

Innovations

Social Capital and Small and Medium Enterprises Performance in South-South, Nigeria

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Abstract: *This research aims to investigate the effect of social capital on SME performance in the South-South geo-political region of Nigeria. The study's broad objective is to ascertain the influence of social capital on small and medium enterprise performance in the South-South Region of Nigeria and adopt personal network relationships and relationship marketing as dimensions of social capital to enhance performance in SMEs. The study employed a cross-sectional survey design, using the Taro Yamene formula to arrive at a sample size of 517 SMEs drawn from a population of 18,616. Data was collected using a five-point Likert scale closed-ended questionnaire and ordinary linear regression for analysis. The findings revealed that personal network relationships and relationship marketing all positively impacted key aspects of SME performance, including financial performance and customer engagement. The study concluded that these social capital factors are critical for the performance and durability of SMEs in South-South Nigeria. It recommended that identifying and implementing these success factors is essential for the successful transition and growth of SMEs across age bands.*

Keywords: *Social Capital, Small and Medium Enterprises (SMEs),
Financial Performance, Relationship Marketing*

1.1 Introduction

The unofficial sector, often termed the "virgin financial system," significantly contributes to Nigeria's economic growth, accounting for over 41% of the Gross Domestic Product and about 58% of the Gross National Product, amounting to over two hundred and twelve (US\$212) billion US dollars (billion (National Bureau of Statistics (NBS, 2016). This sector also helps mitigate the high unemployment rate by providing jobs for over 48 million Nigerians and serving as a stopgap for youth awaiting formal employment. Its flexibility allows formally employed individuals to generate additional income, commonly referred to as a "side hustle." (Akintimehin, Eniola, Alabi, Eluyela, Okere, & Ozordi, 2021).

Notwithstanding, the informal sector faces copious challenges, including insufficient access to resources, technology, and market information. The lack of a clear development agenda in most African countries further aggravates these issues, leading to instability and short business lifespans. Business owners in this sector struggle to leverage social capital, which is essential for business performance and growth. Social capital, comprising personal networks and social connections, provides necessary resources, credit support, market information, and strategic advice but remains underutilised in the south-south geo-political zone of Nigeria (Imhanrenialena et al., 2022; Chima, 2016; Agyapong et al., 2017).

Social capital, viewed as the social connections enabling businessmen and women to access crucial concrete and elusive assets, significantly impacts business performance (Dai et al., 2015). From a macroeconomic viewpoint, studies on social capital often examine elements like trust, civic collaboration, and interpersonal relationships (Martínez Ayala & Aguayo, 2015; Gutiérrez & Ruíz, 2014). In contrast, at the microeconomic level, the emphasis shifts to the structural, relational, and cognitive dimensions within organisations (Nahapiet & Ghoshal, 1998).

Informal actors in this sector utilise their networks to identify opportunities and mobilise resources, both human and financial (Imhanrenialena et al., 2023; Bhagavatula et al., 2010). Dai et al. (2015) underlined the influence of both internal and external social capital on businesses in the informal sector. Outside social capital provides credit support, market information, and customer recommendations, while inside social capital offers financial and strategic support from family, associates, and equals. Despite efforts by the Nigerian government at local, state, and federal levels to promote small business performance, these corporations in Nigeria continue to struggle and flounder (Onugu 2005; Ojeka 2011; Okhankhuele 2019).

Several studies, such as (Pratono, 2018; Clarke et al. 2016 and Stam et al. 2014), have examined the relationship between social capital and organisational performance. However, most research has focused on industrialised economies or, rather, carried out outside Nigeria. Also, authors

such as Brink, (2011); Cantner and Stuetzer, (2010); Patel and Terjesen, (2011); Ndofo and Priem, (2011), were domiciled in African nations like Kenya and Ghana (Bradley et al., 2012; Agyapong et al., 2017). Nonetheless, there is a lack of studies exploring the relationship between social capital and small and medium enterprise performance in Nigeria. Furthermore, previous studies employed various analytical methods such as meta-regression (Stam et al., 2014), hierarchical moderated regression analysis (Dai et al., 2015), and ordinary least square regression (Agyapong et al., 2017). This article, however, aims to address the above research gap using simple linear regression analysis.

