The Influence of Dimensions of Networking Capability in Small and Medium Enterprise Performance

Kenneth M.K. Bengesi
Development Studies Institute
Sokoine University of Agriculture
P.O.Box 3228 Chuo Kikuu
Morogoro, Tanzania

Ingrid Le Roux
Department of Business Management
University of Pretoria, 0002 Lynwood
Republic of South Africa

Abstract

This study examined the influence of four dimensions of networking capability (NWC) namely internal communication, partner knowledge, relational skills, and coordination in SMEs performance. To attain this objective a cross sectional research design was used in which 291 SME owners / managers in three sectors of economy namely manufacturing, service and retail in Tanzania were interviewed. The results confirm positive influence of three dimensions of NWC (i.e. internal communication, partner knowledge and relational skills) in SME performance and negative influence of coordination in SME performance. These findings suggest that firms' emphasis on relational skills set a context to identify appropriate partner with relevant resources and capabilities to complement resource needs of firms that subsequently build competitive advantage. Following debate on whether networking is beneficial or not this study ascertain that the benefits of networking are inclined on the ability of a firm to acquire and apply dimensions of NWC.

Key words: Competitive advantage, coordination, relational skills, internal communication, partners knowledge.

1. Introduction

For the past decades, business communities and scholars have witnessed a continuous increase in turbulence and competition in the business landscape (Teece, 2007). The removal or lowering of trade barriers has enhanced entry of new competitors into formerly protected markets (Hitt, Ireland & Hoskisson, 2009) a situation that create pressure to local entrepreneurs who previously enjoyed protective policies. Tanzania as many other countries emerged from socialist policy, with the recent shift to open market economy suffers more since the private sector that was undermined during the socialist regime has not acquired enough entrepreneurial skills and experience to face challenges posed by rivals (Ministry of Finance and Economic Affairs, 2008; Mongula, 2004; Kristiansen, 2004).

In a competitive environment both small and large firms are confronted by a similar situation, however, the pressure is severe to SMEs which are resource constrained that they cannot afford all resources they need to withstand rivals' pressure. The literature identify networking as an appropriate strategy for resource constrained firms to complement resource needs and share risk implied in businesses (Dickson & Weaver, 2011; Welter & Smallbone, 2011). According to Barringer, Jones and Neubaum (2005) participating in inter-firm interactions to complement resource needs from networking partners is a common way of firms to gain competitive advantage. Supporting this argument Walter, Auer, & Ritter (2006) pointed that firms choose to network with other partners as the cost effective strategy for data acquisition and resource sharing. This is especially important in today's business environment where competition is tense, market forces are changing continuously due to free entry and exist of rivals in the business environment and the resource needs has grown beyond the resource base of most firms.

While the arguments in favor of networking is compelling, and most of the existing literature is premised to the belief that networking is beneficial (George, Wood & Khan, 2001; Hoang & Antoncic, 2003; Watson, 2007), there have been little empirical evidence on the association between firm performance and the business owner's use of networks (Havnes & Senneseth, 2001), particularly for established businesses like the ones under the study. For example, Aldrich and Reese (1993) were unable to find any evidence linking an entrepreneur's use of networks to business performance and, similarly, Cooper, Gimeo-Gasson and Woo (1994) were unable to find a significant relationship between the use of professional advisors and firm performance. Supporting this argument, Hitt *et al.* (2009) conclude that not all networks are successful, in fact most networks fails, among reasons for failure is an incompatible partners and conflicts between partners. In this view, the benefits of networking may not be direct as many people tend to believe.

It is from this context a need arise to think beyond a mere networking if firms are to benefit from networking engagement. This study considers that "networking capability (NWC) may account for a firm to identify appropriate partners with relevant capabilities and resources to complement resource needs of the firm, coordinate resources for effective collaboration and use of relational skills to establish and sustain relationship that matters among networking partners. This study also point out that firms engaged in networking without capabilities in terms of relational skills to identify appropriate and relevant partners, coordinate strategic resources resulting from networking and sharing strategic information within firm are not likely to benefit from networking. In this view, networking capability might be a pre-condition for a firm to take advantage of networking relationship.

Walter *et al.* (2006) define networking capability as the abilities to initiate, maintain and utilize firms' relationship with various partners for the firm's advantage. This implies that networking capability emphasizes on creating and sustaining networking relationship that allow exchange of strategic resources and capabilities for the firm's advantage. Keh, Nguyen and Ng. (2007) support this argument by emphasizing that "firms which choose to pursue networking as a strategy must be able to develop the capabilities, structures and processes to support a collaborative approach". The literature identifies four dimensions of networking capability namely relational skills, internal communication, coordination and partners' knowledge (Kale, Sing & Perlmutter, 2000) of which this study considers these dimensions to be appropriate to support meaningful collaborations.

