

## The role of social networks in development of small-scale enterprises in the Chimanimani district of Zimbabwe

J Zuwarimwe<sup>1</sup> and J Kirsten<sup>2</sup>

### Abstract

*The past decade has witnessed an increased interest in the concept of social networks after the seminal theses of Coleman (1988) and Putnam (1993). An area that has attracted a great deal of interest is the value of social networks in small-scale enterprise development. This paper interrogates the role of social networks in the establishment and expansion of rural non-farm enterprises in the Chimanimani district of Zimbabwe and established that rural non-farm entrepreneurs resort to their social networks for information and other resources needed to establish and expand their enterprises, and that there are some gender differences in the use of the various social networks.*

**Keywords:** Social networks; rural non-farm entrepreneurs; rural non-farm enterprises

### 1. Introduction

The past decade has witnessed an increased interest in the use of the social network concept in social sciences. Revived by Coleman's (1988) and Putnam's (1993) theses, the social network concept has since attracted wider application in various development policies and programmes (Fafchamps, 1997, 2001, 2004; Barr, 2000; Jack, 2005; Katungi, 2006; Katungi *et al.*, 2007). The central tenet underpinning the social networks discourse is that it is a conduit of beneficial information to economic agents (such as small-scale enterprises) in achieving their economic goals.

The social network concept has since been incorporated into the World Bank research portfolio with an aim to understand its role in socio-economic development. This comes in the wake of the failure by orthodox economic theory to steer countries out of economic distress towards a more sustainable economic development trajectory (World Bank, 2003; Zhang *et al.*, 2006). Tata

---

<sup>1</sup> PhD Candidate, Department of Agriculture Economics, Extension and Rural Development, University of Pretoria. E-mail: jbzuiwa@yahoo.com

<sup>2</sup> Professor in the Department of Agriculture Economics, Extension and Rural Development, University of Pretoria. E-mail: Johann.Kirsten@up.ac.za

and Prasad (n.d.) argue that the success or failure of small-scale enterprises depends on social networks that provide resources and other economic opportunities at below market cost. Social networks, seen as “lubricants” and “glue” for economic development outcomes, provide an important and valuable bridge between the economy and the society (Sabatini, 2006).

On the other hand, evidence from recent studies shows that small-scale enterprises contribute significantly to household incomes (Liedholm *et al.*, 1994; McPherson, 1996; Kapoor *et al.*, 1997; Perks, 2004; McDade & Spring, 2005). However, as was also observed by Jack (2005), small-scale rural non-farm entrepreneurs still face problems in attracting external finance and other needed resources to establish and expand their businesses. This can potentially derail their long-term economic contribution if no solution is found to unlock this problem of mediating external resources to establish and expand enterprises (Devey *et al.*, 2006; Zhang *et al.*, 2006).

Fafchamps *et al.* (1995) and Fafchamps (1997, 2001, 2004) established that most small and medium manufacturing enterprises in Zimbabwe have limited access to external finance, and resort to trade credit from product suppliers, overdraft facilities and informal loans. This was corroborated by Ligthelm (2005), who established that private savings and loans from family and friends are used by no less than 82.6% of small-scale traders in South Africa as enterprise start-up capital; and by Young (1995) among small-scale enterprises in Scotland. However, Bell *et al.* (2002) established that asymmetric information hampers banks in Zimbabwe from extending microfinance to small-scale entrepreneurs. They concluded that donor-funded financial assistance, if channelled through formal financial institutions, could be an option. Pearson and Hungwe (1997) also established that most of Zimbabwe’s urban-based small-scale entrepreneurs resort to informal sources of microfinance because financial institutions prefer to work with large established enterprises.

However, as was also argued by Jack (2005), our knowledge in terms of the nature of social networks and how they operate in supporting small-scale rural non-farm business development is limited. Despite there being consensus that social networks influence entrepreneurial processes in various ways, there still is a dearth of critical studies that demonstrate how these social networks operate in the activities of rural entrepreneurs. The role of social networks in enterprise development therefore needs to be properly investigated if the sector is to fully contribute to the socio-economic development landscape. This paper contributes to knowledge of the role of social networks in economic development by extending our understanding of

the role of social networks – kinship, social groups, membership of organisations and contacts – from the predominantly urban and farm-based studies to the rural non-farm enterprise sector. It also contributes to literature on the gender dimension of social networks by building upon recent work by Katungi *et al.* (2008), who established that female-headed households in Uganda are disadvantaged at social networking platforms, and by Inglehart and Norris (2003) and Shaw *et al.* (2006), who established bimodal funding patterns between male and female small-scale entrepreneurs.

## **2. Objective and hypothesis**

The specific objective of this paper was to investigate the role of social networks (kinship, social groups, membership of organisations and links and contacts maintained with individuals and other entrepreneurs) in the various stages of rural non-farm enterprises establishment and expansion. This is of particular importance for rural non-farm entrepreneurs who, in most cases, do not have enough own resources to establish and expand their entrepreneurial aspirations and cannot access these resources from the formal markets. For this reason, Fafchamps (1997) cautions that, if a large segment of entrepreneurs remain constrained in accessing external finance, the pool from which prospective industrial captains are drawn and nurtured will remain small, resulting in constrained economic growth.

