

Full Length Research Paper

Social networks and rural non-farm enterprise development and implication for poverty reduction among rural households in Zimbabwe

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Accepted 25 February, 2011

Poverty remains a greatest challenge for the rural households of the sub Saharan Africa and a number of interventions are proposed to alleviate poverty. Rural non-farm enterprises are seen as a possible partner to farm enterprises to reduce poverty as there are robust production linkages between the two. On the other hand social networks have been seen to play an important role in the development of small-scale rural non-farm enterprises. This paper explores the social networks and small-scale rural non-farm enterprises development nexus implications to poverty reduction and then suggests possible policy implications.

Key words: Social capital, social networks, non-farm enterprises, poverty reduction.

INTRODUCTION

Poverty remains the greatest challenge for the sub Saharan Africa region's rural population whose livelihoods are mainly derived from farm and non-farm activities. It is generally accepted that the majority of the poor live in the rural areas in developing areas with the most important subgroups being the smallholder farmers and the landless (Baas and Rouse, 1997). However, within the rural households poverty levels are highest among the female and child headed households and this gender dimension to poverty has serious implications on efforts to achieve the millennium development goals in the region.

While it has been observed that improving farmers' productivity have significantly contributed to poverty reduction in the region it has also been established that activities of small-scale rural non-farm enterprises also contribute significantly to the region's rural economy. Research shows that income streams from on-farm enterprises alone cannot sustain the livelihood needs of the region's rural population (Haggblade et al., 1989; Lanjouw and Feder, 2001; Davis and Bezemer., 2003). Recently studies have uncovered robust forward and backward production linkages between non-farm and farm enterprises (Haggblade et al., 1989 and Ngqangweni,

2000). Based on that premise, the past decade has witnessed significant investments directed into non-farm small-scale enterprise development programmes as a strategic poverty reduction option for the region (Bolnick, 2003; USAID Initiative for Southern Africa, 1998; Akweshie, 2007).

Evidence from recent studies carried out in the region supports this pro-small-scale non-farm enterprise development strategy. McPherson (1996) estimates that in a significant number of sub-Saharan African countries small-scale enterprises employ between 16 and 33% of the working-age population. McDade and Spring (2005) also estimate that between 20 and 40% of the total Gross Domestic Product of several African countries can be attributed to the activities of small-scale entrepreneurs, who also contribute between 40 and 60% of the non-agricultural Gross Domestic Product. Perks (2004) quotes Van Aardt and Van Aardt (1997:1), who have established that more than 80% of all businesses in South Africa can be described as small to medium-sized enterprises, accounting for about 40% of the country's economic activity, creating 80% of all new job opportunities and employing about 70% of the working population. As regards for Zimbabwe, Kapoor et al. (1997) established that small-scale enterprises employed 30% more people than medium and large-scale enterprises. Consequently, small-scale enterprises are

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considered a strategic option for poverty alleviation in the country.

It is little wonder that the New Economic Partnership for Africa's Development (NEPAD) and the African Renaissance programmes have since been advocating for a paradigm shift to more pro small scale enterprises development in the region (Makgoba, 1999; Mbeki, 2002). Consequently, small-scale non-farm enterprises have assumed a strategic position in the economic development programmes of sub-Saharan Africa (USAID Initiative for Southern Africa, 1998; Mitchell et al., 2004; McDade and Akweshie, 2007).

Running parallel to this paradigm shift in poverty interventions has been a renewed interest in social capital as an important variable in sustainable rural economic development. The basis is that entrepreneurial activities, like any other socio-economic phenomenon, are heavily embedded in their social environments (Granovetter, 1973; 1985; 2005; Putnam, 1995; Temple and Johnson, 1998; Johannisson et al., 2002; Mitchell et al., 2004).

The works of Coleman (1988) and Putnam (1993) are widely quoted as having been instrumental in this renewed interest in social capital in economic development. Since the publication of Putnam (1993)'s thesis, "Making Democracy Work", there has been an upsurge of research to understand how the social capital influences entrepreneurial activities (Granovetter, 1985; Fafchamps, 1997; 2004; 2001; Anderson and Jack, 2002; Johannisson et al., 2002; Udry and Conley, 2004).

