EFFECT OF SOCIAL CAPITAL ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOUTH WEST NIGERIA

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Abstract  
The world economy has shifted from production based economy to knowledge based economy. The business environment has become volatile with the advent of globalization, increased competition, consumers changing tastes, information and communication revolution. Organization must rely on networking with all stakeholders such as customers, suppliers, employees and others to establish necessary contact with the outside world to ensure that collaborative efforts yield synergetic effects and promote trust necessary for teamwork in the organization. This study examined "effect of social capital on the performance of SMEs in South West Nigeria." The specific objectives were to determine the effect of social capital on employment generation of SMEs in South West Nigeria. Data were collected using questionnaires administered to three hundred and ninety three (393) using Taro Yamane statistical formula out of which three hundred and two were returned from the samples. Analysis of data was carried out using multiple regression analysis to determine the nature of relationship amongst variables. The result of ANOVA test shows that the ‘F’ value is 20.792 with a significance of ‘P’ value which is 0.000 and less that 0.05, meaning that null hypothesis is rejected and alternative hypothesis is accepted which concluded that there is a significant relationship between Social Capital and employment generation of SMEs in South West Nigeria. In Conclusion, building on Social capital by SMEs Operators will improve employment generation of the firm.  
Keywords : Social capital, Small and Medium Enterprises, Employment and Performance,
Background of the Study

Globally, SMEs are recognized as engines of growth and development. They are the backbone of economy in many developed nations all over the world. The enterprises cut across every sector of the economy. They include general trade like wholesale and retail, services, farm activities and manufacturing. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports; small and medium scale enterprises (SME) have proved to be a major tool adopted by the developed nations to attain socio-economic development.

Resources are key drivers of every business success. The need for these adequate resources in the form of social capital in ensuring the continuous operation of a business function can never be over-emphasize. The world economy has shifted from industry based economy to knowledge based economy. Organization devotes a greater attention to intellectual capital of which social aspects are key. According to Sanusi (2014) in the past, most economies depended on use of land, natural resources, equipment and capital for the creation of value, currently, our information economy depends largely on the application of knowledge in the creation of wealth and economic growth. Competitive advantage and superior perform hinged on effective managerial of human and social capital. These involve the employment of educated, competent and skill workforce to drive performance for high profit, effective service delivery and customer satisfactory. The business environment has become volatile with the advent of globalization, increased competition, consumers changing tastes, information and communication revolution. Organization must rely on networking with all stakeholders such as customers, suppliers, employees and others to establish necessary contact with the outside world to ensure that collaborative efforts yield synergetic effects and promote trust necessary for teamwork in the organization.

Statement of problem

This paper is more concern with the significant of social capital and performance of SMEs in South West Nigeria. Most SMEs in Nigeria collapsed within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity (Aremu & Adeyemi, 2011). Many factors have been identified contributing to this premature and poor performance of SMEs in South West Nigeria. Key among them include lack of a business network and access to it, lack of information and a suitable environment, societal, cultural problems in advancing the goal in terms of their performance. It was observes that lack of social capital especially networking during and after start-up of business has hindered the profitability level of Small Business in Nigeria. In African country especially in Nigeria, we placed much emphasis on norms and value which affect the performance of small and medium businesses in Nigeria. The cultural factors that can affect or improve the performance of SMEs include difference in languages, tribe, political systems and level of education. Nigeria being a multicultural society, all these factors has important role to play in daily business environment.

Literature Review

Social Capital is the norms, relationship and understanding that allows individual to form co-operative relationship for mutual benefit. Coleman (1998) observed that social capital promotes quality of life, it is what you build on trust of community. Trust allow you to find people of different social network, all relationship add to our quality of life, everyone has relationship with all kinds of people. Trust relationships add opportunity and possibilities in our lives. (e.g. Information you get on how to operates new camera you bought, how to get new job, how to get customers and qualified labour for new business established). Building social capital creating trusting relationships and opportunity to help others in our community, improve quality of life, jobs, recreation, spiritual life, transportation; all are enhanced when we are part of a community supporting one another, helping to solve problems together. Social capital embedded in social relationship, enable people to mobilize embedded resources to facilitates actions (Burt, 2005). Social capital helps SMEs to tap resources in external environment successfully and pave the way to new markets. Ngoc, Le, Nguyen, (2009), agreed that networks also help a firm learn appropriate behaviour and therefore obtain needed support from key stakeholders and the general public.
Social capital is the raw material of civil society. It is created from the myriad of everyday interactions between people. It is not located within the individual person or within the social structure, but in the space between people. It is not the property of the organization, the market or the state, though all can engage in its production (Paul Bullen, 1999). Social capital is a ‘bottom-up’ phenomenon. It originates with people forming social connections and networks based on principles of trust, mutual reciprocity and norms of action. The term social capital was first used by (Bourdieu and Coleman, 1986). Social capital can be found in friendship networks, neighbourhoods, churches, schools, bridge clubs, civic associations, and even bars.