In order to establish, expand and develop enterprises, small-scale rural non-farm entrepreneurs need, among others, more information about business viability and markets, financial capital and reliable employees. This paper therefore hypothesises that, because of the unique setting in which the rural non-farm entrepreneurs find themselves, they cannot access resources from formal markets and thus rely on mutual assistance from their social networks during the stages of enterprise establishment and expansion.

The remainder of this paper is organised into the following sections. Section 3 discusses the conceptual framework and the data. This will be followed by Section 4, which discusses the results, with Section 5 providing conclusions drawn from the results and possible recommendations.

## **3. Conceptual framework**

This paper's theoretical orientation was informed by Granovetter's (1973, 2005) theory of "strong" and "weak" networks, which was then infused into asymmetric information theory by Akerlof (1970), Stiglitz and Weiss (1981), Kletzer (1984), and Pindyck and Rubinfeld (2005). The study concedes that

socio-economic settings prevent small-scale rural non-farm entrepreneurs from accessing microfinance and additional information from formal markets when trying to establish their enterprises. They therefore resort to strong social networks from within their broad social environment. Formal financial institutions are not keen to engage new entrepreneurs, as they view their activities as risky investment areas where only one part, the entrepreneurs, has full information about the enterprises' risk levels (Pindyck & Rubinfeld, 2005). Venture capital is not an option for rural non-farm enterprises due to undefined property rights in rural areas. As a result, the new entrepreneurs resort to their own resources and those of friends and relatives. After establishing an enterprise, the next challenge will arise with respect to obtaining more capital for expansion, as capital from strong networks with relatives, family and friends will have been exhausted in the stages of enterprise establishment. Few of the entrepreneurs will have made adequate profits to meet their expansion needs. Their likely sources at this stage are social networks – social groups, membership of organisations and links and contacts maintained with individuals and other entrepreneurs and NGOs who would have developed some trust in them.

However, there is the gender dimension to the social networks and economic development that has to be established in the above framework, since in any society there are social structures that determine who participates in which social networking platforms. To benefit from social networks one has to actively invest time and resources, which means that differences in terms of time and resources available to male and female members of the society are likely to lead to differential access to social capital. This translates into gender-based vertical and horizontal differentiations at the networking platforms that differentially reward the participants. For instance, there are strictly male-only and female-only social networking platforms. This justifies the need to factor in the gender dimension into the social networks and small-scale rural non-farm enterprises development gender framework.

The paper took note of the multi-dimensionality of social capital and debates around different measures used in past studies, as was also hinted by Sabatini (2006). As such, this paper is in line with the theoretical position taken for social networks proxied by kinship, social groups, membership of organisations and links and contacts maintained with individuals and other entrepreneurs. The paper also used data on involvement in associational activities, the number of contacts maintained, the social characteristics of the entrepreneurs, such as education level, the number of employees at their enterprises, and their major sources of ideas and of start-up capital. Qualitative statements and cases were also used to develop a story around the

quantitative data. The gender of the entrepreneurs and the respective enterprise values were used as focal points for analysis. For the analysis, the SPSS program was used to handle the correlations and cross-tabulations, with inductive analysis of the qualitative data completing the story. The analysis was also organised around themes that emerged and was compared with past research results to look for similarities and differences, though guided by the theoretical framework.

## 4. Results and discussion

### 4.1 Descriptive overview of the business enterprises in the survey

The paper uses the enterprise value as an indicator of business performance, as also used by Parker (2004) and Shaw *et al.* (2006), as the foundation for further analysis. The information about the value of the enterprises was solicited from two perspectives, first from the perspective of assets, investments and market share, and second with regard to the income they were getting from their businesses on a monthly basis. The figures given were then used to establish the enterprise value of the enterprises under investigation. Enterprises run by male entrepreneurs had a higher average value (Zim\$6 567 676.47) compared to those run by female entrepreneurs (Zim\$4 500 714.29),<sup>3</sup> although the highest average (Zim\$10 004 074.07) was among the family-managed enterprises.

Table 1 below shows the trends for the different types of enterprises in terms of employment and gender distribution. Starting from the gender side, male entrepreneurs were found in all the types of businesses, whereas female entrepreneurs were operating businesses in crafts, restaurants, hair salons, dressmaking, trading, office services and other unspecified types. The family-run businesses were also found in all types of enterprises, except for crafts and restaurants, graphic and design work, and vehicle servicing and spare parts sales.

It was also noted that, in terms of employment, most of the enterprises were started with between one and two employees, with only carpentry and office services having started with at least five workers. However, at the time of the survey there was a shift, with a majority of the enterprises employing more than five workers. The craft and restaurant, followed by the construction sectors, registered the highest growth, as they each had more than five employees. For instance, 85% of those in the crafts and restaurant business,

---

<sup>3</sup> During the time of the survey, the official government exchange rate was 1US\$ to Zim \$824.

where female entrepreneurs dominated, had more than five workers, just as 83% of those in the construction business had more than five employees at the time of the survey. The sector that had the least growth in terms of employment trends was graphics and design, followed by the electronics and repairs enterprises.

When looking at employment trends in general, male entrepreneurs had the highest percentage of business growth, as they had more than five workers on average at the time of the survey, notwithstanding their dominance of all business activities. This was also established by Shaw *et al.* (2006), who explained this in the light of a bimodal funding pattern between male and female entrepreneurs. From Table 1 below it is clear that, at the time of the survey, only four types of businesses employed only one person, with the majority having at least five or more employees. What can be concluded at this stage is that the increase in the number of employees from the time of enterprise establishment to the time of the survey indicated definite growth and expansion overall.

