Addis Ababa University, Ethiopian Journal of Business and Economics, EJBE Vol.7, No. 2
Doi: http://dx.doi.org/10.4314/ejbe.v7i2.2 P-**ISSN**: **2311-9772** **eISSN: 2410-2393**
Available online: https://ejol.aau.edu.et/index.php/ejbe and https://www.ajol.info/index.php/ejbe

Networking and Business Performance of Medium Sized Enterprises in Addis Ababa

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Abstract

In order to stay competitive in business and upgrade performance, SMEs need to work in collaboration with others. To do this in today's so-called a "one village" world it is necessary to create a chain that gives value for business through networking. The purpose of this study was to test the impact of networking on the business performance of medium sized enterprises in Addis Ababa. The questionnaire survey method was used in this study to collect data from respondents. The data was collected from 128 samples of respondents identified through the stratified random sampling technique and the data was analyzed by using the ordered probit model. In this study, it the result shows that networking with financial institutions, business associates, and the quality of the relationship in the network positively and significantly related with business performance of medium sized enterprises. In addition to this, the resource acquisition capability of the network was negatively and significantly related with business performance of medium sized enterprises. The result of this study suggests that networking relationship with different types of supporting institutions and business associations significantly improves the business performance of medium sized enterprises in Addis Ababa.

Keywords: Networking, business performance, ordered probit model, marginal effect,

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Introduction

The current business environment creates obstacles for SMEs. In order to stay competitive in business, SMEs need to work in collaboration with others. To do this in today's the so-called a "one village" world it is necessary to create chain that gives value for the stakeholders through networking (Nuryakin et al.,2018; Nikmah et al.,2022; Zulu-Chisanga et al., 2021). Different writers define networking, for our purpose we take some of them. For example, Easton (1992) defined networking as exchange dimensions in two or more connected relationships.

Lewis, (1990) defined a network by dividing in to two parts: vertical network and horizontal network. The vertical network is formed for the objective of solving for example like: marketing problems with buyers, suppliers, and producers. Vertical networks are also termed as marketing channel networks. But, a horizontal network is formed between competing firms (like: similar enterprises operating in given sector) for cooperation purpose. Horizontal linkage is defined as: associations formed with similar enterprises located in a given geographical area having the aim of like: joint purchase of raw materials. While linkage formed between small scale, medium and large enterprises for purpose of subcontracting network is known as vertical network (Shibre et al., 2003; Park & Rhee, 2013; Franco & Martins, 2020; Yu et al., 2021)

Many researchers put their effort on analyzing the effect of business networking in maximizing the performance of SMEs and solving problem related to their business operation. Tooksoon and Mudor (2012), finding showed that the business network was statistically significant and positively associated with export success and export penetrations. The institutional network was also statistically significant but shows a negative association with export performance. However, the knowledge network was not associated with both dimensions of export performance. Tooksoon and Mohamed (2010) also found that external resources that contributed positively to export performance were: financial institutions and business associates. Even though the government agencies were also statistically significant but show a negative association. Trade association and knowledge association were not associated with export performance.

Ge et al., (2009) studied the impact of networking and resource acquisition on the performance of SMEs. This study was conducted by taking a total sample of 227 firms from the three cities

in china and found that resource acquisition capability and resource acquisition outcome of the network were positively related with firm performance.

Even though the previous studies had their own contribution in investigating the networking performance of SMEs, there were limitations that might affect the reliability and validity of the result of the study in terms of the methodology used, data analysis, and conclusions drawn.

The major ones were: the existence of different arguments about the impact of networking on the performance of SMEs, the mismatch between statistical tests and the type of measurement scales employed in the study, the low response rate of the respondents and a focus on a single sector were among the major ones.

In addition to the research gap identified through empirical studies as it is mentioned above and also broadly in the knowledge gap of the literature part, there are also observed problems in the study area which can support the need for empirical studies related to Ethiopian SMEs: they are highly influenced by the lack of integration among SMEs themselves and with other external resources starting from resources like: government in giving enough training and support on their constraints, suppliers of raw material, customers, and financial institutions and with others stakeholders (FEMSEDA, 2010). SME growth has also been hampered by weak market information, Lack of connection to thriving businesses and others (Ethiopia's MSED Policy & Strategy, 2016; MSED Strategy, 2011; Vedanthadesikan & Malarvizhi, 2018).

