Influence of Entrepreneurial Network Ecosystem on Growth of Leather Manufacturing Small and Medium Enterprises in Kenya

Kunusia Lilian Khalayi, Prof. Gregory Simiyu Namusonge and Dr. Susan Naikuru
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Abstract

Purpose: The purpose of this study is to examine how entrepreneurial network ecosystem affect growth of leather manufacturing small and medium enterprises in Kenya.

Methodology: A purposeful sample was used to select respondents. Questionnaires designed to examine the views of the entrepreneur about SME networking were distributed amongst SMEs in leather manufacturing. The research instrument was based on a five-point Likert scale. The questionnaire administered contained 2 parts, Part 1: contains general information, while Part 2: contains specific questions relating to networking.

Findings: The results of the analysis showed a generally positive overview of SME networking in Kenya. The respondents agreed that networking is of great benefit to their businesses.

Unique Contribution to Theory, Practice and Policy: Relevant bodies such as Kenya association of manufacturing (KAM), ministry of livestock, Kenya association of tanners should come up with framework to ensure there relevant and coordinated network ecosystem in the leather manufacturing in Kenya.

Keywords: Entrepreneurial Network Ecosystem, Growth

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INTRODUCTION
Networking is an important aspect of a business in today’s globalizing world (Leevi, 2015). Toivola (2005) asserted that business networking is cooperation, a social process, where knowledge, know-how, and value are combined into a value-adding action. Small firms need resources and assistance from outsiders such as other firms, supporting institutions, including family and friends (Das & Goswami, 2019). Networking is generally seen as an essential mechanism for SMEs to overcome their relative disadvantage by leveraging knowledge and resources (Crowley, McAdam, Cunningham, & Hilliard, 2018).

Kenyan leather related products boasts of local and international markets which contributes substantially to social-economic welfare of the country (United Nations Industrial Development Organization, 2010). The industry has had declining production of manufactured leather goods, such as footwear, due to global competitiveness pressures from cheap second-hand imports (Mitumba), non-leather substitutes and more efficient producers. Through networks entrepreneurs make use of resources that are external to the venture thus achieving the objective of gaining a competitive advantage by extending resource availability beyond the assets under their direct control (Freytag & Thurik, 2010).

The role of networking is pertinent to the entrepreneurial growth of SMEs. According to Huggins & Thompson (2015), the inter-organizational network can be classified into two broad categories: Contact networks, through which organizations source knowledge and alliance networks, through which organizations collaborate to innovate. Networks consist of those persons with whom the entrepreneur has a direct relationship and those with whom the entrepreneur has indirect relationships through his direct relationships. Network formation is an essential aspect of small business development (Abeka, 2011). Broadly, all forms of networks are carried out for the firm's performance and growth (Lechner & Dowling, 2003). Entrepreneurial networks are always regarded as advantageous for the success of small businesses (Abeka, 2011).

The principle strength of the entrepreneurial network is its bridging function that involves; first, creation of new patterns of economic activity, assisting innovation, bridging supply and demand and helping integrate fields of activity that have previously been separated. Second, networks assist the entrepreneur in his/her efforts to scan the environment for opportunities that may be exploited in the future. Third, networks provide a type of governance for entrepreneurial behaviour. Fourth, interaction within the network assists the entrepreneur in building his/her own fund of social capital within the market place specifically, they posit that networks provide a bridge between the social and economic dimensions of human conduct (Moraima, Jose, & Kalle, 2013). It is in record that the larger the network, the better the access to outside resources—implying ultimate success of the firm might hinge on the size of the informal network (Christina, 2013). A significant resource sought by entrepreneurs from other members of the network in the start-up phase of business development, is capital (Zafir & Fazilah, 2011).