2.0 Literature Review

2.1 Concept of Social Capital

Social capital refers to a set of shared values that enable individuals to collaborate effectively within social groups. It is characterised by interpersonal relationships, mutual understanding, a shared identity, cooperation, reciprocity, and trust, all of which help achieve common goals (Castañeda 1998; Carreras & Bowter, 2019; Clausen et al., 2019 and Olatunbosun & Onuoha, 2020). Olatunbosun and Onuoha (2020) posit that social capital involves individuals coming together to achieve a common goal, guided by norms and ethical principles that shape their behaviour. Key features of social capital include a sense of belonging, participation, trust, reciprocity, shared values, and networking. However, Robison et al. (2012) argue that social capital can have an egotistic connotation, where persons allocate resources based on private desires rather than the group, often predisposed by the yearning for validation and sympathy from others. These inspirations may lead individuals to act in ways that serve personal interests rather than the combined good. Several scholars have examined social capital using different dimensions. A thorough review of social capital literature highlights the critical role of trust and satisfaction in social relationships (Olatunbosun & Onuoha, 2020; Imhanrenialena et al., 2021). Consequently, this study adopts personal network relationships and relationship marketing as key dimensions of social capital to enhance performance in SMEs.

2.1.1 Personal Network Relationships

Personal networks, which include connections with friends, family, and shared-interest groups, are vital for small business owners, offering support rooted in bonding social capital (Davidsson & Honig, 2013). These networks enhance business performance, particularly through relationships with financial institutions (Meng, Rieckmann, & Li, 2016). Personal network relationships and firm-level network resources are both essential for business success (Manolova et al., 2018). Resources from these networks aid in

prospect identification, resource mobilisation, and business authenticity (Bhagavatula et al., 2010; Batjargal, 2013) while also helping small businesses pilot challenges and improve employee satisfaction (Anderson & Ullah, 2014).

2.1.2 Relationship Marketing

Relationship Marketing focuses on building and maintaining strong relationships with suppliers and customers to maximise business growth (Simpson et al., 2016). It emphasises creating long-term, mutually beneficial interactions rather than short-term transactions (Grönroos, 1994; Sheth, 2017). In small businesses, owner-managers leverage close, personal relationships and flexible networks to gain market insights and foster loyalty (Jacket al., 2018). The approach includes continuous market development, opportunity recognition, and customer retention, aiming to enhance customer satisfaction and loyalty (Hillset al., 2018; Durkin & Kerr, 2016).

Key aspects of relationship marketing involve economic benefits, strategic fit, and behavioural factors like trust and social bonding (Imhanrenialena et al., 2024; Wilson & Janatrania, 1994). Effective relationship marketing relies on communication, interaction, and delivering value, which can improve market productivity and business performance (Sheth & Parvatiyar, 1995; Izogo et al., 2016). For small businesses, this approach often involves personalised, human-centric interactions to build trust and long-lasting customer relationships (Gilboa et al., 2019; Webb & Roberts, 2016).

2.2 Business Performance

In the current economic landscape, measuring business performance is crucial for both academics and managers. The importance of high performance in an organisation is non-negotiable, as it directly impacts employee engagement, productivity, and social capital. High performance is crucial for achieving organisational goals, developing both employees and management strategies, fostering effective feedback between staff and leadership, enabling thorough review processes, and sharpening the business's focus on results (Olatunbosun & Onuoha, 2020). Researchers such as Arend (2014), Kanu (2015), and Choongo (2017) suggest that effective performance management can extend the lifespan of SMEs. They argue that it helps leaders set SMART goals, boosts productivity through a culture of shared responsibility, allows for consistent evaluation of performance, and promotes continuous communication between stakeholders. These elements contribute to a viewpoint of shared responsibility and social capital, which are fundamental to an organisation's success. Perlin et al. (2022) conducted a study with 39 Brazilian industrial companies, finding a link between mitigation practices and business performance, especially in innovation. Yaskun et al. (2023) assert that SMEs can enhance performance through competitive advantages, leading to increased profits, sales, and customer base. Widodo

(2023) used a sample of 200 respondents and structural equation models (SEM) to show that entrepreneurial orientation and knowledge management significantly impact the competitive advantage and performance of SMEs in West Java.