Even though many studies have been done on the impact of networking on the performance of SMEs, the impact of networking on the performance of SMEs did not investigate in the Ethiopia case. Especially, most of the studies investigated the networking and export performance relationship on SMEs. Moreover, the impact of networking on the domestic business performance of medium sized enterprises (which were transformed from Micro and Small Enterprises) in the Ethiopian case did not yet investigate (Chesinik et al., 2010; Li et al., 2013; Behyan, 2011; Nikmah et al.,2022; Cicea et al., 2019; Hilmersson & Hilmersson, 2021; Magni et al., 2021). Since medium sized enterprises are a bridge between small and large firms, knowing in detail about the impact of networking on medium sized enterprises gives insight to concerned bodies on how to accelerate the growth of small and medium sized enterprises, and to lay down the base for the expansion of large industries (industrialization). This study attempted to add value to address the gaps identified in the empirical studies described in

greater detail in the literature and methodology section.

Thus, the purpose of this study was to identify the existing networking practice and measure the effect of networking on the business performance medium sized enterprises in Addis Ababa. And finally, lead to a better understanding of the impact of networking on the business performance of medium sized enterprises to the Ethiopian enterprises as well as to the world of literature and for all concerned bodies.

The aim of this study was to understand the existing practice of networking relationships and investigate the impact of networking on the business performance of medium-sized enterprises in the manufacturing sector in Addis Ababa. The specific objectives, therefore, are as follows: Identifying the kinds of different networking relationships in which medium-sized enterprises are involved Measuring the impact of the strength of ties with governmental agencies, financial institutions, trade associations, and knowledge institutions on the performance of medium-sized enterprises, Analyzing the influence of the quality of relationships in the network on the performance of medium-sized enterprises, Measuring the resource acquisition capability of the network on the performance of medium-sized enterprises

Literature Review

There are three major types of theories in the firms networking literature: resource dependency theory, transaction cost theory and social network theory. The resource dependency theory argues that firms enter in the network of relationships in order to gain access to scarce resources. Unlike the resource dependency theory, transaction cost theory describes that collaboration among firms is undertaken for the aim of minimizing transaction cost in doing different marketing activities. Social network theory emphasizes the importance of trust, commitment in investing resources and times for the network are crucial for a successful relationship within network (Hessels & Terjesen, 2008). Several writers put their findings on the effect of network relationship on the business performance of SMEs. It was tried to gather those empirical studies relating this study topic in the following manner.

Li et al., (2013) studied the impact of network characteristics on the performance of firms in a mold industry working in the province of China called Zhejiang within cluster. The study investigated the influence of network structure: centrality and network relational characteristics: tie strength, tie stability, and tie quality on the performance of firms within

cluster ties and extra cluster ties. The study used a total of 252 sample firms and measured the variables of the study on a multi-item likert scale ranging from 1= totally disagree to 7=totally agree. The data was analyzed using descriptive statistics and regression equations. The study finally found that the extra-cluster tie had a significant effect on performance than in- the cluster tie even though in -the cluster tie had also a positive effect on performance. Elements of network characteristics had a weak impact on the relationship between extra-cluster ties and performance, while network structure and network characteristics including tie strength and tie stability had a significant impact on the relationship between in-cluster ties and performance. But in general speaking, tie stability had a positive influence on performance, while tie quality had a negative impact. The major limitation of this study was that the sampling unit in which the data was collected was limited to a specific single sector: the mold industry. Thus this situation might affect the generalizability of the result of the study to the other sectors.

Tooksoon and Mudor (2012) studied the relationship between networking resources and export performance among SMEs in Thai exporting the agro-based sector. The objective of the study was to suggest the idea of how networking resources relate to export performance. To achieve the aim of the study, a total of 16 organizations were identified as being capable of enhancing exporters' efforts to venture into the international market. Interview through email was made with managers resulting 10.09% response rate. The finding showed that the business network was statistically significant and positively associated with export success and export penetrations. While the institutional network was also statistically significant but shows a negative association with export performance. However, the knowledge network was not associated with both dimensions of export performance. The conclusion drawn from this study is questionable in its external validity because of two reasons: in one hand the small number of firms responded to the survey, on the other hand, the study only focused on a single sector: agriculture.

Behyan (2011), on the title of Conceptualizing Export Performance Influences of Internationalizing and Social Network, found that social networks and foreign partnerships had a positive effect on the internationalization process, knowledge of foreign market opportunities, international experience, and international knowledge. In addition to this, the relationship between the social network and export performance had a positive effect on

the export performance and its indicators such as sales growth, profit growth, and so on. But, the study did not tell us the impact of formal networking relationships (domestic supporting institutions for SMEs) on the performance of SMEs: it was focused only on studying the impact of foreign partnerships and interpersonal relationships on the performance of SMEs.