While it is compelling to believe that networking capability can initiate and sustain beneficial exchange, there is inadequate evidence to support relationship between the four dimensions of NWC and SME performance. And it is not clear to what extent the dimensions of NWC influence SME performance. In this case, it raises pertinent questions as to what is the nature of relationship between dimensions of NWC and SME performance? And whether the dimensions of NWC have any influence in SME performance? These questions warranted further studies to examine the relationship between dimensions of networking capability and SME performance and the influence of dimensions of NWC in SME performance. This paper contributes to the networking literature on how firms can benefits from networking relationship by acquiring and utilising key dimensions of networking capabilities.

The rest of the paper is organized as follows. The next section covers the literature review and hypotheses development that guide this study. The second section describes the research method used to collect and analyse data. Followed by the presentation of results in section three that precedes the discussion of the results in section four. Finally, describes the contribution of the study, highlights the limitations and ends up by proposing the areas of further research.

2. *Literature Review and Development of Hypotheses*

2.1 Research Context

Tanzania since independence in 1961 followed "*Ujamaa Political Ideology*" which is known as African socialism. Before structural adjustment in mid 1980's the government through state owned enterprises (SOE) was heavily involved in doing business and the private sector was not given an opportunity to do business (Olomi, 2009). Temu & Due (2000) shared similar views that during "*ujamaa*" regime there were severe suppression of the private sector, the government and specifically civil servants considered entrepreneurs in the private sector to be economic saboteurs; any element of business initiative and profit generating endeavours were labelled as economic saboteurs. This is a clear indication that socialist policy in Tanzania stunted entrepreneurial culture required for entrepreneurship development.

It was only after mid 1980's when Tanzania adopted structural adjustment that led to the open market economy that the private sector was encouraged for the first time to participate in business and contribute to the country's socio-economic development. The early restrictions of private sector to participate freely in economic activities had a lasting negative impact on entrepreneurial culture (Mbeki, 2005). The effect is still felt today in the sense that firms face severe competition in the open market economy yet cannot compete with their rivals due to little entrepreneurial experience and inadequate resources to strengthen their competitive abilities. This situation requires an appropriate strategy to build competitive strategy among entrepreneurs in SMEs so that they are able to contribute in the overall economic development. According to Bengesi and Le Roux (2014) among strategy that can give hand SMEs in Tanzania is the networking that can allow them to share risks, access markets, technologies and the necessary resources that are essential to build competitive advantage of firms. With the growing debate of whether networking is beneficial or not this study considers important to examine the relevance of NWC in fostering SME performance.

2.2 Concept of Networking Capability

Networking has long been associated with sharing resources among partners, access to market and new technologies that firm could not be able to access in isolation. Viewing this way may imply that the benefits of networking rely on several factors such as trust and confidence among networking partners to be able to share strategic resources. These arguments may also imply that networking benefits are inclined on capabilities of firms to establish relationship that matters between networking partners. According to Bengesi and Le Roux (2014) such a relationship can be established when a firm has a relational skills to establish and sustain beneficial exchange of strategic resources, ability to identify potential partners with relevant resources to complement resource needs and coordinate acquired resources for the firm's advantage. In this view, it is compelling to argue that networking capability is essential for firms to build trust and confidence among networking partners to allow exchange of strategic resources that subsequently foster firms performance.

The concept of networking capability was defined by Walter *et al.* (2006) to refer firm's abilities to initiate, maintain, and utilise inter-organisational relationships with various external partners for the firm's advantage. The emphasis of networking capability is on creation and sustaining relationship that is beneficial to the firm. The aim of such a relationship is for the firms to access and complement resource requirement, which subsequently enhance competitive advantage (Dickson & Weaver, 2011). In this case, firm should have relational skills to initiate and sustain beneficial relationship. Also a firm should have ability to coordinate resources within and beyond firms' boundaries for effective utilization of resources acquired through networking and the ability to identify the potential partners with relevant resources to fill resource gaps of the firm (Kale *et al.,* 2000).

2.3 Dimensions of Networking Capability

According to Kale *et al*. (2000) networking capability has four dimensions namely coordination, relational skills, partner knowledge, and internal communication. This study considers these dimensions are crucial for firm's to attain performance. These dimensions are likely to build capabilities of firms to create and sustain beneficial relationship that ensure sustainable competitive advantage of the firm (Teece, 2007). Based on the fact that there is paucity of information on the influence of the dimensions of networking capability in SME performance this study intends to explore this relationship and come up with the findings which will add value in the networking relationship. The next section presents the conceptual framework of the dimensions of networking capability and SME performance.

2.4 Influence of dimensions of networking capability in SME performance

2.4.1 Coordination

The coordination of resources and activities extend beyond firms boundaries, connecting individual firms together with other firms and different individuals into a network of mutually supportive interaction (Walter *et al.,* 2006). The literature indicates that knowledge and other resources necessary to build firm's competitive advantage are in isolation, and fragmented, unless they are well coordinated and combined in a unique combination to realise their potential (Barney & Arika, 2005). Barney (1991) supporting this argument pointed that the competitive advantage of a firm is attained when firms are able to coordinate the available resources in a way that other firms cannot imitate or afford. This implies that for effective utilization of resources coordination is engaged in pulling together resources from both sources within the firm and those shared by partners, allocate resources to the most feasible operations and monitor the process to ensure resources yield the most valuable return which impart competitive advantage of the firm.