2.2.1 Financial Performance

Social capital encompasses the networks, relationships, and trust that businesses build within their social and professional environments (Eccles et al. 2018 and Arregle et al. 2021). As posited by Sashi (2019), the financial performance of SMEs is closely linked to their ability to leverage social capital. Effective use of relationships and networks not only provides access to essential resources and market opportunities but also enhances operational efficiency and customer satisfaction (Yan et al. (2018). SMEs that strategically build and maintain their social capital are better positioned for financial success and long-term sustainability.

2.2.2 Customer Engagement

Customer engagement entails understanding customers' attitudes and behaviours concerning a company, encompassing aspects like marketing, loyalty, satisfaction, and retention (Kumar et al., 2016). It has gained substantial attention in the business world, with a shift from transactional selling to fostering emotional connections for sustained sales and long-term profitability (Pansari & Kumar, 2017). This concept is explored through various lenses, including relationship marketing, service-dominant logic, and customer contributions to business success, often utilising social capital. Engagement encompasses purchasing behaviours, referrals, and knowledge sharing (Vivek et al., 2015; Van Doorn et al., 2010). Small business owner-managers often form close personal connections with customers through responsiveness and adaptability, which play a substantial role in promoting and advertising business performance (Mitrega et al., 2017; Gamble et al., 2017; Harrigan et al., 2019).

Personal Networks Relationship and Financial Performance

The relationship between personal network relationships and financial performance involves trust, norms, and values within personal networks. Trust and shared norms can significantly impact business decisions and relationships, contributing to business success (Nahapiet et al., 2000). This dimension includes close associations built over time through interactions, often characterised by shared history and mutual respect (Muniady et al., 2015). Trust and relational ties help facilitate business relationships, explaining why several small and medium enterprises (SMEs) remain family-run (Carr et al., 2019). While some studies suggest a negative or insignificant relationship between relational social capital and firm performance (Lee &

Won-jun, 2015), others report a positive impact (Pratono et al., 2016; Obi-Anike et al., 2024). Small and medium-sized businesswomen, in particular, leverage their social networks effectively to secure startup capital and enhance business performance (Mozumdar et al., 2017; Li-Min et al., 2018; Yu-Shu et al., 2015).

Relationship Marketing and Customer Engagement

Relationship marketing in small businesses focuses on building close, long-term interactions with suppliers and customers, which is essential for growth and market success (Simpson et al., 2016). It emphasises face-to-face interactions, trust, and flexibility, helping businesses adapt to market needs and retain customers (Jack et al., 2018; Smallbone et al., 2013). This approach contrasts with traditional transactional marketing, stressing customer engagement and loyalty as key drivers of business performance (Grönroos, 1994; Sheth, 2017). Successful relationship marketing enhances customer satisfaction and loyalty, leading to sustained business growth, especially in resource-constrained small businesses (Izogo et al., 2016; Durkin & Kerr, 2016). Trust, communication, and mutual benefits are critical elements of this strategy (Hunt, 1997; Zontanos & Anderson, 2014).

2.3 SMEs in Nigeria

The definition of small and medium-sized enterprises (SMEs) varies widely depending on the country, institution, and sector, reflecting the diverse nature of these businesses. There is no universal definition for SMEs due to differences in national economies, levels of economic development, and criteria such as employee numbers or asset values. In 2013, the Small and Medium-Sized Development Agency of Nigeria (SMEDAN) used dual criteria for defining small businesses: those with a workforce of 10 to 49 employees and total assets ranging from 5,000,000 to 50,000,000 naira (excluding land and buildings) (SMEDAN, 2017). In Nigeria, SMEs account for more than 75% of employment (Tende, Achebelema, Jude, & Anyakie, 2020). However, their contribution to the gross domestic product has remained stagnant over the past three years (Ăceleanu, Trașcă, & Șerban, (2014); Adeosun & Shittu, 2021), leading to a high mortality rate of SMEs, estimated at 62% (WeeTracker, 2020).