For example, Barr (2000) established that social capital, in the form of social networks between small-scale manufacturing enterprises in Ghana enhances economic performance by facilitating the flow and diffusion of transaction-cost-reducing technical information. In sub-Saharan Africa Fafchamps (1997, 2001, 2004) established that social networks are important sources of information for urban small-scale entrepreneurs in mitigating transaction costs related to obtaining credit from formal financial markets.

Similarly, Green and Changanti (2004), Kristiansen (2004) and Sequeira and Rasheed (2004) established that minority Asian ethnic groups in the United States of America rely on their social networks for pertinent information when starting enterprises. Most studies on social networks and economic development nexuses have associated the level of social networks with the ability of entrepreneurs to access information and resources from inside and outside their locale for the purpose of alleviating poverty.

Research gap

However, while resources shall continue being channelled in development of small-scale rural non-farm enterprises development as a poverty reduction strategy

(USAID Initiative for Southern Africa, 1998; Bolnick, 2003; Akweshie, 2007), not much is known on their implication in Zimbabwe. Rural non-farm enterprises operate in a setting where there is little in terms of support services from government, poor infrastructure, and lack of access to formal microfinance markets. Such settings preclude researchers to model rural non-farm enterprises operations according to formal markets determined variables. Studies on social networks and economic development nexus have mainly concentrated on definitional aspects of social networks (Griman, 2003; Christensen and Knudsen, 2004; Rogerson, 2004; Sabatini, 2006), with little effort being directed at investigating the role of social networks in non-farm enterprise development and poverty reduction.

Whereas research has established how farm and urban-based small-scale entrepreneurs use their social networks to improve their operations (Fafchamps 1997, 2004), can the same conclusions be drawn with regards to non-farm entrepreneurs? This is crucial if small-scale rural non-farm enterprises are to continue being a critical component of rural economic diversification and poverty reduction (North, 1992; Temple and Johnson, 1998; Whiteley, 2000). In fact, as was also noted by Duke et al. (2005), the social networks concept will have more relevance to rural economic development and poverty reduction if more empirical studies demonstrate its essential role in small-scale enterprise development.

Objectives of the study

Given that small-scale rural non-farm enterprises can significantly contribute to poverty reduction, the broad goal of this paper is to investigate the role played by the social networks (kinship, social groups, membership of organisations and links and contacts maintained with individuals and other entrepreneurs) to poverty reduction in Zimbabwe. The specific objectives are to establish:

1. The role of kinship, social groups, membership in organisations and links and contacts maintained with individuals and other entrepreneurs in the various stages of rural non-farm enterprise development.
2. The most important social networks used by rural non-farm entrepreneurs during the various stages of enterprise development and then to suggest possible policy implications for small-scale rural non-farm enterprise development and poverty reduction.

Conceptual framework and theoretical background

Figure 1 conceptualises the role of social networks in the various stages of small-scale rural non-farm enterprises development. In this framework, once poverty reduction rural non-farm business opportunity has been identified,