In light of the above, coordination involves integration and synchronization of resources to the most feasible business activities to ensure effective use of resources that leads to realisation of the business objective. In this regards, ability to develop effective coordination is important for a firm to benefit from resource sharing and efficient utilization of resources obtained from networking partners. Dickson and Weaver (2011) and Ireland, Hitt, Camp and Sexton (2001) postulate similar view that "networks allow firms to gain access to information, technology, resources and learn new capabilities from networking partners". This emphasis is particularly relevant to resource constrained firms if they are able to strategically coordinate the acquired resources to build competitive advantage that subsequently ensure performance. This argument leads to hypothesis 1:

H_1 *Coordination has positive influence in SME performance*

2.3.2 Relational skills

Good relational skills are essential to build trust and confidence to networking partners so that they are willing to share core competitive resources, otherwise the relationship will be fraught and ambiguous with no benefits among networking partners (Hitt *et al.,* 2009; Walter *et al.,* 2006). The relational skills are important for a firm to create and sustain long term relationship with mutual benefits among participating firms. Kale *et al.* (2000) refer relational skills as a social competence, which are crucial for the management of relationships because relationships are very often inter-personal exchange situations. It is argued that interpersonal exchange situations rely on trust and confidence built by partners of whom partners with good relational skills are well placed to impart both issues the trust and confidence to the second party.

Marshall, Goebel and Moncrief (2003) argue that relational skills include such aspects "as communication skills, problem solving skills, interpersonal skills, conflict management skills, empathy, emotional stability, self-reflection, sense of justice and cooperativeness". In this view, a firm with good relational skills is likely to develop effective and sustainable relationship that is mutually beneficial among networking partners, which in turn enhance competitive advantage that leads to performance (Teece, 2007). Basically, there are two categories of social networks: between firms' social networks which is important in acquisition of new knowledge and capabilities and within the firm social networks that involves networks between workers within the same firm. The later is crucial for dissemination of the strategic information acquired from outside the firm and strengthen knowledge base of the firm. In this view, both social networks are crucial for acquisition, exchange and utilisation of resources and learning new capabilities crucial for the firms' competitive advantage necessary for firms' performance (Kale, Dyer & Singh*.,* 2002). Drawing from this argument, it is hypothesised that:

H_2 *Relational skills have positive influence in SME performance.*

2.4.3 Partner's knowledge

Partner's knowledge is the organized and structured information about firm's partners (Walter *et al.,* 2006). The information capitalises on the potential resources and constraints existing in each potential partner. Kale *et al.* (2000) argue that SME owners or managers with knowledge about their partners can structure appropriate exchange mechanism and governance structures and these firms can avoid or handle instabilities in their partnerships to sustain their relationship. In this case, partners knowledge avoid unnecessary dispute that may arise as a result of networking with incompatible partners (Hitt *et al.,* 2009). Also partner's knowledge allows firm to identify appropriate partners with relevant resources and capabilities to complement their resource and capability needs required by the firm to attain performance. Viewing this way, it leads to hypothesis 3.

H_3 *Firm's partner's knowledge has positive influence in SME performance.*

2.4.4 Internal communication

Internal communication is a vital part of collaborative competence (Kale *et al.*, 2000). It encompasses assimilation and sharing of strategic information, resources, and agreements with all employees in the firm to improve the detection of synergies between partners and focus their efforts in areas which are more beneficial to their firm. It allows dissemination of knowledge and information acquired from outside the firm. Internal communication is an effective means of tacit and explicit knowledge transfer within the firm which is crucial for the firms' competitive advantage. Song, Wang and Parry (2010) emphasize that regardless of market conditions, the competitive advantage associated with information depends on the formal processes of information acquisition and utilisation. In this regards, internal communication is one way of formal utilisation of strategic information aiming at creating firms' competitive advantage necessary for firms' performance. This argument leads to hypothesis 4:

H_4 *Firms' internal communication has positive influence in SME performance.*

To test the advanced hypothesis the next section presents the methodology used to collect and analyse data.

3. Methodology

3.1 Research design and sampling procedure

To address the advanced hypotheses, a survey method was used to collect data from SMEs in three industries namely manufacturing, services and retail in three administrative regions of Tanzania namely Morogoro, Dar es slaam and Iringa. The cross sectional research design and stratified probability random sampling were used to collect data at one point in time (Wilson, 2010) of which the firm size and type of industries formed basis for stratification. According to Zikmud (2007) stratified probability random sampling increases the sampling efficiency and flexibility of data to run different analytical techniques in each stratum hence a reason for the choice.