Sources of Social Capital
The conceptualization of social capital involves many dimensions, each a possible field for exploration. However, it is possible to identify three distinct sources of social capital for this study: (a). Networks (b).Trust (c).Norms and values

Networks
Social networking refers to a means of interactions among people in which they create, share, and exchange information and ideas in virtual communities and networks. Sanusi, Adelabu, & Adewale, (2014), Nahapiet & Ghoshal (1998) define social capital as the sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network (Lin, 1999).

Trust
Gambetta (2000) defines trust as a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action; Misztal (1996) defines trust as belief that the results of somebody's intended action will be appropriate from a subjective point of view. The role of trust in the development, progress and adaptability of societies or an organization has been emphasized by several authors. Putnam (1993) has argued that social capital is related to the level of trust in the community firms or group. Fukuyama (1995) goes further to suggest that a high level of trust in certain societies or firms can explain economic performance. Where there is high level of trust among employees, there will be team work or spirit which will improve the productivity level of that organization.

Norms and Rules
Durkheim (1938); Weber (1962) sees norms are standards or patterns of social behaviour that are accepted in or expected of a group; they may also be levels established by governments, firms or other authorities to be complied with or attained. If the employees follow the organization’s norms and rules, there will be smooth running and better performance of the workers which eventually improve the profit level. On the other hand, rules can be understood as a formal or informal expression of these norms.

Benefits of Social Capital to Entrepreneurship
Studies have suggested many benefits to social capital. Lin (1999) has summarized these as follows:

- Social capital facilitates the flow of information available in certain groups and, therefore, it may reduce transaction costs for the organization in acquiring information.
- Social ties may exert influence on the agents who play critical roles in decisions.
- Acknowledged relationships may serve as social credentials for the individual; and
- Being assured and recognized as a member of a group can provide self- reassurance, support and reinforcement.
Social Capital and Firm Performance

Performance is the results of activities of an organization or investment over a given period. It includes both financial and non-financial measures. Barr (2002) observes that both financial and non-financial measures can be used to assess organizational performance. Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. For the purpose of this study, non-financial measures were used, which includes company profitability, sales revenue, employment generation and service delivery.

Social capital helps SMEs to tap resources in the external environment successfully and pave the way to new markets. Access to financial capital is one of the determinants of the success of SMEs. Ngoc et al. (2009) agreed that networks also help a firm learn appropriate behavior and therefore obtain needed support from key stakeholders and the general public. Robb & Fairlie (2008) examine the reasons why Chinese, Indians, and Korean SMEs are successful in the diaspora. Kiggundu (2002) & Barr (2002) argued that networks contribute to business success and continuity. However, it seems, as if the South African entrepreneur experiences difficulties in establishing and maintaining business networks which function effectively.

Social capital through social relations is capable of providing individual entrepreneurs with financial and physical support (start-up capital and labour); useful information (market intelligence, information on customers and other business opportunities) and psychological and moral or emotional support (Sanders & Nee, 1996). Similarly, social capital facilitates the accumulation of other kinds of resources (Burt, 1992). At the firm level, the stock of social capital that an entrepreneur brings to the business at start-up and the subsequent phases has a significant influence on business survival and growth. In particular, social capital expedites resources exchange among different units and promotes efficiency within the firm (Davidsson & Honig, 2003). Social capital also helps to strengthen supplier relations and inter-firm learning; and enhance enterprise performance by promoting innovation and by nurturing the diffusion of knowledge (Burt, 2005).

Fig 1: Operationalization of social capital and Performance of SMEs variables

Social Network Theory

Source: Researcher Conceptualization.
firms are established and owned by more than one individual. Compared to single-founder firms, firms with more partners are able to draw upon wider social and business networks and may accumulate a wider variety of knowledge and get new ideas (Sanders & Nee, 1996). The reasoning behind this is that firms with larger teams are more likely to have access to resource and knowledge relevant to social capital compared to firms with smaller teams. Hence, good performance of SMEs is inevitable.