Hassan and McCarthy (2011) conducted study on influential capabilities for SMEs export performance in Malaysia, and they found that the capability to develop business networking, innovation capabilities and capability to meet export standards were crucial for Malaysians SMEs export performance. The SMEs need to focus on developing their business networking in order to enhance both their innovation capabilities and their capability to meet export standards which in turn leads to export performance improvement. The research followed a qualitative research approach by interviewing 23 managers of SMEs. The research design used in the study was exploratory in nature and the data was collected through in-depth interviews with CEOs and employees. Since the qualitative method of analysis used in the study it is difficult to confirm the reliability and validity of the result of the study statistically.

Chesinik et al., (2010) in their study of influential factors for SMEs internationalization: evidence from Malaysia. They found that firm characteristics like: resources, skill, and ability of owner manager; industry sectors like intense competition and market attractiveness; external influence, and motivational factors were influential factors for SMEs internationalization in Malaysia. But, they found that the most influencing factor was the networking that firm has with its relevant institutions and business associates like government, small or large business, local, or foreign partners, friends, colleagues, and relatives. The method of data collection used in this study was expert panel and exploratory study.

The panel consisted of 32 experts including academicians, policymakers , governmental agencies, and the chamber of commerce and research institutes. The exploratory study by Delphi technique was used through telephone and e-mails. The limitation of this study was it did not use businessmen actually working in the business as respondents it only used panel of experts: this may affect the understanding of the impact of networking relationships on the performance of businessmen. The other limitation of this study was that, the study did not use a statistical method of data analysis which may increase the researcher bias in interpreting the result of the study and may affect the acceptance of the research finding.

Tooksoon & Mohamed (2010) conducted their study on achieving financial export performance the contribution of external resources for the Thailand manufacturing Exporting Firms in the Agro-based sector. The study identified the five external resources that have an effect on the export performance of Thailand's agro-based exporting firms. The research methodology used in this study was the cross-sectional study using a structured mail survey. According to the interview from managers, a total of 15 organizations were identified as being capable of enhancing exporter efforts to venture into the international market. Finally, five dimensions of networking were identified and respondents were asked to indicate in what extent they have committed resources towards establishing a relationship with these organizations on five point likert scale ranging from: 1=not at all to 5= a great extent. The measurement of export performance was: export sales growth and export profitability using a likert scale of ranging from: 1=much below expectation, to 5=much above expectation. The collected data was analyzed through descriptive statistics, Pearson correlation, and regression. It was finally found that external resources that contributed positively to export performance were: financial institutions and business associates. Even though the governmental agencies were also statistically significant, but showed a negative association. Trade association and knowledge association were not associated with export performance. The major limitation of this study was related to the questionability of its external validity because of two reasons: in one hand small number of firms responded to the survey on the other hand the study only focused on the single agricultural sector.

Nazer and Salem (2009) reviewed the literature on firm level determinants of export performance. They identified that firm's characteristics: foreign contacts and networking, management characteristics, and marketing strategic capabilities. In the reviewed literature they found that frequent contact that an enterprise had with its networking resources had a determinant factor for export performance. They further noted that the foreign networking a firm has with foreign entities had a significant positive influence on export performance.

Even though the existing literature (C Kenny, 2009; Ge et al., 2009; Pongapanich and Phitya-Isarakul, 2008; Parida, 2008; Chen et al., 2007; and Ghauri et al., 2003) on the effect of networking on performance of SMEs; and it could not escape from the following criticism: firstly, most of the existing literature do not have consistence results on the impact of networking on the performance of SMEs. This may create controversies in understanding the

role of networking in improving the performance of SMEs. Secondly, the statistical instruments used by the authors did not match with the type of data (scale of measurement) employed in the studies.

As can be known from most of the research method literature, the first requirement for selecting the right statistical test for the study is looking the type of data used (type of measurement) in the study. For instance, in the studies reviewed in the literature, most of the authors utilized ordinal type of data and measured it by likert scale and analyzed it using mean, standard deviation, Pearson correlation, and multiple regression models. Since the distance between ordinal responses is not equal: the use of linear models for the analysis purpose might create invalid results and incorrect conclusions might be drawn from the study. Thus the use of non-linear models such as probit model, and descriptive statistics of like median should be used to draw the right argument (conclusion) from the study (Storchmann, 2005).