3.2 Sample size

A total of 360 SMEs owners / managers were interviewed during the survey after reviewing the completeness and eligibility of the questionnaires, 291 questionnaires were found useful with a response rate of about 80.8% which is considered adequate to proceed with the data analysis. The sample size was considered adequate after subjecting data in the Kaiser-Meyer-Olkin (KMO) measures of sampling adequacy and consideration of the type of model to be used for data analysis (i.e. factor analysis and regression analysis), and the homogeneity of sample due to stratification.

3.3 Measurements

3.3.1 Networking capability

This study adopted four measures of networking capability developed by Walter *et al.* (2006), which were derived from Keller and Holland (1975) and Mohr and Spekman (1994) namely coordination activities and resources, relational skills, partners knowledge, and internal communication. The coordination of activities and resources used six measurement items, which assessed synchronization, planning and controlling business activities and resources within and beyond firm's boundaries. The relational skills used four measurement items to assess the degree in which networking partners are able to strengthen close ties. Partners' knowledge used four measurement items to capture the information which explain the level of understanding of a networking partner for the potentials and constraints of the second partner. Internal communication applied five item measures that shows how the acquire information is shared within the firm. The owners / managers were asked to rate based on the extent of their agreement on their firm's compliance with a set of advanced statements based on the measurement items. Although the original study used seven point Likert scale, this study used five point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

3.3.2 Performance

Previous research suggests that performance is a multidimensional in nature and it is therefore advantageous to integrate different dimensions of performance in empirical studies (Walter *et al.*, 2006; Wolf & Pett, 2006). To capture SME performance this study used profit, Return on Asset (ROA) and Return on Investment (ROI). Due to reluctance of SMEs owners / managers to give financial information, indirect questions (i.e. average total sales, average total cost, average asset value, and average investment cost) were asked such that the provided information were used as inputs to compute the performance measures such as profit, ROA and ROI as presented in equation 1, 2 and 3, respectively.

$$Profit = (Gross\ Income\ -\ Total\ Cost) \ldots\ldots\ldots\ldots\ldots\ldots\ldots Equation\ (1)$$

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets} x\ 100 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots Equation\ (2)$$

$$ROI = \frac{Net\ Income}{Investment\ Cost} x\ 100 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots Equation\ (3)$$

3.4 Data analysis

The factor analysis was used for data reduction in which the extracted factors were used for Pearson correlation and multiple regressions. Prior to multiple regressions, data were tested for compliance of the assumptions (Field, 2009).

While Pearson correlation examined the relationship among variables, the multiple regressions examined the influence of dimensions of NWC in SME performance (Equation 4) and finally identified the best predictor of performance.

$$Y_i = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i$$...(4)

Where:
Yi = SME Performance
β_o = intercept
$\beta_1 \dots \beta_4$ = Coefficient
X_1 = Coordination, X_2 = Relational skills,
X_3 = Partners knowledge, X_4 = internal communication
Ei = Error term

4. Results

Prior to factor analysis data were examined if they comply for factor analysis. Table 1 presents findings on Kaiser Meyer Olkin (KMO) and Bartlett's test of sphericity to examine sampling adequacy and suitability of factor analysis

Table 1: Kaiser-Meyer-Olkin Measures of Sampling Adequacy and Bartlet's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.874
Bartlett's Test of Sphericity	Approx. Chi-Square	2.795E3
	Df	136
	Sig.	0.000

Table 2: Total Variance Explained by Extracted Factors

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	6.311	37.123	37.123	6.311	37.123	37.123	4.419
2	2.417	14.221	51.344	2.417	14.221	51.344	3.568
3	1.751	10.299	61.643	1.751	10.299	61.643	4.205
4	1.153	6.780	68.423	1.153	6.780	68.423	3.948
5	0.850	5.000	73.423				
6	0.792	4.660	78.083				
7	0.738	4.344	82.427				
8	0.490	2.881	85.308				
9	0.418	2.457	87.765				
10	0.365	2.145	89.910				
11	0.323	1.902	91.812				
12	0.282	1.659	93.471				
13	0.275	1.619	95.090				
14	0.239	1.405	96.495				
15	0.221	1.302	97.797				
16	0.210	1.235	99.032				
17	0.164	.968	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

The KMO measure of 0.874 represents a high sampling adequacy for factor analysis (Kaiser, 1974). The significant Batletts test at $p < 0.01$ suggests existence of correlations between test variables which support suitability of data for factor analysis (Field, 2009).

Compliance of data for factor analysis allowed to proceeds with the further analysis. This data used principal component analysis which is the commonly used approach in exploratory factor analysis (Pallant, 2011). Table 2 presents eigenvalue associated with each factor before extraction, after extraction and after rotation.

Before extraction the factor analysis identified 17 linear components within the data set. All factors with eigenvalue of 1.0 and above were extracted (Kaiser, 1970) of which the solution retained four (4) factors which explained 68.423% of variance. According to Pallant (2011) the eigenvalues with each factor represent the amount of total variance explained by that particular linear component. With the assumption that the extracted factors are related the oblique rotation was used to optimize the effect of the factor structure and equalize the importance of each factor. Before extraction, Table 2 shows that factor 1 explained relatively more variance (37.12%) compared to 14.22%, 10.30% and 6.78% of variance for factor two, three, and four, respectively.