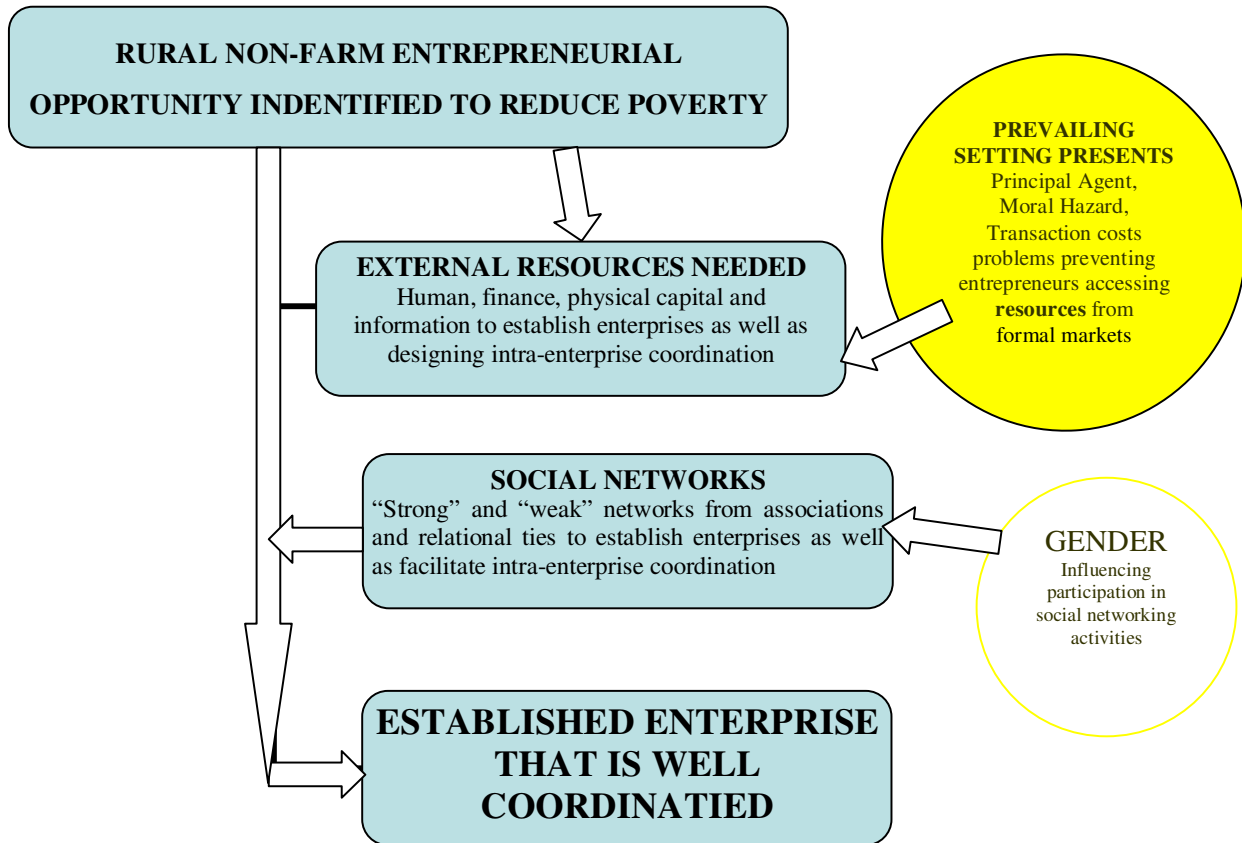


Figure 1. Conceptual framework.

external resources have to be mobilised for the various needs of enterprise development. Small scale rural non farm enterprises socioeconomic setting prevents them from accessing the needed resources from formal markets. As a result, they resort to their "strong ties" with relatives and friends for more information and capital during enterprise establishment, and their "weak" links developed with established business people for further capital needed to expand their enterprises. Because of the nature of their enterprises and the size of their operations, they cannot draw formal contracts to govern the relations between themselves and their employees hence their reliance on mutual assistance from relatives and friends to facilitate the coordination of intra-enterprise activities. There is also a gender dimension to the use of such social networks given the inherent social structures that influence who participates in particular social networking platforms.

This paper's theoretical framework is informed by the asymmetric information theory of Akerloff (1970), Kletzer (1984) and Green and Soo-Nam (1991), the social networks theory of Granovetter (1973, 1985, 2005), Coleman (1988), Burt (1992) and the social structural theory of Mitchell (1969) and Bourrdieu (1997, 1990). The theoretical understanding is that ideally after conceiving an entrepreneurial opportunity, resources will be

mobilised from the formal market to meet the demands of the various stages of enterprise development. The assumption is that economic agents are rational and operating in a perfect functioning market where there is full information disclosure by all parties. However, modelling the behaviour of economic agents' processes using the aforementioned assumption is too simplistic given the prevailing imperfect markets, particularly in rural settings.

Development economics literature argues economic agents resort to social ties to overcome information asymmetries and transaction costs (Akerloff, 1970; Stiglitz and Weiss, 1981; Kletzer, 1984; North, 1990; Green and Soo-Nam, 1991). The networked entrepreneurs will have superior dexterity to leverage more value from any given bundle of resources (Nonaka et al., 2000) and therefore the ability to extricate themselves from poverty (Nonaka et al., 2000). Therefore enterprises are dynamic configurations of knowledge (Nonaka et al., 2000) in the uncertain and turbulent rural socioeconomic environments so entrepreneurs have to be innovative, and develop efficient knowledge-creating structures and transmission mechanisms at all levels (Poppo and Zenger, 1998; Ndlela and du Toit, 2001).