Fourth, most of the authors focused on investigating the effect of networking on the export performance of SMEs. But, the reviewed studies did not tell us about the impact of networking in enhancing the performance of SMEs in developing countries like Ethiopia which are mainly focused in doing business locally (Shibre et al., (2003). Fifth, the reliability and validity of the result of the studies reviewed above is difficult to accept surely because of two major reasons: in one hand the low response rate of the respondents and a focus on a single sector on the other hand. Thus, it is necessary to undertake and see the result of the study in a higher response rate and a sampling unit covering at least a single or in other sector. Sixth, most of the studies reviewed, focused on investigating the impact of networking on the performance of small and medium sized enterprises (as well micro and small enterprises) as general. But, none of the studies tried to investigate the impact of networking on the performance of medium sized enterprises specifically, they focused on micro and small enterprises. Since medium sized enterprises are a bridge between small and large firms, knowing in detail about the impact of networking on medium sized enterprises gives insight for concerned bodies on how to accelerate the growth of small and medium sized enterprises, and to lay down the base for the expansion of large industries (industrialization). Thus, this study used the above discussed criticisms as a research gap and incorporated in this study to solve the methodological and theoretical problems of the previous studies reviewed in the literature part.

Method of the Study

This study used a quantitative approach in research design by identifying the network relationship associated with aspects of business performance in Addis Ababa medium sized enterprises and investigating how these factors relate to business performance. The survey method of data collection was used to make inference about population characteristics from statistically selected samples (Babbie, 2001). Comparatively the less cost requirement and rapidity in the collection of data are among others that were reasons for selecting survey method of data collection for this study (Creswell, 2003). This study was designed in a cross-sectional research approach since for the survey method a cross-sectional research approach is a best choice than a longitudinal study (Saunders, 2007).

The sample frame consisted of Ethiopian based medium sized enterprises in the manufacturing sector. The reasons why the manufacturing sector was selected to collect data for this study were: primarily the manufacturing sector is believed to be a backbone for a given country's economic growth since the sector is a core place for domestic entrepreneurs to upgrade their innovation and exporting ability to the international a market, secondly, a special focus was given by Ethiopian Federal Micro and Small Enterprise Development Agencies and identified as being a major a source of economic growth in substituting imported goods and having potential for the export market and in creating a favorable environment for transforming to large scale industries (Federal Micro and Small Enterprise Development Agency[FEMSEDA],2010). Total population of 200 enterprises in the manufacturing sector were identified from the Addis Ababa Micro and Small Scale Enterprise Bureau which were transformed to medium level enterprises from micro and small enterprises in 2010 and 2012. The key criterion for inclusion in the total population is that they must be manufacturers of the products they sell and meet the criteria of inclusion under SMEs manufacturing sector category set by the Ethiopian Federal Micro and Small Enterprise Development Agency, 2010.

Since this study has access to list name of population for the study, a single-stage sampling design (the samples were selected from the total population once at the Addis Ababa level without the need of re-sampling for the sub-city or sub region of Addis Ababa) was used in order to sample from total population (Creswell, 2003). The probabilistic sampling technique was used for this study because of its ability in giving equal chance for selecting respondents from the total population (Creswell, 2003). The stratified random sampling method was employed by stratifying the sampling frame proportional to the size of subsectors in the

total population of the manufacturing sector that includes textile and garment, leather and leather products, food and beverage, metal works and engineering, and wood works: for selecting representative samples having a true proportion of respondents from the total population of 200 enterprises(Creswell, 2003, (FEMSEDA, 2010). There were two bases of stratifications of the population into stratum: firstly, in order to gain in precision of the estimates of the characteristics of the whole population since the elements of the population were heterogeneous in the type of business they are involved (it needs inclusion of respondents from all types of business). Secondly, in order to estimate the business type effect on the performance of medium level enterprises.

To select samples from the total finite population of 200 enterprises in the manufacturing sector, a formula developed by Rosemary and Chizoba (2011) which is adapted from Yamane's formula was used as can be seen below.

$$n= \frac{N}{1+N(e)^2} = \frac{200}{1+200(0.05)2} = 134\ approximately$$

Where: n =sample size, N =Population, e- margin of error (0.05 at 95% confidence level), 1= constant.

Depending upon the sample size calculated above the number of medium sized enterprises was selected from each subsector proportional to the size they have in the total population of 200 enterprises which were transformed to medium level enterprises from micro and small enterprises in 2010 and 2012 based on the data gained from the Addis Ababa Micro and Small Scale Enterprise Bureau. The mechanism used in this study to determine the number of samples from each subsectors was based on their proportion in the total population. To select specific respondent from each subsector based on their proportion in the total population: a lottery method was used. From the total of 134 proposed samples to distribute questionnaires and to collect data, only 128 actual numbers of samples were collected from the distributed 134 total number of questionnaires indicating that the response rate was 96 percent.

