variables. However, a deep examination of the literature of social capital indicates the importance of trust and satisfaction in social relationships. Therefore, social trust and trust in institutions has been adopted as dimensions of social capital in this study.

Social Trust: Traditionally, trust connotes a firm or strong belief in truth, ability, or reliability of an individual or group. Within a social domain, trust tends to have numerous connotations. However, it typically connotes a scenario in which one party is willing to rely on the ability, truth, and reliability of another in the pursuit of their common interest (Nootboom, 2017). Here, one party who is referred to as the trustor is willing to rely on another party who is referred to as the trustee in a social relationship. In this sense, the trustor is expected to willingly or naturally let go of the control they have over the actions performed by the trustee. Nootboom (2017) noted that the trustor may be uncertain about the outcome of the actions and inactions of the trustee, however, they are still expected to trust in the relationship to protect their common interest. Platow et al. (2012) explains that social identity model tends to demonstrate a scenario in which the trustor is expected to identify with strangers who are in the same group with them and build trust towards them irrespective of non-familiarity. This type of trust is known as the in-group trust as stated by Dinesen et al. (2020). In line with the submission above, Dinesen et al. (2020) put forward four types of trust that may exist. They are as follows; (1). Generalized trust: This is the type of trust one is expected to demonstrate in social interactions even when one is meeting a stranger for the first time. (2). Out-group trust: This is the type of trust one expresses to members of a different group. For instance, a civilian is expected to trust members of the armed forces, all things being equal. (3). In-Group trust: This is that type of trust that one is expected to have in a member of the same group even when they are both strangers. For instance, a member of the armed forces is expected to trust their colleagues whether they are familiar with such colleagues or not. (4). Trust in Neighbours: This is that type of trust that is expressed towards those sharing the same residential environment with one. Within the context of organizations, all of these forms of trust are expected to be expressed towards all stakeholders (namely; clients, competitors, suppliers, management, and even employees) in the industry.

Trust in Institutions: Trust in institutions denotes the confidence or belief that one could have faith in organizational or institutional set-up to act in favour of one without receiving such form of confidence from the trustee or at least enjoys some

level of confidence in demonstration of belief. This definition is somewhat complex because it attempts to capture the two basic characteristics of trust in institutions (Chanley et al., 2000). Characteristically, there are two basic features of trust namely; fiduciary, and mutual trust. On one hand, fiduciary trust denotes a relationship between two parties (Individuals and agent/organization). In this scenario, the individual places trust on the agent or organization and permit them (agent) to act on their (individual) behalf. In essence, they (individuals) give full authorization to the agent to act in their capacity even without receiving such any form of trust in return from this party. For instance, a client gives a practicing lawyer full authorization, and rights to represent them (individuals) in court because they trust in the judiciary as an institution, without obtaining similar trust from the agent. On the other hand, mutual trust one the other allows for a reciprocal relationship between two parties. In this scenario, both parties are expected to carry out their individual functions, duties, responsibilities, and obligations on behalf of/for one another towards achieving their common goal. For instance, the banking institutions are expected to undertake certain functions for or on behalf of the clients, while the client on the other hand is expected to perform certain duties towards the banking institution. Emphatically, the institutions as used here are; institutions of government (e.g regulatory authorities), traditionally established order of authority such as armed forces, religious organizations, police, and so on (Chanely et al., 2000).

SME PERFORMANCE

Issues relating to performance is not to be handled with kid's glove. This is because these issues are important to the financial component and the overall survival of the organization, especially for SMEs since they make immense contribution to the economy (Fitriat et al., 2020). In a clearer terms, SMEs are the principle drivers of any economy because they provide significant portion of employment opportunities (Elebele, 2018), thereby contributing heavily to the Gross Domestic Product (GDP) of any economy. In addition to this, increased performance for SMEs is key to boosting foreign exchange. In the same vein, increased performance of SMEs could be achieved with certain key factors such as market orientation (Subagia et al., 2017; Suharto, 2018). Suharto (2018) noted that a sound market orientation could significantly effect a positive change in the performance of the organization. For instance, market orientation have the potential to address a lot of issues such as performance of the product and services through understanding the dynamics, the consumer, monitoring acceptability of the product and services



in the market, increase product and service quality, incorporate innovation in terms of product, process, market, and management innovation.