Social networks as defined by Burt (1992) enables people achieve higher economic outcomes and are

associated with positive and beneficial outcomes to network members. Social networks have been given different names such as bridging ties, bonding ties, horizontal ties and vertical ties, by among others Granovetter (1973), Burt (1992) and Lin (2001). Granovetter, in his work 'The strength of weak ties' (Granovetter, 1973), argued that loosely connected members benefit from access to unique, non-redundant information from their networks that avail tried and tested knowledge to network members at low transaction costs. Network members become reliable parties to any economic transaction, be it borrowing money, repayment of loans, obtaining business information or forming contractual relations governing employees and employers due to their participation in heterogeneous and homogeneous networks.

APPROACH AND METHODOLOGY OF THE STUDY

Data for the paper was collected from small-scale rural non-farm entrepreneurs in Chimanimani district of Zimbabwe that is found in Manicaland Province in the eastern side of the country. The district has a population of +-150 000 according to the records of the last census. The area has a relatively developed business support infrastructure in the form of road network, telecommunication, electricity and water and reticulation systems. Another important characteristic of the district is the presence of tourist attractions in the form of Chimanimani game park, Bridal Veil Falls and Vimba bird sanctuary that used to attracts more than 10 00 tourists annually. It should also be highlighted that the study was conceived in 2003 when the inflation rate was still manageable and the exchange rate between the Zimbabwe dollar and United States dollar was Zim \$824 -00 to US\$1-00.

A mixed approach designs (MADs) strategy that combined positivistic and phenomenological approaches was used to gather the data from 130 entrepreneurs purposively selected from 945 entrepreneurs who had been operating for at least three years in the Chimanimani district. Since there were more male entrepreneurs than female entrepreneurs in the district, it was decided to do a purposive sampling in order to capture the gender perspective of entrepreneurs as well as the major economic activities in the district. Of the 130 respondents, 67 were male entrepreneurs, 36 female entrepreneurs and 27 family-run enterprises, engaged in diverse business activities in the district.

For the data gathering process a combination of a biographical profiling of the entrepreneurs and an intensive social capital assessment questionnaire were used to capture various quantitative and qualitative social networks from the entrepreneurs. In line with the MADs strategy, the analysis called for use of multiple techniques that combined quantitative statistical analysis in the form of Pearson's correlation coefficient significant test, analysis of variance, the principal component analysis model and qualitative analysis techniques to further develop findings from the quantitative analysis.

FINDINGS AND DISCUSSION

The study used the enterprise value as an indicator of business performance as the foundation for further analysis as was also used by Parker (2004) and Shaw et al. (2006). Enterprises run by male entrepreneurs were found to have been a higher average value (Zim\$6 567

676.47) compared to those run by female entrepreneurs (Zim\$4 500 714.29), although the highest average (Zim\$10 004 074.07) was among the family managed enterprises.¹ Table 1 shows the trends of the different types of enterprises in terms of employment and gender distribution. From the gender perspective, male entrepreneurs were found in all the types of businesses, whereas female entrepreneurs were operating businesses in crafts, restaurants, hair salons, dress making, 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. This mirrors the poverty dynamics in rural areas and its gender dimensions.

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 service enterprises having been started with up to five workers. However, at the time of the survey there was a shift whereby the majority of the enterprises had more than five workers. The craft and restaurants followed by the construction sectors registered the highest growth in terms of numbers of employees. For instance 85% of those in the crafts and restaurant business, where female entrepreneurs dominated, have more than five workers. On the other hand, 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 were the graphics and design, followed by electronics and repairs enterprises.

When looking at employment trends in general, male entrepreneurs had the highest percentage of business growth as on average they have more than five workers 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, 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 numbers of employees between the time of enterprise establishment and the time of the survey indicate definite growth and expansion in general terms.

What can be deduced from the descriptive overview of the enterprises is that there is gender-based distribution of types of enterprises which could be suspected to have strong links to sources of start-up capital used and general use of social networks and poverty dynamics.

Social networks and start-up capital

An analysis of the sources of start-up financing pattern of

¹ During the survey the official government exchange rate was 1US\$=Zim\$ 824

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
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

the enterprises showed heavy reliance on strong social networks with friends and relatives for 70% of the respondents.