**Table 1: Type of business, employment trends and gender of the entrepreneurs**

Type of enterprise	% of respondents with this number of employees at enterprise establishment (n=130)					% of respondents with this number of employees at time of the survey (n=130)					Gender of the respondent		
	1	2	3	4	5+	1	2	3	4	5+	Male % n = 67	Female % n = 36	Family business% n = 27
Trading	55.6	44.4	.0	0	0	11.1	5.6	22.2	11.1	50.0	13.4	11.1	18.5
Construction	33.3	50.0	16.7	0	0	0	0	16.7	0	83.3	7.5	0	3.7
Carpentry and welding	22.2	44.4	27.8	0	5.6	0	0	11.1	22.2	66.7	20.9	0	14.8
Craft and restaurants	9.5	47.6	23.8	19.0	0	0	4.8	4.8	4.8	85.6	4.5	50.0	0
Dressmaking and hair salons	58.3	33.3	8.3	0	0	0	16.7	41.7	8.3	33.3	3.0	25.0	3.7
Electronics and repairs	72.7	9.1	18.2	0	0	18.2	18.2	18.2	18.2	27.2	11.9	0	11.1
Agro-processing and manufacturing	33.3	33.3	33.3	0	0	0	11.1	11.1	11.1	66.7	4.5	0	22.2
Graphics and design	83.3	16.7	0	0	0	16.3	50.0	0	16.7	16.6	9.0	0	0
Office services and phone shops	66.7	26.7	0	0	6.7	6.7	0	40	26.7	26.6	10.4	11.1	14.8
Vehicle servicing and spare parts	66.7	16.7	0	16.7	0	0	0	16.7	16.7	66.6	9.0	0	0
Others	62.5	25.0	0	0	0	12.5	12.5	12.5	12.5	62.5	6.0	2.8	11.1

Source: survey data

What can be deduced from the above descriptive overview of these business enterprises at this stage is that there is gender-inclined distribution of types of enterprises. However, this should be interpreted in perspective with respect to sources of start-up resources used, in terms of who has access to what sources of start-up capital, and the general use of various social networks by the respondents. In addition, the employment trends at the stage of enterprise establishment should be interpreted in line with the type of business besides the source and size of start-up capital. For instance, some types of businesses, such as graphics and design, are easier to start with one employee, whereas other businesses, like craftwork and the restaurant trade, are very difficult to run with only one worker.

Table 2 shows the average enterprise value when cross-tabulated with the gender of the entrepreneurs. Whereas male entrepreneurs were distributed across all the bands, female entrepreneurs were found mostly in one band. There were very few female entrepreneurs running enterprises whose value was above Zim\$10 000 000 compared to male and family businesses. It could be that the few male entrepreneurs who were found to be operating low-value enterprises had just entered business. It could also be suspected that there are restrictions in terms of capitalisation that hamper female entrepreneurs from expanding their enterprises beyond the ten million dollar value. Leads to such questions may be found after looking at the sources of capital used by the entrepreneurs during the various stages of enterprise development, but Table 2 shows the average enterprise value of the enterprises by gender.

**Table 2: Average enterprise value**

Average enterprise value	Male % (n = 67)	Female % (n = 36)	Family business % (n = 27)
Below Zim\$50 000	8.8	0	0
Between Zim\$5 000 and Zim\$1 000 000	11.8	2.9	0
Between Zim\$1 000 001 and Zim\$10 000 000	64.7	94.2	77.8
Above Zim\$10 000 000	17.6	2.9	22.2

*Source: survey data*

#### **4.2 Social networks and start-up capital for rural non-farm enterprises**

An analysis of the start-up financing pattern of the enterprises during establishment was done and the results showed heavy reliance for start-up capital on strong social networks with friends and relatives. In total, 70% of the respondents got their start-up capital from informal sources, namely relatives, friends and own resources. Across the different categories of the respondents it was established that 59% of the family-managed enterprises obtained their start-up capital from friends and relatives, with 37% of the male entrepreneurs and 25% of the female entrepreneurs getting their start-up

capital from their friends and relatives respectively. Of the male entrepreneurs, 43% used own resources to start their businesses, as compared to 25% of the female entrepreneurs and 11% of the family-managed enterprises. A possible explanation for the large percentage of male entrepreneurs who used own savings to establish their enterprises might be that, from the biographical data collected, more male than female respondents had previous working experience. This, coupled with the fact that men previously had preferential advantage in the formal employment market, from which they are likely to have saved enough to start their own businesses, can partially explain the above observation.

It was noted that most of the business activities were started with low start-up capital, ranging from Zim\$3 000 to \$380 000. However, when the level of start-up capital was disaggregated by gender it was noted that, on average, the lowest start-up capital (Zim\$3 000) was among female entrepreneurs, with the lowest among male entrepreneurs being Zim\$20 000. Those who obtained capital from friends and relatives started their enterprises with an average of Zim\$250 000, followed by those using own resources (Zim\$125 000) and those funded by donors, starting with Zim\$45 000. Table 3 below shows the major sources of start-up capital used by the entrepreneurs in the study.