As entrepreneurship is embedded in networks, opening entrepreneurs to social networks may advance or constrain links to better resources and information, as well as offer faster responses to opportunities and challenges (McMillan, & Rodrik, 2011). The ability to utilize entrepreneurial network has been identified as one among the key skills needed by a person wishing to succeed in entrepreneurial activities (Christina, 2013).
Statement of the Problem

Small and Medium Enterprises (SMEs) operating in the leather manufacturing industry in Kenya need network support to compete and survive in the ever dynamic and challenging business environment (Abeka, 2011). Despite numerous challenges such as cheap second-hand imports (Mitumba), non-leather substitutes and more efficient producers, the contribution of leather manufacturing to Kenya’s economy currently stands at Kshs.10.6 billion and creates employment to over 22,540 people directly and indirectly. To overcome these challenges, SMEs operators typically lean on other entrepreneurs in their network for advice (Tradegecko, 2018). Many SMEs, especially the start-ups do not possess adequate resources like competencies, technology, capital, appropriate knowledge and information needed to run their business more successfully (Tehseen and Sajilan, 2016). Therefore, such SMEs are faced with the greatest challenge of how to grow and survive in such business environment (Tehseen, Qureshi, & Ramayah, 2018).

It is against that background that this paper seek to fill the gap by looking at the influence of entrepreneurial network ecosystem on growth of SMEs in leather manufacturing industry in Kenya.

Objective of the Study

Influence of entrepreneurial network ecosystem on growth of leather manufacturing small and medium enterprises in Kenya

LITERATURE REVIEW

Theoretical Review

There is no single general theory of small business networks. Therefore, researchers have used different types of theoretical approaches to analyze and understand networking and small business performance (Abeka, 2011). The theory adopted for this paper is Social network theory.


Some sociologists significantly advanced the social network approach by synthesizing previous theoretical traditions and extending them to understand both formal and informal social relations (Liu, Sidhu, Beacom, & Valente, 2017). Organizations are involved with other organizations that have a consequence for their future. A network consists of a set of nodes otherwise called actors, with a set of ties of a single type that connect nodes. The nodes can be persons, teams’ department et al. Ties may be of wide variety like friendships between individuals (Daly, 2010)
Kachlami and Yazdanfar (2016) define enterprise growth as "an increase in the size or scale of operations of a firm usually accompanied by an increase in its resources and output. It is a natural process of acclimatization and progress that occurs under favourable conditions (Kshetri, 2014). It can be divided into two categories organic growth and inorganic growth. Organic growth is an internal process that is planned and leads to an increase in firm size and resources. On the other hand, inorganic growth is an external growth that involves aspects such as joint ventures or mergers (Szegedi & Korom, 2010).

Africa has contributed significantly to both the variables of employment and GDP. Suggesting that SME growth in Africa is measured regarding job creation and financial value (Ngugi, 2013). Studies done in Africa suggest that to promote high-growth firms and job creation, "government policy may usefully be directed towards ensuring appropriate framework conditions, with a focus on the creation of efficient markets and the removal of obstacles to the creation, expansion, development, and exit of firms" (Kok & Vroonhof, 2011; Ndemo & Aiko, 2016). The suggestion is made on the basis that Africa has poor entrepreneurial ecosystems.

Ngugi (2013) points out difficulties confronting growth SMEs in Kenya. The scholar identifies; obtaining financing, expanding markets, calculating the risks of alliances, finding the right partners and consultants, and hiring and training competent staff. Ndemo and Aiko (2016) advise that governments can counter these barriers to growth.

**Benefits of Entrepreneurial Networking to SMEs**

Networks are an influential channel through which companies can achieve their goals and overcome the limitations they have by co-operating with others (Leevi, 2015). The entrepreneurial networks provide information about markets, new products, technologies, risk, and uncertainty about their product. Also, there is economic of scale of hiring professional, like Accountant, Tax consultant, Human resources specialist, Digital marketing consultant and other professionals to provide service for the members of the network group at concessionary fees, rather than individual members of the network engaging these professionals on their own which may be costlier. (Das & Goswami, 2019).

Networking helps to overcome the disadvantages of the small size, as it allows building relationships with others. Networking allows SMEs to reduce barriers, access resources, and capabilities (Leevi, 2015). According to OECD & European Commission, 2014), Entrepreneurial networks assist entrepreneurs in different ways. This assistance includes...
identification of resources, motivation, validation of ideas, perception of opportunities ventures survival and growth, and provision of a platform to get into the business. The Co-operative and networking aspects of businesses can bring many benefits for SMEs that would not have been able to afford on their own (Roy, 2012). Memberships of business associations and industry/trade specifics associations are one such source of external resources for SMEs (Roy, 2012). Entrepreneurial networking gives a massive advantage to SMEs and can benefit from association memberships, provided they find an organization that adequately reflects their priorities and needs (Roy, 2012).