Indeed, SMEs need to follow the trend of activities in a changing market environment by re-directing and re-engineering their strategic activities towards an increase in satisfying the needs of customers. As noted by Tende and Ekanem (2018), and Urde et al. (2013), this would aid the organization in building a strong brand and market orientation towards achieving high competitive edge. Owing to these facts, in building and sustaining brand and market orientation, SMEs are learning to become entrepreneurially oriented as a necessary ingredient for incremental growth required to remain in business (Emelah&Onuoha, 2018).

SOCIAL CAPITAL AND SME PERFORMANCE IN NIGERIA

As pointed out earlier, SMEs are practically carrying the weight of unemployment and under-employment in Nigeria. These responsibilities seem to have doubled considering the negative effects on the economy that followed the sharp drop in oil prices at the international market (Ozigi, 2018). Consequently, the government established several entrepreneurship development programmes which include but not limited to National Social Investment Programme (NSIP) which captures NPOWER Volunteer Corp, Trader Moni, and so on to water-down this effect (Tende et al., 2020). This has left little to be desired on other areas such as social capital. Hence, the need for government to redirect its policy focus and redesign frameworks for SMEs that ought to capture social capital to drive SME performance. It is true that SMEs need to perform to stay alive – it is also true that SMEs cannot achieve performance in a vacuum. That is to say they need to achieve performance in the industries and environments in which they operate. Indeed, there are key players in these industries. These industry players are the major stakeholders that will drive social capital. Social capital comes with several benefits that will enhance the performance of organizations including SMEs. However, this cannot be achieved by one firm alone. To this end, once stakeholder integration is instituted

and sustained, social capital characteristics such as shared value, cooperation, reciprocity, a shared sense of identity, social trust and trust in institutions will creep in and high performance possibilities stay within reach, especially for SMEs.

EMPIRICAL INSIGHT

Boohene et al (2020) examined the link between social capital and SME performance, while considering the role of emotional intelligence. The study was conducted against the backdrop of failing SMEs. They examined a total of 1,532 SMEs that were carefully selected through a simple random sampling method out of 5,009 SMEs that were slated to be understudied. Boohene et al (2020) employed the structural equation modelling with the aid of AMOS. In this study, the outcome of the analysis revealed that social capital could significantly improve SME performance because of the positive link between the two variables. Again, emotional intelligence was found to influence this relationship in a positive light. Based on this outcome, it was concluded that SME operations are encouraged to bring about policies that tend to encourage the establishment of meaningful social networks that could help employees understand their emotions which create social capital as both have the tendency of improving firm performance. Similarly, Pratono and Mahmood (2014) investigated the correlation between social capital and firm performance, while considering the moderating effect of environmental turbulence. They employed a quantitative approach in which they randomly selected 390 SMEs from a government SME database of 35,489 SMEs published by the city government of Surabaya. However, this sample size was determined by Krejcie and Morgan 1970 sample size determination table. They resulted to the conclusion that under low environmental turbulence, social capital has a positive outcome on firm performance while on high environmental turbulence, social capital reported negative outcome of firm performance. Pratono and Mahmood (2014) recommended that attention should be paid to environmental changes if the firms intend to perform optimally use the aid of social capital.

Operational Model

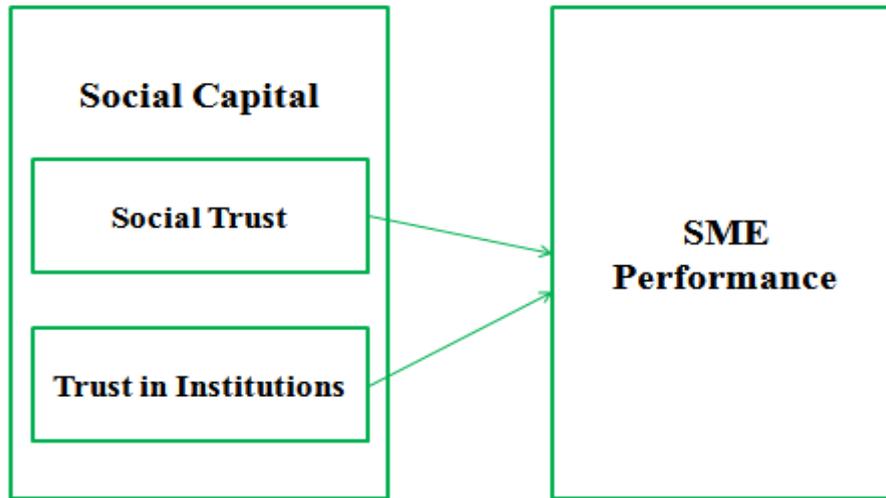


Figure 1

Hypotheses

The hypotheses for this study are formulated as follows:

Ho₁ There is no correlation between social trust and performance of SMEs in Rivers State.