**Table 3: Sources of start-up capital for establishing rural non-farm enterprises**

	Male % (n = 67)	Female % (n = 36)	Family managed businesses % (n = 27)	Each category % (n = 130)	Average size of start- up capital from each option (Zim\$)
Own resources	43.3	25.0	11.1	31.5	125 000
Relatives & friends	37.3	25.0	59.3	38.5	250 000
Loan	16.4	2.8	22.2	13.8	40 000
NGO	3.0	47.2	7.4	16.2	45 000
Business partner	0.0	0.0	0.0	0.0	0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Source: survey data

However, a worrying observation was that, across the sample, relatively fewer female entrepreneurs used start-up capital from friends and relatives compared to the other respondents. This explains why female entrepreneurs had the lowest start-up capital and ran enterprises with the lowest value. With no other explanation, what can be concluded is that, while strong social networks are very important for enterprise establishment, they tend to favour male entrepreneurs over female entrepreneurs.



Those who relied mainly on kinship for start-up capital agreed that they did not have easy access to formal channels of microfinance, and the responses indicated the significance of kinship in the establishment of enterprises. Most of the respondents indicated that family members and relatives trusted them and were willing to offer start-up capital to the new entrepreneurs. Their relatives and friends were also preferred, as they could negotiate the terms of repayment with them, and they would be more understanding if there were delays in repayment. One young entrepreneur indicated that he resorted to his friends and family members, since they knew that he could not run away with their money. He narrated his ordeal when he asked a local bank manager to give him a loan, but was turned away because he did not have collateral. A female respondent indicated that friends and family members have full information about the new enterprise, and are thus sympathetic when lending their money and constantly monitor the use of their money. All the respondents concurred that banks ask too many questions and require too many conditions, which most of them could not meet. This becomes particularly true for rural entrepreneurs, whose property rights are not well defined and so cannot be used as collateral. The entrepreneurs thus resort to their strong social networks with relatives and friends, who have full information about the business projects and among whom there is a high level of trust. This also explains the causal relationship between the relatively low levels of start-up capital and reliance on relatives and friends, who are not likely to have large amounts of capital to loan.

The results show that NGOs are also a significant source of start-up capital for 16% of the respondents. However, across the categories of the respondents, female entrepreneurs (47%), followed by family-managed enterprises (7%) and lastly male entrepreneurs (3%), got loans from NGOs. When asked about how the NGOs extended their microfinance, it was established that NGOs also relied on some elements of group solidarity – strong social ties – that glued the members together, thereby making it easier for self-monitoring and sanctioning by the borrowers themselves. The NGOs, worried about information asymmetries and contract-drawing issues between themselves and the borrowers, resorted to a group-lending strategy to persons who had undergone basic business training. They encouraged such groups to be composed of persons who were familiar with one another, so that group members can easily monitor each other's activities. Most beneficiaries of such group lending were the female craftwork entrepreneurs and some entrepreneurs in carpentry, whose selection was based on familiarity, which means that they could use their strong social ties to enforce repayment of the loans. In some cases the loans were revolving funds to be passed on to other members, hence there is self-monitoring by the members, thus shifting the

burden of information asymmetry and contract enforcement problems from the lender to the borrowers – a salient form of social capital at work.

Only 13.8% of the respondents accessed loans from the formal market, and this was linked to the stringent requirements used by the lenders, as noted by Bell *et al.* (2002). However, when those who indicated that they obtained loans were further asked about the source of the loans, it was established that more than half of the loans came from the Chimanimani Business Trust, with the government accounting for the remainder. The trust is a membership-based organisation that mobilises financial resources and extends them to entrepreneurs in the district in a revolving fund format. The Trust's lending is more like a rotating credit scheme and its members know each other, as they are all from the same area. What can be concluded at this point is that strong social networks are a critical source of start-up capital for enterprise establishment in the district.

Cross-tabulation of sources of start-up capital and education level of the entrepreneurs revealed that those receiving start-up capital from NGOs generally have the least number of years of formal education, with those using own capital and capital from relatives and friends being the most educated. The results given in Table 3 above, when interpreted with Table 4 below, show that female entrepreneurs are those with the lowest education levels and also are the least likely to get start-up capital from their "strong" ties with friends and relatives. This, together with the fact that, on average, female respondents started with low capital, may also explain their dominance in activities such as craftwork, dressmaking and hair salons. Table 4 details the relationship between education level and sources of start-up capital used by the respondents.

**Table 4: Sources of start-up capital and level of education of the entrepreneurs**

Sources of start-up capital	% of the respondents with this education level (n = 130)									
	5 yrs	6 yrs	7 yrs	9 yrs	11 yrs	13 yrs	14 yrs	15 yrs	16 yrs	17 yrs
Own resources	0	0	3.1	0	53.1	21.9	9.4	6.3	3.1	3.1
Relatives and friends	0	0	4.2	6.7	28.4	28.25	22.25	2.1	2.1	10.3
Loan	0	0	0	0	18.2	45.5	18.2	9.1	9.1	0
NGOs	23.8	4.8	52.4	0	0	0	9.5	9.5	0	0

Source: survey data

A few cases from the study further demonstrate the significance of strong social networks in the mediation of start-up capital by some of the respondents. One case was that of an entrepreneur who, after having worked

for the local district council for more than 20 years, accumulated information from local networks that he used to establish his own enterprise. He said he gained enough contacts and experience to run his own successful general dealer's shop. He said that during his working period he had built a good reputation with his friends and relatives, who not only lent him capital but also allowed him to start the business at the family premises. His two brothers later on joined him and pooled in some further capital.