2.4 Social capital and SMEs performance in Nigeria

SMEs in Nigeria are critical to addressing unemployment and underemployment, especially after the economic downturn caused by falling oil prices. In response, the government launched various entrepreneurship programs, such as the National Social Investment Programme (NSIP), but these initiatives have largely overlooked the role of social capital. To boost SME performance, the government should refocus its policies to integrate social

capital, which involves key industry stakeholders working together. Social capital fosters shared values, cooperation, trust, and identity, all of which are essential for SMEs to thrive in their industries (Ozigi, 2018;Tende, 2020;Obi-Anike et al., 2024).

2.5 Theoretical Framework

This research is based on Albert Bandura's Social Cognitive Theory (SCT) from 1986, which emphasises the importance of self-efficacy, or an individual's confidence in their ability to accomplish specific tasks or handle situations. SCT underscores the impact of observational learning and social interactions in personality development, proposing that an individual's actions and responses are largely shaped by observing others' behaviours in various contexts. As asserted by Olademeji, Olodo, Lawal, and Mustapha (2022), Social capital, as a component of SCT, reflects the influence of external experiences and self-perception on outcomes. Bandura's theory posits that individuals with high social capital or a strong belief in their capabilities are more likely to view complex tasks as challenges to be mastered rather than as threats to be avoided. Summing up, the theory of social cognition is employed to understand the interplay between interpersonal relationships and various internal and external factors. Social Cognitive Theory provides a framework for examining the connections between individual intentions and factors such as attitudes, personality traits, perceived behavioural control, and education, particularly in contexts like entrepreneurship.

3.0 Methodology

The research uses both primary and secondary sources to collect data. Primary data for this study was collected through the administration of copies of the questionnaire, which is the main instrument of the survey method of research. On the one hand, secondary sources refer to the use of existing related resources that earlier researchers, such as journals, scholarly textbooks, magazines, unpublished related works, and internet books/articles provided.

Population of the Study: The population of the study is 18,616 registered SMEs in the South-South geo-political zone of Nigeria comprising Medium (17,364) (SMEDAN, 2021) and Small Enterprises (1,252) (Ministry of Industry, 2022).

Sample Size Distribution

State	Medium	Small	Total
Akwa-Ibom	1,796	390	2,186
Bayelsa	708	144	852
Cross-Rivers	2,252	336	2,588
Edo	3,758	236	3,994
Delta	2,888	64	2,952
Rivers	5,962	82	6,044
Total	17,364	1,252	18,616

Source: SMEDAN, 2021 and Ministry of Industry, 2022.

Sample Size Determination: Taro Yamane's formula was adopted. Yamane (1967) provided a simplified formula to calculate the sample size. Thus:

$$n = \frac{N}{1 + N(e)^2}$$

$$1 + N(e)^2$$

Where

N = total population of 18,616

$$e = 5\% = 0.05$$

l = Constant variable

$$n = \frac{18,616}{1 + 18,616(0.05)^2}$$

$$1 + 18,616(0.05)^2$$

$$n = \frac{18,616}{1 + 18,616(0.0025)}$$

$$1 + 18,616(0.0025)$$

$$n = \frac{18,616}{1 + 46.54}$$

$$1 + 46.54$$

$$n = \frac{18,616}{47.54}$$

$$47.54$$

$$n = \frac{18,616}{47.54} = 391.5860 = 392$$

Therefore, the sample size of the study is 392. However, the sample size is considered small for a study covering a whole geo-political zone. Therefore,

in order to make the sample size adequate, 20% of the sample size was added to the original sample to cater for non-response and incomplete questionnaires and another 20% was added to take care of non-accessible respondents in line with Unyimadu (1992). The new sample size is increased to 548.

4.0 Test of Hypotheses

Research Hypothesis One

Ho: There is no significant positive impact of personal network relationships on the financial performance of smallandmediumenterprises

Table 4.1: Regression Analysis of Variance (F) on the effect of personal networks relationship on financial performance of SMEs in South-South, Nigeria

Table 4.1a: Descriptive Statistics			
	Mean	Std. Deviation	N
Personal networks relationship	2.9522	1.47152	502
Financial performance of SMEs.	2.4104	.88564	502

Source: SPSS version 23 computation

Table 4.1b: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.764 ^a	.684	.683	.95036	.023

Source: SPSS version 23 computation

a. Predictors: (Constant), Personal network relationship

b. Dependent Variable: Financial performance of SMEs.