Across the different categories of the respondents it was established that 59% of the family-managed enterprises got 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 respectively. It is most likely that a large percentage of male entrepreneurs used own savings to establish their enterprises because from the biographical data collected more men had previous working experience than female respondents. In the same light it is likely

that men had preferential advantage at the formal employment market from which they are likely to have saved enough to start their own businesses.

Most businesses activities were started with relatively low start-up capital ranging between Zim\$3 000 and \$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. On average those who obtained capital from friends and relatives started their enterprises with Zim\$250 000, followed by those using own resources (Zim\$125 000) and those funded by donors, starting with Zim\$45 000. Table 2 shows the major sources of start-up capital used by the entrepreneurs in the study.

However, a worrying observation was that within

the sample 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 and this should be noted in poverty reduction programmes. This has serious implications for poverty reduction strategies given that women are in the majority of those accessing small sizes of start up capital irrespective of the fact that they are the most deeply affected by poverty.

Further probing revealed that those relying mostly on kinship for start-up capital face serious transaction costs that inhibit them from accessing

Table 2. 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 and 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
Total	100.0	100.0	100.0	100.0	

Source: survey data

microfinance from formal channels. They indicated that family members and relatives trusted them and they could negotiate the terms of repayment and understand 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 indicated that a local bank manager turned down his application for a loan because he did not have collateral. One female entrepreneur indicated that there is full disclosure of information to friends and family members about the new enterprise and can constantly monitor the use of their money. All the respondents concurred that banks ask too many questions and too many conditions, which most of them could not meet. This is particularly true for rural entrepreneurs whose properties rights are not well defined to 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 where there is a high level of trust between them. This also explained the causal relationship between the relatively low levels of start-up capital and reliance on relatives and friends, who are not likely to have huge amounts of capital to loan out.

NGOs gave start-up capital to 16% of the respondents though when disaggregated by the categories of the respondents, female entrepreneurs (47%) followed by family managed enterprises (7%) and lastly male entrepreneurs (3%) benefited from NGOs. When asked about how the NGOs extend their microfinance, it was established that NGOs used group solidarity – strong social ties – that glued the members to make it easier for self monitoring by the borrowers themselves as they are also worried about information asymmetries and contract drawing issues. Most beneficiaries of such group lending are the female craftwork entrepreneurs and some entrepreneurs in carpentry whose selection was based on 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 could be explained by the stringent requirements used by the lenders, as was 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 the lending operates more like a rotating credit scheme where members know each other and can use social conventions to enforce repayments. 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 generally those receiving start-up capital from NGOs have the least number of years of formal education, with those using own capital and that from relatives and friends being the most educated. The 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. This has serious implications for poverty reduction initiatives. Table 3 details the relationship between education level and sources of start-up capital used by the respondents.

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

Table 3. 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)									
	5yrs	6yrs	7yrs	9yrs	11yrs	13yrs	14yrs	15yrs	16yrs	17yrs
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.

Table 4. 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 and 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
Total	100.0	100.0	100.0	100.0	

Source: survey data.

poverty.

Social networks and capital for enterprises expansion

In pursuit of long-term poverty reduction, 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'. This illustrates the importance of external resources, which are needed to expand and survive competition as only a few of the entrepreneurs are likely to have accumulated enough profits to buffer themselves against the expansion needs.

Table 4 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%. Only 2.8% female entrepreneurs, 10.5% male entrepreneurs and 11% family managed enterprises used finance from friends and relatives for expansion with no one having used own resources for this purpose. The sharp decline in the number of those who used relatives and own capital to expand their enterprises could be 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 is the limitation of strong social networks in mobilising

external resources as was also theorised by Granovetter (1973).

However, business partners (those business people who were already operating at the time when the respondents started their own enterprises) funded the expansion needs of 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 asked about the location of these business partners, 60% indicated that their partners were from outside the district where these external social networks enabled them to be visible as trusted reliable business partners. Having an extensive "weak" network enables entrepreneurs to bridge structural holes to access useful information and other resources needed to get ahead as was argued by Burt (1992) and Granovetter (1973). "Weak" social networks with other business people located outside the district enabled the entrepreneurs to access diverse entrepreneurial intelligence.