There was also the case of the son of a businessman who decided to start his own enterprise after having worked in his father's business since childhood. He indicated that, while working in his father's business, he developed trust-based relationships with most local business people in nearby towns, who trusted him and gave him information on business management. Because of the exposure he gained from working in his father's business, he was now well connected within the business and was even appointed to represent the district's youth on the board of the Chimanimani Business Trust. He also used his kinship relationship with his father to establish his own enterprise, as his father not only lent him start-up capital but also allowed him access to vehicles to run his enterprise, though at a cost that he paid off later.

One female entrepreneur used to work at a general dealer's and butchery as a general hand and discovered an opportunity to sell prepared lunches for workers at the business centre. Having worked at the general dealer's for a long time, she developed a trust-based relationship between herself and the business owner, who later on lent her start-up capital to establish a small restaurant within the premises. She indicated that had it not been for the trust-based relationship that led the business owner to extend credit to her, she would not have started her own enterprise. She also borrowed some business supplies from the general dealer from time to time. At the time of the survey, her enterprise had grown and employed four other women. The three cases above show the importance of strong social networks in the establishment of enterprises by the respondents.

The findings differ from the study by Fafchamps *et al.* (1995), which established that small-scale manufacturing enterprises in the urban areas of Zimbabwe use trade credit from their suppliers when establishing their enterprises. The rural non-farm entrepreneurs depend mainly on their kinship networks and own capital to establish their enterprises, and this can be linked to their different setting. At this point, what can be concluded is that there is a relationship between strong social networks and enterprise development, as having strong social networks was positively correlated with having higher start-up capital and higher enterprise value.

### 4.3 Social networks and capital for rural non-farm enterprises expansion

In pursuit of long-term survival, external finance for the expansion and stability of small-scale, rural non-farm enterprises is crucial. One of the respondents, when asked about the significance of external finance in business, summed it up with a saying that goes, “a bird that does not venture beyond its nest’s periphery will never become fat”. Literally, the saying denoted that a bird has to venture beyond the periphery of its nest if it is to grow. This illustrates the importance of external resources, which are needed to expand and survive competition. Few of the entrepreneurs are likely to have accumulated enough profits to buffer themselves against the expansion demands, so they still need external finance.

Table 5 below shows the sources of capital used for enterprise expansion. The contribution from relatives and friends has dwindled to only 8.5% from the initial 31.5% that was shown in Table 3 above. As shown in Table 4, only 2.8% of the female entrepreneurs, 10.5% of the male entrepreneurs and 11% of the family-managed enterprises used finance from friends and relatives for expansion, and no one used own resources for this purpose. There is a significant change from the initial strong social networks used to source start-up capital. The sharp decline in the number of those who used relatives and own capital to expand their enterprises could be linked to the fact that funds from relatives and even own capital have been exhausted in the process of establishing the business, and profits are not yet large enough to meet both the operational and business expansion requirements. This can be explained in terms of the limitation of strong social networks in mobilising external resources, as theorised by Granovetter (1973).

**Table 5: Sources of capital for rural non-farm enterprise expansion**

Sources of capital for enterprise expansion	Male % n = 67	Female % n = 36	Family managed businesses % n = 27	Each category % n = 130	Average size of expansion capital Zim\$
Own resources	0	0	0	0	0
Relatives & friends	10.5	2.8	11.0	8.5	50 000
Loan	1.7	5.7	3.9	3.1	40 000
NGO	35.8	61.0	40.7	43.8	100000
Business partner	52.0	30.5	44.4	44.6	350 000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Source: survey data

However, there is a shift in the sources of finance to expand the enterprises, as business partners (those business people who were already operating at the time when the respondents started their own enterprises) were cited by 44.6% of the respondents. It was noted that 52% of the male entrepreneurs used this

source, as compared to 30.5% of the female entrepreneurs and 44.4% of the family-managed enterprises respectively. When the respondents were asked about the location of these business partners, 60% indicated that their partners were from outside the district. This means that the respondents have forged business linkages with already established business partners specifically to advance their business interests, which can be termed “weak” social networks. The significance of such “weak” ties is in mobilising important resources for enterprise expansion. Having an extensive “weak” network enables entrepreneurs to bridge structural holes in terms of accessing useful information and other resources, as argued by Granovetter (1973) and Burt (1992) that, while “strong” ties are important in getting started, it is mostly “weak” ties that enable one to get access to more resources in order to get ahead. “Weak” social networks with other business people located outside the district enabled the entrepreneurs to access not only diverse entrepreneurial intelligence, but also capital to expand their businesses. The entrepreneurs indicated that networking with other entrepreneurs outside their area made them visible and trusted as reliable borrowers. Most of the respondents concurred that they had developed trust with their business partners, since failure to disclose information about one’s business operations may lead the entrepreneur to be socially ostracised and punished.