Table 4.1c: ANOVA^a						
Model		Sum Squares	df	Mean Square	F	Sig.
1	Regression	633.260	1	633.260	701.142	.000 ^b

	Residual	451.592	500	.903		
	Total	1084.853	501			

Source: SPSS version 23 computation

a. Dependent Variable: Financial performance of SMEs.

b. Predictors: (Constant), Personal networks relationship.

Table 4.1d: Coefficients^a						
Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.527	.101		5.222	.000
	Personal networks relationship	1.269	.048	.764	26.479	.000

Source: SPSS version 23 computation

a. Dependent Variable: Financial performance of SMEs

Interpretation of the Result

Table 4.1a presents the descriptive statistics for personal network relationships and the financial performance of small and medium enterprises (SMEs). Personal network relationships have a mean of 2.95 with a standard deviation of 1.47, while the financial performance of SMEs has a mean of 2.41 with a standard deviation of 0.89. The similar standard deviation values suggest comparable variability in the data for both the dependent variable (financial performance) and the independent variable (personal network relationships).

A linear regression analysis (Table 4.1b) revealed a strong positive relationship between personal network relationships and SME financial performance, with an R coefficient of .764. The R-squared value of 68.4% indicates that personal network relationships account for a significant portion of the variance in financial performance. The low error of estimate (.95036) and the F-statistics (701.142) confirm the model's significance and reliability, with the regression sum of squares (633.260) exceeding the residual sum of squares (451.592), suggesting that the observed variation is not due to chance.

Given that the P-value is 0.000, which is less than 0.05, we reject the null hypothesis (Ho) and conclude that personal network relationships have a significant positive effect on the financial performance of small and medium enterprises.

Hypothesis Two

Ho: There is no significant positive impact of relationship marketing on customer engagement of small and medium enterprises

Table 4.2 Regression Analysis of Variance (F) on the effect of relationship marketing on customer engagement of SMEs in South-South, Nigeria.

Table 4.2a: Descriptive Statistics			
	Mean	Std. Deviation	N
Relationship marketing	2.4701	1.22601	502
Customer engagement of SMEs.	2.3187	1.51572	502

Source: SPSS version 23 computation

Table 4.2b: Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.932 ^a	.869	.869	.44453	.075

Source: SPSS version 23 computation

- a. Predictors: (Constant), Relationship marketing
- b. Dependent Variable: Customer engagement of SMEs.

Table 4.2c: ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	654.249	1	654.249	3310.898	.000 ^b
	Residual	98.802	500	.198		
	Total	753.052	501			

Source: SPSS version 23 computation

- a. Dependent Variable: Customer engagement of SMEs
- b. Predictors: (Constant), Relationship marketing

Table 4.2d: Coefficients^a

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.722	.036		19.896	.000
	Relationship marketing	.754	.013	.932	57.540	.000

Source: SPSS version 23 computation

- a. Dependent Variable: Customer engagement of SMEs

Interpretation of the Results

Table 4.2a displays the descriptive statistics for relationship marketing and customer engagement in small and medium enterprises (SMEs). The results show that relationship marketing has a mean of 2.47 with a standard deviation of 1.22, while customer engagement has a mean of 2.32 with a standard deviation of 1.52. The similar standard deviation values indicate comparable variability in the data for both the dependent variable (customer engagement) and the independent variable (relationship marketing).

A linear regression analysis (Table 4.2b) found a strong positive relationship between relationship marketing and customer engagement, with an R coefficient of .932. The R-squared value of 86.9% suggests that relationship marketing explains a significant portion of the variation in customer engagement. The model's significance and reliability are supported by a low error of estimate (0.44453) and a high F-statistic (3310.898). Additionally, the regression sum of squares (654.249) is greater than the residual sum of squares (98.802), suggesting that the observed variation is meaningful and not attributable to random chance.

Decision Rule

Reject the null hypothesis (Ho) if the P-value is less than 0.05; if it is not, do not reject the null hypothesis.