Table 1: Empirical study

<table>
<thead>
<tr>
<th>S/ N</th>
<th>Author</th>
<th>Title</th>
<th>Scope</th>
<th>Method of Estimation</th>
<th>Variables</th>
<th>Findings</th>
<th>Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bisayo.O. Ilori and Zainab. A. Adebayo. (2016)</td>
<td>Impact of Social Network on Business Growth of Women Entrepreneurs in Ilorin Metropolis.</td>
<td>The Study covers 181 Women Entrepreneurs in Ilorin Metropolis.</td>
<td>Regression Analysis was used to test the hypothesis and primary data was collected for the Analysis.</td>
<td>Social networking</td>
<td>The result shows that building on social capital has contributed to the employment generation of Women Entrepreneurs in Ilorin Metropolis.</td>
<td>- Further studies can be conducted using two or more variables to test the hypothesis, also the study should extend more than 3 states.</td>
</tr>
<tr>
<td>2</td>
<td>Durojaye, Falusi and Okaruwa (2013)</td>
<td>&quot;Social capital and its influence on profitability of food stuff trader in Southern Nigeria.</td>
<td>- 0492 foodstuff traders were selected from rural &amp; urban market - Area covered are Oyo South West Nigeria</td>
<td>Tools used is descriptive statistic and ordinary least square..</td>
<td>Gender - Age Interest rates - Time lag Cash contribution</td>
<td>The result revealed that SMEs make a sizeable contribution to employment generation of our youth. That the two way causal relationship between S/C and employment generation of food stuff traders confirms the ergogeneity of S/C.</td>
<td>- Further studies can be conducted in manufacturing and trading instead of food stuff sellers - Mixed methods (qualitative and quantitative) can be use in further study for clearer results.</td>
</tr>
<tr>
<td>3</td>
<td>Regina. E. Okafor (2012)</td>
<td>The Role of Human, Financial and Social Capital in the</td>
<td>- 20 SMEs sampled in Enugu Metropolis</td>
<td>Kruskal-Wallis analysis test (alternativ</td>
<td>- Revenue - Basic assets Profit</td>
<td>Finding revealed that SMEs is a source of employment</td>
<td>Further study should extend to more than one</td>
</tr>
</tbody>
</table>

e to F-Test when variance & normality assumptions for parametric test are not met).

- Education
- Experience
- Family background
- Equity
- Debt capital
- Structural tie
- Trusted relationship

for the unemployed youth in Nigeria and that education, work experience, networking have a higher impact on employment generation and performance of SMEs.

metropolis and should include service and trading.

Source: Researcher’s empirical table

Objectives of the study
The main objective of this study is to assess the significant of social capital on the performance of SMEs in South West Nigeria. Whilst achieving this aim, the study zeroes in on the following specific objectives:
(i) To examine the effect of social capital on the employment generation of SMEs in South West Nigeria.
(ii) To examine the impact of social capital on sales revenue of SMEs in South West Nigeria.

Research Questions
(i) To what extent does social capital affect the Employment Generation of SMEs in South West Nigeria?

Hypotheses of the study.
Ho1. There is no significant relationship between social capital and employment generation of SMEs in South West Nigeria.

Scope of the study
The scope of the study in term of content is limited to social capital on Performance of SMEs. While geographical scope is limited to South West of Nigeria and Lagos, Oyo and Osun States was chosen. The choice of the states is based on the fact that they are the first three largest registered SMEs States in South West and contributes to employment generation of the country’s GDP in Nigeria.

Significance of the study
This study examines the impact of social capital on the performance of SMEs in South West Nigeria. The study is relevant at this time of economic recession or depression where foreign exchange is at alarming rate, banning importation of goods and government encourages local production. The study will be helpful for local entrepreneurship in the production of locally made goods with high price in the market and made profits in due season. It will also sensitized the entrepreneurship on how social capital can prove its superiority in the performance of their businesses. It is also expected that this study will be an eye openers for young, new school leavers and intrapreneurship who want to be self-reliance. Finally, this study is expected to provide reliable data for future research work.
Limitations of the study
The population of this study will be limited to all small and medium Enterprises in Lagos, Oyo and Osun State, Nigeria. Therefore, the empirical outcomes of this study will be limited to the data collected from the three sectors (manufacturing, services and trading) of enterprises and secondary data from ministry of commerce and industries, Corporate Affairs commission and SMEDAN in Lagos, Oyo and Osun State, Nigeria. Due to high level of confidentiality and business sensitivities in the manufacturing industries, corporate anonymity and confidentiality will be respected by presenting the outcomes of the study using a generic name - the Nigerian manufacturing sector.

Population of the study
The population for this study comprises of all registered SMEs in Lagos, Oyo and Osun State, Nigeria. SMEDIAN, (2013), recorded a total number of 21,581 SMEs registered in Lagos, Oyo, and Osun State, Nigeria. These were selected in three sectors (manufacturing, services and trading). The sample size for the study is 393, based on formula suggested by Taro Yamane (1967), out of this, 302 questionnaires were returned.