Ho₂ There is no correlation between trust in institutions and performance of SMEs in Rivers State.

sized which amounted to 116 operators of SMEs. In line with this decision, 116 copies of the questionnaire were distributed to operators of SMEs as captured at www.riversstateyellowpages.com. Nonetheless, only 87 copies were retrieved, out of which only 79 were considered valid and were used for the analysis. This analysis was conducted using Kendall rank correlation coefficient through the aid of Statistical Package for social Sciences (SPSS).

METHODOLOGY

This study adopts the quasi-experimental research design and the cross-sectional research design. The target population comprise of 165 selected SMEs in Rivers State. Krejcie and Morgan table was adopted to determine the sample

DATA ANALYSIS

The hypotheses were formulated and tested as follows:

Ho₁ There is no correlation between social trust and performance of SME in Rivers State.

Table 1: Correlations between Social Trust and SME Performance

		Social Trust	SME Performance
Kendall's tau_b	Correlation Coefficient	1.000	.628**
	Sig. (2-tailed)	.	.000
	N	79	79
	Correlation Coefficient	.628**	1.000
	Sig. (2-tailed)	.000	.
	N	79	79

** . Correlation is significant at the 0.01 level (2-tailed).



The table above demonstrates a positive correlation between social trust and SME performance at $\tau_b = .628$; $n = 79$; $p > 0.05$.

H_{02} There is no correlation between trust in institution and performance of SMEs in Rivers State.

Table 2: Correlations between Trust in Institution and SME Performance

		Trust in Institution	SME Performance
Trust in Institution	Correlation Coefficient	1.000	.722**
	Sig. (2-tailed)	.	.000
	N	79	79
SME Performance	Correlation Coefficient	.722**	1.000
	Sig. (2-tailed)	.000	.
	N	79	79

** . Correlation is significant at the 0.01 level (2-tailed).

The table above demonstrates a positive correlation between Trust in Institution and SME Performance at $\tau_b = .722$; $n = 79$; $p > 0.05$.

Hence, all previous hypotheses were rejected, and an alternate hypotheses stating a positive correlation were accepted.

DISCUSSIONS ON FINDINGS

Based on the analyses above, social capital have high potentials of influencing increased performance of SMEs. This is evident because similar studies conducted in this regard came out pointing to this facts. For instance, the outcome of this study is in consonance with the studies of Boohene et al (2020), and the study of Pratono and Mahmood (2014), which both demonstrated a significant positive relationship between social capital and SME performance.

Final Thoughts and Policy Implications

As established by the social and economic importance of SME in the Nigerian State. It is necessary to find the most suitable way to enhance SME performance. This gave rise to the introduction of social capital after the gap in literature was established. From the perspective of a systematic review approach, one of the principle achievement of this study is the operational model. The novel operational model offers a fresh perspective into pursuing SME performance. By this, the operational model proposed of two fundamental elements namely; social trust and trust in institutions as dimensions of social capital and linking them to SME performance, hence, the hypotheses. Nevertheless, the outcome of the hypotheses testing necessitated the

rejection of the null hypothesis, while accepting the alternate hypotheses in the analysis. The outcome of the analysis brought about the conclusion that, social capital allows entities to connect and enjoy mutual benefits such as; cooperation, understanding, reciprocity, shared trust, good sense of identity, standard ethical and disciplinary norms, compassion, tolerance, forbearance, good professional relationship, diversity management skills, networking, collective productivity, and trust. All of which are ingredients to achieving optimum performance. It is therefore recommended that, operatives of SMEs should consider imbibing social trust in its activities because it produces increased collaborative efficiency and reduces operational cost, thereby demonstrating high financial benefits. Again, operators of SMEs should make policies that depict trust in regulatory institutions as it enables dissent and open flow of information between the organizations and such institutions.

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