The paten and structure matrices for exploratory factor analysis after oblique rotation are presented in Table 3 and 4, respectively. Field and Miles (2010) emphasize presenting both matrices in case of oblique rotations to be able to compare the factor structure and confirm if there is any correlation among factors.

Table 3: Pattern Matrix for Exploratory Factor Analysis After Oblique Rotation

	Components			
	1	2	3	4
Firm matches the use of resources (e.g. personnel, finances) to the partners relationship	0.814			
Firm analyses what it would like and desire to achieve with which partner	0.801			
Firm discusses regularly with partners how to support each other for their success	0.794			
Firm judges in advance possible partners to talk to about building up relationships	0.759			
Firm holds regular meetings for every department / all workers to assess business progress		0.877		
Firm holds regular meetings for every department or workers to develop business plan		0.847		
Firms' business information is often communicated across departments / all workers		0.746		
Firm's managers and employees do give intensive feedback to each other		0.678		
Firm informs staff members of partners' goals, potential and strategies		0.475		
Firm can deal flexibly with partners			0.896	
Firm has the ability to build good personal relationship with business partners			0.890	
Firm solves problems constructively with partners			0.888	
Firm can put itself in partners' position			0.876	
Firm knows partners' potential and strategies				0.814
Firm knows partners' markets				0.799
Frim deliberately studies partners strength and weaknesses				0.710
Firm knows in which ways competitors attract customers				0.622

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.

a. Rotation converged in 7 iterations.

Note. Factor load scores below 0.4 are not shown

The findings in paten and structure matrices presented in Table 3 and 4 shows a similar paten of factor loadings. The double loadings recorded in Table 4 confirm existence of correlations among factors. The correlations among factors support the use of oblique rotation that assumes relationship among extracted factors (Field, 2009).

Table 4: Structure Matrix for Exploratory Factor Analysis After Oblique Rotation

Variables	Component			
	1	2	3	4
Firm analyses what it would like and desire to achieve with which partner	0.870			.477
Firm matches the use of resources (e.g. personnel, finances) to the partners relationship	0.848			
Firm judges in advance possible partners to talk to about building up relationships	0.838			.449
Firm discusses regularly with partners how to support each other for their success	0.816			
Firm holds regular meetings for every department or workers to develop business plan		0.855		
Firm holds regular meetings for every department / all workers to assess business progress		0.853		
Firms' business information is often communicated across departments / all workers		0.771		
Firm's managers and employees do give intensive feedback to each other		0.689		
Firm informs staff members of partners' goals, potential and strategies		0.488		
Firm can deal flexibly with partners			0.906	
Firm solves problems constructively with partners			0.904	
Firm has the ability to build good personal relationship with business partners			0.891	
Firm can put itself in partners' position			0.890	
Firm knows partners' potential and strategies	0.457			0.851
Firm knows partners' markets	0.478			0.849
Frim deliberately studies partners strength and weaknesses	0.576			0.830
Firm knows in which ways competitors attract customers				0.624

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
Note. Factor load scores below 0.4 are not shown

The relationship among extracted factors was performed using Pearson correlation. Preliminary analysis were performed to taste compliance of the assumptions of which SME performance measures namely profit growth and return on asset (ROA) were natural log transformed to ensure no violation of assumptions of normality, linearity and homoscedasticity. Table 5 summarises the correlation matrix of test variables.

Table 5: Correlation Matrix for Extracted Factors and SME Performance

Components	Components								
	1	2	3	4	5	6	7	8	9
Type of industry									
Firm size	-0.412[**]								
Level of education	-0.343[**]	0.410[**]							
Coordination	0.035	-0.064	-0.179[*]						
Internal communication	-0.106	0.047	0.257[**]	-0.332[**]					
Relational skills	-0.038	0.086	0.220[**]	-0.331[**]	0.192[**]				
Partners knowledge	-0.046	0.092	0.252[**]	-0.417[**]	0.265[**]	0.372[**]			
SME Performance	-0.045	-0.167[**]	0.338[**]	-0.346[**]	0.297[**]	0.190[**]	0.390[**]		
LnProfit	-0.178[**]	0.140[*]	0.482[**]	-0.477[**]	0.371[**]	0.341[**]	0.485[**]	0.881[**]	
LnROA	0.023	-0.272[**]	0.258[**]	-0.296[**]	0.256[**]	0.121[*]	0.329[**]	0.963[**]	0.765[*]

** Correlation is significant at the 0.01 level (2 – tailed).
 * Correlation is significant at the 0.05 level (2- tailed).