Decision

Given that the P-value is 0.000, which is less than 0.05, we reject the null hypothesis (Ho). This leads to the conclusion that relationship marketing has a

significant positive impact on customer engagement among small and medium enterprises.

4.5 Discussion of Results

Research Objective One: To ascertain the effect of personal network relationships on the financial performance of small and medium enterprises in south-south Nigeria.

Hypothesis one explored the impact of personal network relationships on the financial performance of small and medium enterprises (SMEs). The results, detailed in Table 4.1, revealed a strong positive correlation ($R = .764$) between personal network relationships and SME financial performance. With an R-squared value of 68.4%, personal network relationships account for a significant portion of the variance in financial performance, supported by a minimal error (estimate value = .95036) and no autocorrelation (Durbin-Watson = .023). The substantial F-statistics (701.142) further validate the model's reliability.

These findings are consistent with previous research. Lee (2015) emphasises the importance of personal networks for competitive advantage and overall business performance. Carr et al. (2019) also highlight that social capital through personal networks reduces costs and boosts revenue. Yan (2018) adds that such relationships build trust and integrity, which are crucial for accessing business capital. The study reinforces the significant positive impact of social capital on SME performance in Nigeria, aligning with Agyapong et al. (2017), who assert that social capital enhances revenue and reduces costs through business relationships. Hoang Nam Vu (2014) similarly supports this, noting that effective internal communication, driven by social capital, fosters competitive advantage and revenue growth.

Research Objective Two: To assess the influence of relationship marketing on customer engagement of SMEs in South-South Nigeria.

The analysis of hypothesis two demonstrated a strong positive link between relationship marketing and customer engagement in SME performance, with an R coefficient of .932. The R squared value of 86.9% indicates that relationship marketing accounts for a substantial part of the variation in customer engagement, while the low error of estimate (.44453) and significant F-statistics (3310.898) validate the model's reliability. Therefore, relationship marketing plays a crucial role in enhancing both customer engagement and SME performance in South-South Nigeria. Customer satisfaction is increasingly recognised as a key factor for ongoing organisational success and development.

These findings align with EscrigTena et al. (2021), who highlight the importance of strong client and supplier relationships for a company's reputation from a TQM and resource-based perspective. Hackney et al. (2016)

also support this, emphasising that customer interaction and online presence are vital for sustainable growth, as seen in their study of Tesco's use of internet technology. Darling et al. (2017) found that neglecting customer needs leads to organisational failure, reinforcing the importance of customer satisfaction, innovation, and commitment to success. Hui and Chuan (2019) corroborate this by showing that good service quality is essential for customer satisfaction and retention, supported by their analysis of national quality awards. Similarly, Longenecker et al. (2016) identified that organisations fail when customer service is not prioritised based on their study of US manufacturing and service firms. Simon et al. (2011) and Chamberlin et al. (2019) further stress that quality service and client satisfaction are critical for business success. Idris (2011) also confirms that focusing on customer satisfaction significantly improves company performance, based on a survey of ISO 9000-certified companies.

5.2 Conclusion

The study concluded that critical success factors of social capital—such as personal network relationships, relationship marketing, internal and external social networks, and social interactions—are crucial for the sustainability and longevity of small and medium enterprises (SMEs). SMEs are essential to any economy, significantly contributing to business quality, innovation, and economic stability. They are vital employers and are globally recognised as engines of growth and development, forming the backbone of many developed economies. Operating across various sectors, including trade, services, farming, and manufacturing, SMEs portray a substantial role in GDP, industrial production, and exports, making them strategic drivers of socio-economic development. Despite their importance, the persistent proportion of family-owned SMEs outside the founder's generation is alarmingly minimal in Nigeria, with many failing to outlive their founders, highlighting the vulnerability of these businesses in the country.

Recommendations

Based on the study's findings, the following recommendations are proposed: (i). **Improve Financial Performance:** SME founders should focus on developing and nurturing robust personal network relationships to boost financial performance effectively. (ii). **Preserve Founders' Legacy:** To sustain the founders' legacy profitably, SMEs should implement a relationship marketing strategy that enhances customer engagement and promotes enduring customer relationships.

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