Table 5 above shows that mostly female respondents obtained capital for expansion from NGOs. These financed the expansion of 43.8% of the respondents’ activities, of which 61% were female entrepreneurs, 35.8% male entrepreneurs and 40.7% family-managed businesses. A probing of these revealed that some who initially used own capital to start their enterprises joined the group lending programmes run by the NGOs. It was also established that a significant number of the male-owned and family-managed enterprises were expanded by capital from NGOs. It was also established that the respondents were networked at the Chimanmani Business Trust seminars with other NGOs who were providing capital for expansion. As to reasons why NGOs support more female entrepreneurs than the other categories, this is explained by the fact that these philanthropic organisations deliberately target female entrepreneurs, who have been disadvantaged in the economic activities of social structures. On the other hand, female entrepreneurs, with their low levels of education, have no choice but to attend the training sessions of the NGOs, after which they can get credit.

The sources of start-up capital as well as capital for expansion were correlated with enterprise value, as shown in Table 6 below. The two major sources of start-up capital were found to be significant at the 1% level. These were relatives and friends, and own resources, which means that an increase in

kinship networks leads to having more start-up capital and operating a more valuable enterprise. Most of the sources of start-up capital were local and were found to be statistically significant at the level of 5%. This is an indicator of the significance of kinship relations in enterprise establishment. Business partners and NGOs – the top two sources of capital for enterprise expansion – were found to be statistically significant at the level of 1%, as shown in Table 6 below. The implication is that kinship relations are critical sources of start-up capital when establishing an enterprise, but that “weak” connections with established business persons are more important during expansion. The education level of the entrepreneur was also found to be statistically significant at the level of 1%. The implication is that more education enables entrepreneurs to develop social networks for information and even capital during the various stages of enterprise development.

**Table 6: Correlation between enterprise value and forms of capital**

	Enterprise value
Top two sources of start-up capital	0.193**
Location of sources of these start-up capital sources	0.164*
Top two sources of capital to expand enterprises	0.437**
Location of these sources of capital to expand enterprises	0.180*
Education level	0.232**

\*\* Correlation is significant at the 0.01 level.

\* Correlation is significant at the 0.05 level (1-tailed Pearson correlation test).

Source: survey data

#### 4.4 Membership of associations and contacts maintained

Most respondents indicated that they maintained membership of a number of associations, as shown in Table 7 below. The entrepreneurs concurred that they relied on the linkages with other business persons for information and factors at below market prices. They indicated that they met other entrepreneurs at these association platforms, and exchanged information and other business contacts. In fact, the main financial association, the Chimanimani Business Trust, organises business workshops for its members where they interact with other entrepreneurs.

**Table 7: Social networks (membership of associations and contacts maintained)**

	Male % (n = 67)	Female % (n = 36)	Family-managed business % (n = 27)
Religious association	82	97	100
Financial association	88	100	100
Social club	88	74	70
Professional association	25	8.6	33.3
Production association	25.4	48.6	25.9
Govt initiated association	58.8	62.9	29.6
Contacts with entrepreneurs in similar business (average number)	7.90	8.70	7.85
With entrepreneurs in different business (average number)	5.50	4.10	6.30
With entrepreneurs outside the district (average number)	5.10	4.40	6.30
With bankers (average number)	2.30	1.78	2.90
With civil servants (average number)	3.06	3.83	1.59
Contacts with other entrepreneurs (average number)	12.80	12.50	12.7

Source: survey data

The professional associations mentioned by the respondents included teachers' and nurses' associations, whose members are drawn from all over the country and where members not only share information about their professional issues, but also share business information. When asked about the importance of being a member of social clubs, the respondents indicated that, besides socialising, the clubs are also places at which networking with other entrepreneurs is done and where information about possible employees is obtained.

Besides maintaining group-based mutual associations, the entrepreneurs also maintained a number of contacts with other entrepreneurs, both in the district and outside it. These contacts are sources of diverse and non-redundant information. Among these are contacts with bank officials, although in the previous section it was established that few entrepreneurs obtained loans from the banks. When asked how they benefit from such contacts, one of the respondents replied, "No business person can survive without connections in a bank". When asked further about the benefits of having contacts with bank officials, the response was that bank officials give important business advice in terms of handling business finances, getting short-term overdrafts. Another advantage of having connections with the bank manager is that obviates the need to spend time in queues when depositing or withdrawing money. One female entrepreneur indicated that she almost had to close her business because previously she did not bank her money and her husband used to

misuse the capital. After contacting a bank official, she was shown how to open a bank account, and was no longer worried by this problem.

Having looked at the role of kinship-based social networks in enterprise establishment and expansion, further analysis was done to test the role of social groups and contacts with individuals and other entrepreneurs in this regard. Social capital literature argues that membership of associations and participating in such social groups makes useful information and other resources available to the members. Table 8 below shows the results of correlations between enterprise value and membership of associations. Membership of financial associations and enterprise value was found to be statistically significant at the level of 1%. The implication is that greater participation in financial associations exposes the respondents to more information, which leads to better performance and increased enterprise value. Such networks provide not only financial resources but also business information and advice. Membership of religious associations was also found to be significant at the 5% level. Social associations are important sources of employee referral, and allow sharing of business information outside normal associational activities. The significance of religious and social associations is that they are platforms where members meet frequently and thus develop high levels of trust and strong social links. Government initiated associations, on the other hand, were found to be less significant than other associations. Table 8 below shows the results of correlations between enterprise value and the various associations maintained.