The SME performance recoded strong positive correlation with LnProfit (r = 0.881**) and LnROA (r = 0.963**). Consistently, the correlation between LnProfit and LnROA is (r = 0.765). Pallant (2011) suggest that correlation above 0.7 indicates possibility of multicolinearity. In this regard, this study decided to use SME performance as an overall performance measure and a decision criterion when testing hypotheses.

Further investigation shows that SME performance recorded significant positive correlation with the internal communication (r = 0.297**), relational skills (r = 0.190**) and partners knowledge (r = 0.390**), while recording significant negative correlation with coordination (r = - 0.346**). Examining the relationship among dimensions of networking capability shows that coordination recorded negative correlation with internal communication (r = - 0.332**), relational skills (r = – 0.331**) and partners knowledge (r = - 0.417**). The partners knowledge consistently recorded positive correlation with relational skills (r = 0.372**) and internal communication (r = 0.265**).

The influence of between dimensions of networking capability in SME performance was examined to address hypotheses 1 to 4, the results are summarized in Table 6. Field (2009) suggest that the relationship and influence among variable of interest can be represented by the beta value (β) in the regression model. In this case the multiple regression models were used to examine the influence of dimensions of networking capability namely coordination, internal communication, relational skills and partners knowledge in SME performance.

Table 6: Parameter Estimates (β) and Model Parameters for Dimensions of Networking Capability

	Model			
	1	2	3	4
Dimensions of networking capability				
Relational skills	0.341**	0.278**	0.183**	0.075ns
Internal communication		0.315**	0.228**	0.162**
Coordination			- 0.348**	- 0.211**
Partners knowledge				0.466**
Model Parameters				
R^2	0.116	0.212	0.313	0.478
Adjusted R^2	0.113	0.206	0.306	0.470
F – ratio	36.898	33.751	41.112	87.403
R^2 Change	0.116	0.095	0.102	0.165
F – Change	36.898	33.751	41.112	87.403
Sig. F – Change	0.000	0.000	0.000	0.000

Model 1: Predictors: Relational skills
Model 2: Predictors: Relational skills, Internal communication
Model 3: Predictors: Relational skills, Internal communication, Coordination
Model 4: Predictors: Relational skills, Internal communication, Coordination, Partners' knowledge
Dependent Variable: SME Performance
*p<0.05, **p<0.01.

The results in Table 6 model 3 show that coordination recorded significant negative influence in SME performance (β = - 0.348**) failing to support hypothesis 1, which state that coordination has positive influence in SME performance. The relational skills in model 1 recorded significant positive influence in SME performance (β = 0.341**). Consistently, partners knowledge and internal communication recorded significant positive influence in SME performance (β = 0.466**) in model 4 and (β = 0.315**) in model 2, respectively. The general observation from these findings, it is clear that except coordination that recorded negative influence in SME performance the other dimensions of networking capability have positive influence in SME performance.

Examining the amount of variance explained in SME performance by the dimensions of NWC When only relational skills is considered in model 1 the results presented in Table 6 shows that relational skills account for R^2 = 0.116, β = 0.341, p<0.01 (11.6%) of variance in SME performance. To examine the subsequent variables entered in subsequent models this study examined the R^2 change and the F change to ascertain if the amount of variance explained by corresponding variable is significant or not. Examining the R^2 change after controlling the effect of relational skills, internal communication accounted for R^2 = 0.095, F = 33.751, β = 0.315, p<0.01 (9.5%) of variance in SME performance. Consistently, the subsequent models (3 & 4) shows that the R^2 change for coordination and partner's knowledge were R^2 = 0.102, F = 41.112, β = - 0.348, p<0.01 (10.2%) and R^2 = 0.165, F = 87.403, β = 0.466, p<0.01 (16.5%), respectively. The recorded significant R^2 change and F change for all models this suggest that each dimension of NWC accounted for a significant amount of variance in SME performance. With the highest beta value (β = 0.466, p < 0.01) recorded by partners knowledge.

5. Discussion of Findings

This paper examined the influence of NWC in SME performance. The results confirmed significant positive influence of three dimensions of NWC namely relational skills, internal communication, and partners' knowledge in SME performance at the same time one dimension of NWC the coordination recorded negative influence in SME performance. The positive influence of dimensions of NWC in SME performance suggests that firms with partners' knowledge are likely to identify potential networking partners with relevant resources and capabilities to bridge resource gaps of the firm's needs. The positive correlation between partners' knowledge and relational skills (r = 0.328**), and internal communication (r = 0.205**) suggest that the more firms are good at relational skills and internal communication are likely to practice patience, empathy and trust to the networking partners and set a context to share strategic information and resources that build firm's competitive advantage. The patience and empathy give firm an opportunity to learn and understand partners' strength and weaknesses, and trust build confidence to the networking partners who's subsequently become willing to share strategic resources for the firm's advantage.