Table 4 shows that female entrepreneurs still dominate those obtaining capital for expansion from NGOs as 61% female entrepreneurs, 35.8% male entrepreneurs and 40.7% family-managed businesses respectively obtained expansion capital from NGOs. Further probing revealed that some of the entrepreneurs who initially used own capital to start their enterprises later on joined the group lending programmes run by the NGOs. It was also established that the respondents were networked at the Chimanimani Business Trust seminars with other NGOs who were providing capital for expansion. As to why

Table 5. 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	0.157 [*]	1					
Financial association	0.215 ^{**}	0.280 ^{**}	1				
Social association	0.181 [*]	-0.131	0.037	1			
Professional association	0.313 ^{**}	0.208 ^{**}	0.060	0.121	1		
Production association	0.273 ^{**}	.118	0.037	0.250 ^{**}	0.071	1	
Govt initiated association	0.025	-0.039	-0.173 [*]	0.057	-0.134	0.359 ^{**}	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.

NGOs support more female entrepreneurs than the other categories are explained by the fact that these philanthropic organisations deliberately target female entrepreneurs who are the majority of those in poverty trap.

When sources of start up capital were correlated with enterprise value the two major sources of start-up capital, relatives and friends, and own resources were found to be statistically significant at 1% level and location of was found to be statistically significant at the level of 5%, an indication 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%, in explaining the expansion chances for the entrepreneurs. The education level of the entrepreneur was also found to be statistically significant at the level of 1% in accounting for chances of accessing high start up capital and expansion capital implying the significance of education to entrepreneurship development and poverty reduction.

Correlation of contacts maintained and enterprise value

Further correlation analysis was done to test the relationship between social groups and contacts with individuals and other entrepreneurs and enterprise value. Table 5 shows the that participation in financial associations and enterprise value was found to be statistically significant at the level of 1% implying that greater participation in financial associations exposes the respondents to more information that is associated with an increased enterprise value. Membership to 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.

Further correlation analysis of enterprise value and contacts in Table 6 shows that except for contacts with civil servants all other contacts were statistically significant. 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.

The most important social networks for the entrepreneurs

However, while results show the positive role played by social networks in non-farm enterprises development and consequently poverty reduction, policy makers would like to be equipped with answers to the following outstanding questions: Which specific aspects of social networks and associations are critical social learning platforms for small-scale rural non-farm enterprise development? Moreover, what can be done to facilitate wider application and benefits from those specific social networks and associations for future development of rural entrepreneurial activities? Using the Principal Component Analysis Model, four most important social networks for rural non-farm contacts with similar entrepreneurs and number of contacts with different entrepreneurs. The importance of personal contacts to rural non-farm entrepreneurs has to do with availing useful heterogeneous sources.

However, while social networks in general contribute to business success for the entrepreneurs in the study, research elsewhere shows that in most sub-Saharan African countries entrepreneurs still find difficulties in establishing and maintaining business networks that function effectively. Those who rely on diverse heterogeneous networks benefit from the spiral of diverse information, innovations and new technology that are

Table 6. 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	0.128	1						
Contacts with other entrepreneurs	0.578**	0.072	1					
Contact with same line enterprises	0.418**	-0.040	0.699**	1				
Contacts with different line of enterprises	0.423**	0.264**	0.581**	0.484**	1			
Contacts with entrepreneurs outside district	0.532**	0.238**	0.824**	0.546**	0.566**	1		
Contacts with bank officials	0.578**	0.340**	0.655**	0.533**	0.546**	0.654**	1	
Contacts with civil servants	0.089	-0.256**	0.372**	0.408**	0.121	0.188*	0.071	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.

critical for business improvement.

Participation in association activities (Bonding social networks Component 2)

Participation in the activities of social association activities accounted for 15.75% of the variability enterprises were isolated cumulatively accounting for 60.97% of the sample variance (the first principal component explaining 24.58%, the second 15.75%, the third 12.43% and the fourth 8.21% of the sample variance respectively).