**Empirical Review**

The term "entrepreneurial network" refers to entrepreneurs, who are organized, formally, or informally to increase the efficiency of the members' business activities (Das, & Goswami, 2019). Entrepreneurial networking has been established to play a pivotal role in the expansion of SME in many developed countries (Senik, Scott-Ladd, Entrek, & Adham, 2011). Through networks entrepreneurs make use of resources that are external to the venture thus achieving the objective of gaining a competitive advantage by extending resource availability beyond the assets under their direct control (Frehtag & Thurik, 2010). Companies keep on striving for developing close relationships with other parties to minimize the uncertainties by mutually joining and increasing their resources levels, including knowledge resources as well (Salamzadeh, Salamzadeh, & Radovic Markovic, 2016).

It is rightfully argued that, successful entrepreneurial environments are characterized by thriving supportive networks that provide the institutional fabric; linking individual entrepreneurs to organized sources of learning and resources (McDonald, 2008)). Hence, individual social networking and inter-organizational strategic network activities are important for a successful start-up and for an ongoing competitive advantage, as they facilitate resource acquisition and the identification of opportunities (Beckert, 2010).

The individual social networking construct represents entrepreneurs engaging in networking activities to enhance his/her entrepreneurial venture (Lesibana, 2014). These entrepreneurial networking activities may occur with other entrepreneurs' contacts like other entrepreneurs, business development services, financial service providers, marketing agents and input suppliers among others (Beckert, 2010). The aim of those networking activities is to provide assistance to entrepreneurs in the form of expert opinions, counselling, shared experiences, role models, information resources and motivation (Schallenkamp & Smith, 2008). Inter-organizational networking consists of formal and/or informal collaborative networking activities among entrepreneurial advocates at the public, private, and civic levels that may facilitate the entrepreneurial process from an idea generating stage, to a development stage, and later to a strategic positioning one (Chen, Zou, & Wang, 2009).

The principle strength of the entrepreneurial network is its bridging function that involves; first, creation of new patterns of economic activity, assisting innovation, bridging supply and demand and helping integrate fields of activity that have previously been separated. Second, networks assist the entrepreneur in his/her efforts to scan the environment for opportunities that may be exploited in the future. Third, networks provide a type of governance for entrepreneurial behaviour. Fourth, interaction within the network assists the entrepreneur in building his/her own fund of social capital within the market place specifically, they posit that networks provide a bridge between the social and economic dimensions of human conduct.
(Moraima, Jose, & Kalle, 2013). It is in record that the larger the network, the better the access to outside resources—implying ultimate success of the firm might hinge on the size of the informal network (Christina, 2013). A significant resource sought by entrepreneurs from other members of the network in the start-up phase of business development, is capital (Zafir & Fazilah, 2011).

Abbas, Raza, Nurunnabi, Minai, and Bano (2019) studied the relationship between entrepreneurial business networks and the sustainable performance of small firms in Pakistan. The findings indicated that the entrepreneurial business network had a significant positive relationship with dynamic capabilities, which positively related to the sustainable performance of small firms. The study noted that highly entrepreneurial firms tended to create a business network for sustainable performance. The results also revealed that firms using business networks and dynamic capabilities efficiently could achieve sustainable performance. For instance, networks act as social capital; they enhance business growth by sharing opportunities and linking them with customers, enhancing sales and financial performance. For instance, Otieno (2020) explains that businesses with a vast network find support from their Network, which acts as ambassadors, gets referrals, and expand rapidly compared to businesses without a network.

They proposed a holistic and systematic model to achieve sustainable performance through firms' dynamic capabilities. The study used a model that consisted of three factors. The independent variables were the entrepreneurial business network and sustainable performance of small firms, while dynamic capability is the mediating variable. This study selected survey items from previous studies with suitable adjustments. This model measured entrepreneurial business networks (EBNs) constructed with the 12-item scale developed by Huang, Lai, and Lo. Data were analyzed using descriptive statistics of mean and standard deviations.