The recorded positive influence of internal communication in SME performance suggest that sharing of strategic information and resources within the firm instil learning new capabilities among workers that subsequently foster long and short term performance. This may suggest that for SMEs to benefits from networking may need to emphasize on sharing of strategic information and other resources acquired from outside and within the firms' boundaries. This approach might be appropriate, especially in context like Tanzania with low entrepreneurial experience of which internal communication may act as a capacity building mechanism. The positive correlation between internal communication and relation skills (r = 0.159**) implies that the more firms are good at relational skills are more likely to create an enabling environment to share strategic resources and information within the firms and subsequently enhance firm's performance. This could be attributed to the fact that relational skills create a binding relationship with trust and confidence among networking partners that is essential to allow beneficial exchange to take place. Kale *et al.* (2002) supporting this argument pointed that trust facilitates high degree of learning and information exchange between networking partners. In this view, absence of trust can seriously impact the exchange of strategic resources and capabilities among networking partners and this can be created by the firm with good relational skills.

The observed negative influence of coordination in SME performance (β= - 0.213**) suggest that the more emphasis firm put on coordination the lower the performance it realises. This observation is contrary from what was expected (i.e. positive influence of coordination in SME performance). What is clear is that coordination is a boundary spanning activity that involves identification of resources within and outside firms' boundaries and allocating resources to the most feasible business operations to ensure effective use of resources. However, drawing from dynamic capability views these findings may suggest that in the open market economy where events are changing rapidly due to free entry and exit of rivals in the business environment; the coordination may requires more resources to keep up with the speed of environmental change. Since coordination itself is resource consuming activity, it is likely to drain profit generated by the firm especially if the firm adopted competitive aggressive strategies like massive price cuts which may jeopardise firms' profit. However, this study proposes further research to examine dynamics of coordination in different context to confirm this observation.

The positive influence of relational skills recorded in SME performance implies that relational skills are crucial in developing long term relationship among networking partners that leads to performance. Relational skills are built on patience, empathy, trustworthy, reliability and influence on other partners. The patience is valuable when dealing with the complex and sensitive relationship to smoothening out differences and mediating disputes if any among networking partners before exchange takes place. This may require empathy for a firm to position itself in partners' position and being reliable for a firm to build trust and confidence among networking partners that allow exchange of strategic resources. But of all factors the ability of a firm to influence or persuade others is a valuable skill necessary in networking relationship that may add value to build relationship that matters among partners. This may suggest that for the firm to be able to gain strategic resources through exchange with networking partners they need to acquire and apply relational skills to create confidence and trust among networking partners.

6. Conclusion

This paper examined the influence of dimensions of NWC in SME performance and the findings indicated that NWC is a firm's competence building construct that strategically identify resource needs of the firm, use relational skills to build relationship that matters among networking partners.

The relationship that matter relies on the type of partners engaged in the relationship and the relevance of resources owned to complement resource needs of the second party. In this view, firm uses partners' knowledge to identify potential partners with relevant resources and capabilities to complement resources and capability needs for the own advantage. The findings further revealed that the relational skills being another dimension of NWC set a context for internal communication through which assimilation and sharing of strategic resources within the firm takes place to build firm's competitive advantage. In view of the current debate on whether networking is beneficial or not this study ascertain that benefits of networking is realised among networking partners if they have acquired and applied relational skills, partners knowledge, and internal communication to create an enabling environment that allow exchange of strategic resources.

References

Aldrich, H.E. & Reese, P.R. 1993. Does networking pay off? A panel study of entrepreneurs in the research triangle. *Frontiers of Entrepreneurship Research,* (1993):325-339.

Baringer, B.R., Jones, F.F & Neubaum, D.O. 2005. A qualitative content analysis of the characteristics of rapid growth firms and their founders. *Journal of Business Venturing*, 20:663-687.

Barney, J.B. & Arika, A. 2005. The resource-based view: origins and implications. In: Hitt, M.A., Freeman, R.E., Harrison, J. (eds.) *The Blackwell Handbook of strategic management.* Malden, MA: Blackwell.

Barney, J.B. 1991. Firm resources and sustained competitive advantage. *Journal of Management,* 17:99-120.

Cooper, A.C., Gimeno-Gascon, J.F. and Woo, C. 1994. Initial human and financial capital as predictors of new venture performance. *Journal of Business Venturing,* 9 (5):371–395.

Bengesi, K.M.K. & Le Roux, I. 2014. Strategic entrepreneurial response of small and medium enterprises in developing economies. *International Journal of Business and Management,9(2)153-165.*

Dickson, P.H and Weaver, K.M. 2011. Institutional readiness and small to medium sized enterprise alliance formation. *Journal of Small Business Management,* 49(1)126-148.

Field, A. 2009. *Discovering statistics using SPSS* (3rd ed). SAGE.

Field, A. and Miles, J. 2010. *Discovering statistics using SAS.* London: SAGE.

George, G., Wood Jr, D. R. & Khan, R. 2001. Networking strategy of boards: implications for small and medium-sized enterprises. *Entrepreneurship and Regional Development,* 13:269.