**Table 8: Correlation between enterprise value and membership of associations**

	Enterprise value	Religious association	Financial association	Social association	Professional association	Production association	Govt-initiated association
Enterprise value	1						
Religious association	.157*	1					
Financial association	.215**	.280**	1				
Social association	.181*	-.131	.037	1			
Professional association	.313**	.208**	.060	.121	1		
Production association	.273**	.118	.037	.250**	.071	1	
Govt-initiated association	.025	-.039	-.173*	.057	-.134	.359**	1

Pearson Correlation Sig. (1-tailed). \*\* Correlation is significant at the 0.01 level (1-tailed).

\* Correlation is significant at the 0.05 level (1-tailed).

Source: survey data



Further correlation analysis of enterprise value and contacts, in Table 9 below, shows that, except for contacts with civil servants, all other contacts have statistical significance. Contacts with other entrepreneurs in general and contacts with bank officials were found to be of high statistical significance. Having more contacts with entrepreneurs outside the district will lead to an increase in enterprise value because they are likely to provide resources needed for expansion. This is particularly true for rural non-farm entrepreneurs, who have to rely on mutual connections for extra resources since most financial institutions are unwilling to extend microfinance to them. It is also likely that having more contacts will lead the entrepreneurs to have access to better markets for their products, which will ultimately increase enterprise value.

**Table 9: Correlation between enterprise value and contacts maintained**

	Enterprise value	Education level	Contacts with other entrepreneurs	Contacts with same line enterprises	Contacts with different line of enterprises	Contacts with entrepreneurs outside district	Contacts with bank officials	Contacts with civil servants
Enterprise value	1							
Education level in years	.128	1						
Contacts with other entrepreneurs	.578**	.072	1					
contact with same line enterprises	.418**	-.040	.699**	1				
Contacts with different line of enterprises	.423**	.264**	.581**	.484**	1			
Contacts with entrepreneurs outside district	.532**	.238**	.824**	.546**	.566**	1		
Contacts with bank officials	.578**	.340**	.655**	.533**	.546**	.654**	1	
Contacts with civil servants	.089	-.256**	.372**	.408**	.121	.188*	.071	1

Pearson Correlation Sig. (1-tailed). \*\* Correlation is significant at the 0.01 level).

\*Correlation is significant at the 0.05 level (1-tailed).

Source: survey data

The significance of such contacts for the activities of small-scale rural non-farm entrepreneurs is evident. A typical example noted during the survey was that

of female entrepreneurs in the craft business who have networked with a Japanese tourist who has since been assisting them with information to market their craftworks. The tourist was now a conduit of reliable market information about designs and quality standards from possible buyers of craftwork from outside the district, as well as information about pricing. Table 8 above provides the results of the correlation analysis between enterprise value and contacts maintained.

## 5. Conclusions and recommendations

The findings from this paper show that, in starting up their enterprises, rural non-farm entrepreneurs resort to their strong kinship networks for start-up capital, but that in the expansion stages they resort to their connections with other established entrepreneurs, mostly from outside the district. The reason for their dependence on these forms of capital is that their setting and the nature and scale of their operations give them little other option. This reflects a different set of circumstances from those found by Fafchamps *et al.* (1995) in their study of urban-based small-scale manufacturing enterprises, which mainly get capital to expand from bank overdrafts, suppliers' credit and by reinvesting profits. Moreover, this study has shown that business partners are a critical source of resources for rural entrepreneurs trying to expand their activities. This emerging pattern of how rural non-farm entrepreneurs use social networks to get resources for enterprise establishment and expansion has not been previously documented in social networks literature. Perhaps a new form of venture capital arrangement between established and new entrepreneurs governed by social networks can be explored for rural non-farm enterprises.

Whereas a study of urban-based Ghanaian small-scale manufacturing entrepreneurs by the World Bank (1994) established that overdraft, suppliers' credit and advances play a crucial role in the expansion of the enterprises, this was not found to be the case with small-scale rural non-farm entrepreneurs. Despite the existing gap in the demand for and supply of finance for rural non-farm entrepreneurs, banks still are reluctant to capitalise the establishment and expansion of rural non-farm enterprises. They find it costly to do business with rural entrepreneurs because of lack of information and issues of collateral. Moreover, there are still differences between male and female entrepreneurs in terms of using the different banking options for expanding their enterprises.

However, given that social networks are critical sources of information and capital for enterprise establishment and expansion there is need to engender

these social networking platforms so that there is no vertical or horizontal differentiation in the level of participation. There is also need to improve the economic literacy level of the female entrepreneurs so that they actively participate in the different social networking platforms. There is also need to innovatively find ways that reduce the burden of gender based social roles of female entrepreneurs so that they have time to network with other entrepreneurs outside their localities. Perhaps another recommendation is the need to explore a new form of venture capital association between established business persons and new entrepreneurs. The idea of group lending used by NGOs should be fully investigated so as to come up with a viable microfinance option for rural non-farm entrepreneurs who are always shunned by formal financial institutions.

### Acknowledgements

The authors acknowledge the WK Kellogg Foundation, for funding this study, and the Academy for Educational Development, for managing the research fund. The paper is a contribution to the WK Kellogg Foundation's goal of developing healthy and prosperous communities in the Southern Africa region.