As entrepreneurship is embedded in networks, opening entrepreneurs to social networks may advance or constrain links to better resources and information, as well as offer faster responses to opportunities and challenges (McMillan, & Rodrik, 2011). The ability to utilize entrepreneurial network has been identified as one among the key skills needed by a person wishing to succeed in entrepreneurial activities (Christina, 2013). Meanwhile, Kamisan and Kamal (2009) study on the influence of personal and socio-economic factors that motivate women in entrepreneurship in Malaysia found that social networking benefits entrepreneurship. These results are consistent with previous studies on entrepreneurship by Zafir and Fazilah (2011), which placed social networking among the crucial factors in influencing entrepreneurship.

**METHODOLOGY**

**Research Design**

This study used a mixed research design which includes qualitative and quantitative resign design to achieve optimal results. The study was therefore a quantitative method paradigm. The design was chosen since it allows triangulation of data collection tools for the research. According to Okombo (2010) population is an entire group of individuals or objects having a common observable characteristic. The target population for this study was 200 employees working in management of Small and Medium Leather Enterprises registered by the Kenya Leather Development Council (KLDC, 2022). Five responses from each enterprise (CEO, Finance manager, sales and marketing manager, human resource manager and Operations
manager) were considered. Therefore, the target population for this study was 200 respondents having picked settled on 5 people from each of the 40 firms. Currently there are a total of four leather associations registered by KLDC which include Leather Articles Entrepreneurs Association of Kenya (LAEA), Kenya Footwear Manufacturers Association (KFMA), Kenya Cobbler Association, Tanners Association of Kenya (TAK) as well as independent players that do not belong to any of the four associations mentioned in this paragraph. The population of firms registered under each of the associations is illustrated in Table 1 below.

**Target Population**

<table>
<thead>
<tr>
<th>Table 1: Target Population</th>
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<tbody>
<tr>
<td><strong>Name of Association</strong></td>
</tr>
<tr>
<td>Leather Articles Entrepreneurs Association of Kenya</td>
</tr>
<tr>
<td>Kenya Footwear Manufacturers Association</td>
</tr>
<tr>
<td>Kenya Cobbler Association</td>
</tr>
<tr>
<td>Independent Players</td>
</tr>
<tr>
<td>Tanners Association of Kenya</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Kenya Leather Development Council (2022)

**Sample Size**

The sample size depends on what one wants to know, the purpose of the inquiry, what is at stake, what is useful, what has credibility and what can be done with available time and resources (Paton, 2002). Owing to the relatively small target population of 200, the study adopted census meaning sample size for the study was 200 respondents.

**Sampling Design and Procedure**

All the 40 firms were divided into strata consisting of the various Associations where they have membership. The independent players were also treated as an Association their own. Thereafter the percentage represented by each association were calculated and the respondents selected from each stratum was calculated based on the percentage. The second stage involved application of purposive sampling to select firms from each stratum that are found within Nairobi, Kiambu and Machakos. Table 2 illustrates sample size selection.

<table>
<thead>
<tr>
<th>Table 2: Sample Size Selection</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Independent Players</td>
</tr>
<tr>
<td>Tanners Association of Kenya</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Researcher (2022)
Data Collection Instruments
Primary data was collected using structured questionnaires while secondary data was collected through interviews and journals and related publications. The method was preferred because it enabled a standardized way of gathering responses; its familiarity with many people reduced bias (no influence of the researcher's opinion) and the ease of analysis of the collected data. It was also selected because the target population was expected to be literate. The study used a structured questionnaire to collect data. Both open and close-ended questions were used to collect the information. The choice of the design was appropriate as it saves time. The open-ended questions helped in validating the close-ended questions. The questionnaires were administered through drop and pick later method.

Data Analysis
Collected data was coded to put responses into a limited number of categories. Data classification was done by reducing the data into homogeneous groups, and the assembled data was then arranged into some logical order and displayed in compact form. Percentages were used to present data from 0-100 to facilitate reliable descriptions. Quantitative data was analysed using descriptive statistics. Mean, standard deviation, and percentages were applied, and results will be presented in tables.

Regression analysis was carried to test relationship between Independent and dependent variable.

FINDINGS AND DISCUSSIONS
Response Rate
A total of 200 questionnaires were distributed to various respondents by the researcher out of which 170 were returned duly filled. This gave a response rate of 85%. According to Johnson and Christensen, Mertens (2014) observed that a response rate of seventy percent has been generally recommended as acceptable is adequate for data analysis.