Table 2: Population distribution and sample size

<table>
<thead>
<tr>
<th>No</th>
<th>%</th>
<th>Sample size</th>
<th>Actual Returned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>11,489</td>
<td>53.2</td>
<td>209</td>
</tr>
<tr>
<td>Oyo</td>
<td>7,820</td>
<td>36.2</td>
<td>142</td>
</tr>
<tr>
<td>Osun</td>
<td>2,272</td>
<td>10.6</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>21,581</td>
<td>100</td>
<td>393</td>
</tr>
</tbody>
</table>

Source: Author’s computation

Method of data Analysis
The sampling method is purposive, both primary and secondary data was used for the study. SPSS software version 22.0 and smart PLS 3 were used as tools of analysing the data. Regression analysis (Multiple regression analysis) was used to establish the nature and magnitude of the relationships between the variable of the study and to test the hypothesized relationships.

Findings and Discussion
Table 3: Model Summary for Multiple Regression Analysis (social capital and employment generation).

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.649</td>
<td>.421</td>
<td>.306</td>
<td>.54474</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SOCIAL_CAP
b. Dependent Variable : Employment Generation.

Multiple Regression Analysis (social capital and employment generation)
From Table 3, the result of R value shows a positive correlation between the dependent variable and the independent variable. While the result of R² indicates that the model has a good fit, that is social capital (independent variable) can explain 42.1% variance in employment creation (dependent variable), hence remaining 57.9% accounts for other factors not considered in the model. This is in line with research work of Ilori, Zainab and Adebayo, (2016), which revealed that social capital development creates employment for jobless youth through SMEs in Nigeria. Thus, null hypothesis is rejected and alternative hypothesis which say there is significant relationship between capital and employment creation is accepted.
Table 4.29: Anova Results for Social and Human Capital and Employment Creation.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>12.340</td>
<td>2</td>
<td>6.170</td>
<td>20.792</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>89.023</td>
<td>300</td>
<td>.297</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>101.363</td>
<td>302</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SOCIAL_CAP
b. Dependent Variable: Employment Creation.

ANOVA TEST

Anova result for social and capital and employment generation

Hypothesis 1

H0: There is no significant relationship between social capital and employment generation of SMEs in South West Nigeria.

F-test was carried out to test the null hypothesis that “there is no significant relationship between social capital and employment generation of SMEs in South West Nigeria”. The result of ANOVA test in table 4.29 shows that the ‘F’ value is 20.792 with a significance of ‘P’ value which is 0.000 and less that 0.05, meaning that null hypothesis is rejected and alternative hypothesis is accepted which concluded that there is a significant relationship between Social Capital and employment generation of SMEs in South West Nigeria. This is supported by Durojaye, Falusi and Okaruwa, (2013), in his research work which revealed that SMEs make a sizeable contribution to employment generation of our youth.

Table 4: Coefficient for regression between social capital and Employment creation.

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.086</td>
<td>.487</td>
<td>2.229</td>
</tr>
<tr>
<td></td>
<td>SOCIAL_CAP</td>
<td>.327</td>
<td>.117</td>
<td>.180</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SOCIAL_CAP
a. Dependent Variable: Employment Creation.

Coefficient of Regression Analysis

The coefficient in table 4 above shows the simple model that express how social capital affect the employment creation. The model showed mathematically as follow: Y = a + Bx where y = SMEs performance (employment creation) and x = social capital (independent variable) ‘a’ is a constant factor and ‘b’ is the value of coefficient. From the table therefore, SMEs performance (employment creation) = 1.086 + 0.327 (social capital); this means that for every 100% change in employment creation, social capital contributes 32.7%. This is in line with Regina Okafor (2012), which revealed that SMEs is a source of employment for the unemployed youth in Nigeria. Hence, null hypothesis is rejected and alternative hypothesis which says there is significant relationship between social capital and employment creation is accepted.
Summary and Conclusion

The general objective of the study examined the significant of Capital on the Performance of SMEs in South West Nigeria. Specifically, the study examine the effect of social capital on the employment generation of SMEs. Questionnaires were distributed through the adopted stratified random sampling technique. The sample of three hundred and ninety three (393) respondents from the population of twenty one thousand five hundred and eighty one (21,581) SMEs in the three states - Lagos, Oyo and Osun was used. Data was analyzed with the use of multiple regression analysis. Findings showed that there is significant relation between social capital and employment generation of SMEs.

Recommendations

Entrepreneurs’ own social capital – especially networking, trust and norms – help them acquire attributes such as confidence, communication and creativity. This study finds that networking in the same industry raises entrepreneurs’ self-confidence, knowledge and understanding of customers’ needs and demands, and their connections with suppliers. This study would be of help the potential entrepreneurs to gain some experiences in the same industry to help them generate new ideas for products, services, systems or procedures; showing creative thinking for cutting costs and increasing their customers base. Finally, we can conclude that although entrepreneurship is in its infancy in most parts of this country, Nigeria, it has a huge potential to grow and help develop national economies. Thus, if the governments, non-profit organizations, academia and other stakeholders are able to help entrepreneurs build and utilize social capital, they can be able to increase the performance of their businesses and become the economic stimulus for many countries.

References


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