### References

- Akerlof GA (1970).** The market for lemons: uncertainty and the market mechanisms. *Quarterly Journal of Economics* August:488-500.
- Barr A (2000).** Social capital and technical information flows in the Ghanaian manufacturing sector. *Oxford Economic Papers* 52(3):539-559.
- Bell R, Harper A & Mandivenga D (2002).** Can commercial banks do microfinance? Lessons from the Commercial Bank of Zimbabwe and the Co-operative Bank of Kenya. *Small Enterprise Development Journal* 13(4):35-46.
- Burt RS (1992).** *Structural holes*. Cambridge MA: Harvard University Press.
- Coleman J (1988).** Social capital in the creation of human capital. *American Journal of Sociology* 94(Supplement):S95-S120.
- Devey R, Skinner C & Valodia I (2006).** *Second best? Trends and linkages in the informal economy in South Africa*. Development Policy Research Unit Working Paper 66/102, University of KwaZulu-Natal.

**Fafchamps M (1997).** Trade credit in Zimbabwean manufacturing. *World Development* 25(5):795-815.

**Fafchamps M (2001).** Networks, communities and markets in sub-Saharan Africa: implications for firm growth and investment. *Journal of African Economies* 10:109-142.

**Fafchamps M (2004).** *Market institutions in sub-Saharan Africa, theory and evidence.* London: MIT Press.

**Fafchamps M, Pender J & Robinson E (1995).** *Enterprise finance in Zimbabwe.* Regional Programme on Enterprise Development, Africa Technical Department, The World Bank.

**Granovetter M (1973).** The strength of weak ties. *American Journal of Sociology* 78:1360-1380.

**Granovetter M (2005).** The impact of social structure on economic outcomes. *Journal of Economic Perspectives* 19(1):3-50.

**Inglehart, R and P Norris (2003).** *'Rising Tide: Gender Equality and Cultural Change Worldwide'* Cambridge University Press.

**Jack SL (2005).** The role, use and activation of strong and weak network ties: a qualitative analysis. *Journal of Management Studies* 42(6):1233-1259.

**Kapoor K, Mugwara D & Chidavaenzi I (1997).** *Empowering small entrepreneurs in Zimbabwe.* World Bank Discussion Paper no. 379. Washington DC: The World Bank.

**Katungi E (2006).** Social capital and technology adoption: the case of banana production technology in Uganda. PhD dissertation. Pretoria: Department of Agricultural Economics, Extension and Rural Development, University of Pretoria.

**Katungi E, Ermeades S & Smale M (2008).** Gender, social capital and information exchange in rural Uganda. *Journal of International Development* 20(1):35-52.

**Katungi E, Machethe C & Smale M (2007).** Determinants of social capital formation in rural Uganda: implications for group-based agricultural

extension approaches. *African Journal of Agricultural and Resource Economics* 1(2):167-190.

**Kletzer KM (1984).** Asymmetries of information and LDC borrowing with sovereign risk. *Economic Journal* 94:287-307.

**Liedholm C, McPherson M & Chuta E (1994).** Small enterprise employment growth in rural Africa. *American Journal of Agricultural Economics* 76:1177-1182.

**Ligthelm AA (2005).** Informal retailing through home-based micro-enterprises: the role of spaza shops. *Development Southern Africa* 22(2):199-214.

**McDade BE & Spring A (2005).** The new generation of African entrepreneurs: networking to change the climate for business and private-sector led development. *Entrepreneurship and Regional Development* 17(1):17-42.

**McPherson MA (1996).** Growth of micro and small enterprises in Southern Africa. *Journal of Economic Development* 48:253-277.

**Parker SC (2004).** *The economics of self-employment and entrepreneurship.* Cambridge: Cambridge University Press.

**Pearson R & Hungwe P (1997).** *UNDP microfinance assessment report for Zimbabwe.* New York: UNDP MicroStart Feasibility Mission.

**Perks S (2004).** *The entrepreneurial skills necessary for growth of micro entrepreneurs. An empirical study.* Proceedings of the International Conference on Entrepreneurship in Africa: Sustainable Globalization, Tshwane University of Technology, Pretoria.

**Pindyck RS & Rubinfeld DL (2005).** *Microeconomics* (5th ed). Zagreb: Mate d.o.o.

**Putnam RD (1993).** *Making democracy work: civic traditions in modern Italy.* Princeton, NJ: Princeton University Press.

**Sabatini F (2006).** An inquiry into the empirics of social capital and economic development. PhD dissertation. Rome: Department of Public Economics, University of Rome.

**Shaw E, Lam W, Carter S & Wilson F (2006).** *Theory, practice and policy: an integrated view on gender, networks and social capital.* International Council for Small Business, 51<sup>st</sup> World Conference, Melbourne, June

**Stiglitz JE & Weiss A (1981).** Credit rationing in markets with imperfect information. *American Economic Review* 71(3):394-410.

**Tata J & Prasad S (n.d.).** *Social capital, collaborative exchange and microenterprise performance: the role of gender.* Loyola University, Chicago: School of Business Administration.

**World Bank (2003).** *Doing business in 2004: understanding regulations.* Washington DC: Oxford University Press.

**Young C (1995).** Financing the micro scale enterprises: rural craft producers in Scotland 1840-1914. *The Business History Review* 69(3):398-421.

**Zhang J, Zhang L, Scott R & Boucher S (2006).** Self-employment with Chinese characteristics: the forgotten engine of rural China's growth. *Contemporary Economic Policy* 24(3):446-458.