Table 3: Response Rate

<table>
<thead>
<tr>
<th>Response Rate</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>170</td>
<td>85</td>
</tr>
<tr>
<td>Non response</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

Descriptive Analysis Entrepreneurial Networks
The findings from Table 4 shows that the 65% of the respondents agreed that entrepreneurial networks affect growth of leather manufacturing industry in Kenya. These findings are in line with Nurunnabi, Minai, and Bano (2019) study on the relationship between entrepreneurial business networks and the sustainable performance of small firms in Pakistan. The findings indicated that the entrepreneurial business network had a significant positive relationship with dynamic capabilities, which positively related to the sustainable performance of small firms.
### Table 4: Entrepreneurial Networks

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial networks affect the growth of leather manufacturing</td>
<td>130</td>
<td>65</td>
</tr>
<tr>
<td>Yes</td>
<td>130</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Missing</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

### Extent to Which Entrepreneurial Networks Affect Growth of Leather Manufacturing SMEs

The findings on Table 5 show how various parameters under entrepreneurial networks affect growth of leather manufacturing in Kenya. The findings show trainings and relevant exposure having the highest mean of 4.03, followed by embracing local and distance entrepreneurs at 3.92, followed linked to new opportunities at 3.91. The observed findings agree with Carter and Jones-Evans (2012) studies that have highlighted the importance of social networks and networking as entrepreneurial tools for contributing to the establishment, development, and growth of SMEs.

### Table 5: Extent to Which Entrepreneurial Networks Affect Growth of Leather Manufacturing SMEs

<table>
<thead>
<tr>
<th>Entrepreneurial Network parameter</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>Std D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Networks has linked my organization with new opportunities.</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
<td></td>
<td></td>
<td>3.91</td>
<td>2.56</td>
</tr>
<tr>
<td>Entrepreneurs are also linked to people and organizations that interact among themselves and these contacts can widen the availability of resources that sustain a new firm</td>
<td>55%</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
<td></td>
<td>3.65</td>
<td>1.60</td>
</tr>
<tr>
<td>To meet their enterprise needs, entrepreneurs bring both those that are closer and distant to them into their business decisions.</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
<td></td>
<td></td>
<td>3.92</td>
<td>0.92</td>
</tr>
<tr>
<td>Entrepreneurial Networks has helped my organization to be more innovative and effective through trainings and relevant exposure.</td>
<td>65%</td>
<td>25%</td>
<td>5%</td>
<td>5%</td>
<td></td>
<td>4.03</td>
<td>1.44</td>
</tr>
<tr>
<td>Entrepreneurial Networks provide a forum to share business ideas, information and hence creation of a pool of experts for local entrepreneurs.</td>
<td>80%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
<td></td>
<td>3.90</td>
<td>0.80</td>
</tr>
</tbody>
</table>
Regression analysis of entrepreneurial networks ecosystem against growth of leather manufacturing in Kenya reveals a p-value of 0.035 which is less than 0.05 meaning entrepreneurial networks ecosystem has statically significance on growth of SMEs in leather manufacturing. Further interrogation using Pearson correlation reveals a positive result of 0.734 which is closer to 1 hence denoting a strong relationship between entrepreneurial networks ecosystem and growth of SMEs in leather manufacturing in Kenya. These findings are in line with findings from past studies such as those of Carter and Jones-Evans (2012) studies that have highlighted the importance of social networks and networking as entrepreneurial tools for contributing to the establishment, development, and growth of SMEs.
Conclusion

Any successful business must have an opportunity to learn and grow among peers or well-endowed businesses their respective field of operations. Hence the importance of network ecosystem cannot be emphasized enough as it is reflected from the findings. The need to learn and exchange business ideas open doors for businesses to access new opportunities and expand to their market shares to great lengths. This explains why network ecosystem had a strong Pearson correlation value.

Recommendations

Relevant bodies such as Kenya association of manufacturing (KAM), ministry of livestock, Kenya association of tanners should come up with framework to ensure there relevant and coordinated network ecosystem in the leather manufacturing in Kenya. This would provide grounds for training, technological advancements, link to market and general improvement on product quality and quantity so as to be able to compete at the local and international market.
REFERENCES