Havnes, P.A. & Senneseth, K. 2001. A panel study of firm growth among SMEs in networks. *Small Business Economics,* 16(4):293–302.

Hitt, M.A., Ireland, R.D., and Hoskisson, R.E. 2009. *Strategic Management: Concepts and Cases: Competitiveness and Globalization.* 8th ed. United States: South-Western Cengage Learning.

Hoang, H & Antoncic, B. 2003. Network-based research in entrepreneurship: a critical review. *Journal of Business Venturing*, 18:165–187.

Ireland, R.D., Hitt, M.A., Camp, S.M. & Sexton, D.L. 2001. Integrating entrepreneurship and strategic management actions to create firm wealth. *Academy of Management Executive,* 15(1):49-63.

Kaiser, H. 1970. A second generation little Jiffy. *Pschometrika*, 35:401-415.

Kaiser, H. 1974. An index of factorial simplicity. *Psychometrika,* 39:31-36.

Kale, P., Dyer, J.H. & Singh, H. 2002. Alliance capability, stock market response, and long-term alliance success: the role of the alliance function. *Strategic Management Journal,* 23, 747– 767.

Kale, P., Sing, H. & Perlmutter, H. 2000. Learning and protection of proprietary assets in strategic alliances: building relational capital. *Strategic Management Journal,* 21:217-237.

Keeler, R.T., & Holland, W.E. 1975. Boundary spanning roles in a research and development organization: An empirical investigation. *Academy of Management Journal*, 8(2):388-393.

Keh, H.T., Nguyen, T.T.M & Ng, H.P. 2007. The effects of entrepreneurial orientation and market information on the performance of SMs. *Journal of Business Venturing*, 22:592-611.

Kristiansen, S. 2004. Liberalisation, information and innovation: cottage garment industries in Tanzania. *The European Journal of Development Research,* 16(2):375-395.

Marshall, G.W., Goebel, D.J. & Moncrief, W.C. 2003. Hiring for success at the buyer–seller interface. *Journal of Business Research,* 56 (4):247– 255.

Mbeki, M. 2005. Under-development in Sub-saharan Africa: the role of the private sector and political elites. *Foreign Policy Briefing,* 85(April 15, 2005):1-12.

Mohr, J., & Spekman, R. 1994. Characteristics of partnership success: partnership attributes, communication behavior, and conflict resolution techniques. *Strategic Management Journal*, 15(2):135– 152.

Mongula, B. 2004. Post privatisation enterprise performance in Tanzania. In: Kaijage, E.S. & Mwaipopo, L.J. (eds.) *Entrepreneurship research and development in Africa: Achievements, challenges and future prospects*. Dar es salaam: Mkuki na Nyota.

Olomi, D.R.. 2009. A historical overview of entrepreneurship in Tanzania. In: Olomi, D.R. (ed.) *African entrepreneurship and small business development: context and process*. Dar es salaam: Otme Company.

Pallant, J. 2011. *SPSS Survival manual: A step by step guide to data analysis using SPSS for windows.* 4rd ed. McGraw Hill: Open University Press.

Song, M., Wang, T. & Parry, M.E. 2010. Do market information processes improve new venture performance? *Journal of Business Venturing,* 25:556-568.

Tanzania. Ministry of Finance and Economic Affairs. 2008. Economic empowerment in Tanzania: the case of small and medium enterprises (SMEs). A paper presented to the PER/MKUKUTA Week [Online] Available from: http://www.google.co.tz/#hl=sw&source=hp&biw=1040&bih=608&q=mwananchi+empowerment+fund+ tanzania&btnG=Tafuta+na+Google&aq=f&aqi=&aql=&oq=mwananchi+empowerment+fund+tanzania& fp=6e5524475927bad8 [Accessed: 08 February, 2011].

Teece, D.J. 2007. Explicating dynamic capabilities: the nature and micro foundations of (sustainable) enterprise performance. *Strategic Management Journal,* 28:1319-1350.

Temu, A.E. & Due, J.M. 2000. The business environment in Tanzania after socialism: challenges of reforming banks, parastatals, taxation and the civil service. *The Journal of Modern African Studies,* 38(4):683-712.

Walter, A., Auer, M & Ritter, T. 2006. The impact of network capabilities and entrepreneurial orientation on university spin-off performance. *Journal of Business Venturing.* 21:542-567.

Watson, J. 2007. Modeling the relationship between networking and firm performance. *Journal of Business Venturing*, 22:852–874.

Welter, F. & Smallbone, D. 2011. Institutional perspectives on entrepreneurial behavior in challenging ennvironments. *Journal of Small Business Management*, 49(1)107-125.

Wilson, J. 2010. *Essentials of business research: A guide to doing your research project*. London: SAGE Publication.

Wolff, J.A & Pett, T.L. 2006. Small-firm performance: moderating the role of product and process improvements. *Journal of Small Business Management*, 44(2):268-284.

Zikmund, W.G. 2003. *Business research methods*. 8th ed. New York: Harcourt – College.