Personal contacts maintained (Bridging social networks Component 1)

The 1st component accounting for 24.58% of the variability within the entrepreneurs – personal contacts – has high loadings on number of contacts with bank officials, number of contacts with entrepreneurs outside the area, number of

within the enterprise activities. Whereas most social capital literature assumes that being a member of an association automatically results in members capturing benefits from the association, results here suggest that being active in decision-making is very important to members in order to reap benefits from the resultant social capital. This is particularly so given that most of the associations’ members are more or less homogenous. In the final analysis, the results concur with what was established by Grootaert (1999)’s bonding social networks in that participation in the decision-making processes of associations benefits members, as they are directly involved in setting the agenda of the associations in line with their expected benefits.

Socialization (Strong ties Component 3)

The third important component is that of socialization mainly in social associations such as religious associations and social clubs like sport

and women’s clubs. This component accounted for 12.43% of the variance in the dataset. It is also quite interesting to note that female and family-owned enterprise members have greater membership to religious associations than male entrepreneurs though male entrepreneurs dominate membership to other social associations.

By virtue of being involved in social activities, an entrepreneur can benefit from information spill over that extends beyond social activities to other spheres like production and marketing of their enterprise products. Such social associations are also places where social conventions and trust are inculcated in the members. These social associations, though not created specifically for economic gains, serve as important platforms where entrepreneurs get feedback on their entrepreneurial activities, since members informally and openly discuss their activities. Social activities like sport are also places where potential workers and business partners could be matched. It is also most likely that bonding and team building between members of an enterprise can be easily

achieved which can then be carried over to the enterprises' activities. In addition, by actively partaking in social activities, entrepreneurs become visible to members of the community who are also the market for their products.

Commitment to mutual group activities (Bonding social networks Component 4)

This last principal component is commitment to mutual group activities, accounting for 8.21% of the variance in the dataset had high loadings on time spent on activities in government, financial and production associations. This concurs with the general observation in social capital literature that social capital appreciates with use and depreciates with disuse. Members have to actively invest time and resources in association activities otherwise they will be cut off from the group and its benefits.

Being active in association activities is seen as investing in the association in anticipation of reaping future benefits from the created social capital. This has also been associated with an increase in possible trading opportunities, as observed by Bezemer et al. (2004). Johnson et al. (2002) also established that entrepreneurs who belong to more groups and associations and spend time in associational activities are more likely to obtain and use social capital than those who do not. This is particularly so with respect to the associations in question, where time spent in the associations' activities will lead to high levels of trust among members, which also translates into high potential for collective action.

CONCLUSIONS AND POLICY IMPLICATIONS

The conclusion that could be drawn is that for rural non-farm enterprise development and poverty reduction social networks are critical for start-up capital though there are differences in the level of use between the categories of entrepreneurs. Female entrepreneurs seem to be bowling alone and are likely to benefit less compared to male entrepreneurs who are mostly networking with other entrepreneurs from outside the district hence poverty networks – kinship, social groups, membership of organisations, and links and contacts maintained with individuals and other entrepreneurs – are critical in the various stages of rural non-farm enterprise establishment and expansion, this is a sure indication of the failure of prevailing microfinance initiatives intended to reduce poverty.

For poverty reduction engendered knowledge sharing platforms in the form of business trusts and business expos should be facilitated. Resources to establish and expand rural non-farm enterprises could be channelled through entrepreneurship networks and non-governmental organisations, as they appear to be better placed to effectively target the needs of new

entrepreneurs and ultimately leading to effective poverty reduction. Programmes to finance entrepreneurs should be engendered if issues of economic equity are to be addressed in rural areas. Universal gender based entrepreneurship education should also be incorporated into learning systems so as to develop confidence in future entrepreneurs and allow them to appreciate and internalise the power of networks and benefits from working with other entrepreneurs outside their locale. It is equally important that mentorship programmes are initiated in the form of established businesses both from rural and urban areas taking in young aspiring entrepreneurs as interns.

It was concluded that for rural non-farm entrepreneurs having more personal contacts, participating in social networks, socializing and being committed to group activities were the most important aspects as they accounted for 60% variability amongst the respondents. This observation flies in the face of the fallacy that financial resources are all that entrepreneurs need to succeed in business. As such gender based and targeted entrepreneurship development initiatives could be critical in poverty reduction strategies given the differences between male, female and family-managed businesses in the participation in rewarding social networking activities. By and large small-scale rural non-farm enterprises development and social networks harnessing can go a long way in reducing poverty within the rural household.

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