The objective of this study was to measure the impact of networking on the business performance of medium sized enterprises working in the manufacturing sector in Addis Ababa. Items for questionnaires for measuring independent variables: strength (extent)of the relationship that medium sized enterprises have with external resources was measured based on

a 5 -point likert scale ranging from 1=not at all, to 5=at a great extent was modified from the study of (Tooksoon and Mohammed,2010).Quality of the relationship in the network also another independent variable was measured by a multi-item likert scale questionnaire ranging from 1= strongly disagree to ,5 = strongly agree, which was modified from the study of(Li et al.,2013). The resource acquisition capability of the network variable was measured by a multi-item likert scale questionnaire ranging from 1= strongly disagree to, 5 = strongly agree, which was modified from the study of (Ge et al., 2009). The dependent variable business performance was measured by a multi- item likert scale questionnaire dealing with financial and non-financial performance measures (composite measure of performance) ranging from 1= strongly disagree to ,5 = strongly agree, which was modified from the study of(Li et al.,2013).

A combination of financial and non-financial performance measures on a multi-item likert scale was employed in this study because of the following reasons: firstly, it is difficult to get a quantitative measure of performance a country like Ethiopia where the modern way of recording financial results which is described as profit or loss statement not experienced (they can guess it, but it may not be exact because it is difficult to verify it). Secondly, mostly these enterprises are not forced to publish and report their financial results to the concerned governmental bodies(Li et al.,2013; Watson,2007).

Schayek (2011), argued that the use of the composite financial measure of performance has many advantages over using either of the two measures of performance: in one hand a single type of measure cannot tell us surely whether a firm operating in better performance or not, on the other hand, a composite measure of performance accelerates the response rate of the respondents. Because of these reasons, a composite financial measures performance was used in this study.

To analyze the variables of the study descriptive statistics: mean, standard deviation, median, frequency and percentage were used. Factor analysis was employed to analyze scales of construct measurements for the study. For checking internal consistency of scales that are used to measure constructs, a reliability test was made by Cronbach alpha by taking into account the cutoff point of 0.7and above (Hair et al., 2006). Discriminant validity was checked by a variance inflation factor (VIF) to solve the problem of multi co-linearity among independent variables (Hair et al, 2006).To test the hypothesis of the study: ordered probit model was used, and for the analysis purpose, the computer software program of STATA.12 used in this study.

The econometrics model shown below was designed for measuring the impact of networking on the business performance of medium sized enterprises operating in Addis Ababa .In this study non-linear ordered model the so called ordered probit model was used (Anne R. and Peter G., 2002). There are a number of reasons for selecting nonlinear model other than linear models such as multiple regression models (Archontoulis & Miguez, 2015).

The first reason was the existence of unequal difference between ranks of ordinal variables unlike with interval and continuous scales which have equal difference among results of variables resulting in a linear relationship between independent and dependent variables analyzed with multiple regression model since multiple regression model requires the fulfillment of linearity assumption among variables making it easy to use for interval and continuous scale data (quantitative data in nature). But, in this study since ordinal scale of measurement used, which reveals unequal difference among ranks of ordinal responses reflecting non-linear relationship between independent and dependent variables that needs non-linear model for analysis.

Secondly, the beta coefficient of linear multiple regression model reflects only the linear contribution (it only assumes that each unit change in independent variables has a fixed effect on the dependent variable) of independent variables on the dependent variables while non-linear models describe the nonlinear impacts of independent variables on the dependent variables through marginal effects. Unlike linear models which show the direction of the effect of coefficients of independent variables on the dependent variable, marginal effects in nonlinear models show how the probabilities of each outcome change with respect to changes in the independent variables. Even though ordered probit and logit models reveals similar result in the research work, in this study because of the normality assumption of the ordered probit model, with mean "0" and standard deviation of "1,"the ordered probit model was applied (Storchmann, 2005). The observed value of Y_i is depending upon latent variable Y^* value based on the following five values of observed category:

$yi = 1$ if $yi^* \leq \mu 1$

$yi = 2$ if $\mu 1 < yi^* \leq \mu 2$ $yi = 3$ if $\mu 2 < yi^* \leq \mu 3$ $yi = 4$ if $\mu 3 < yi^* \leq \mu 4$ $yi = 5$ if $yi^* > \mu_4$

Where cutoff points are: $\mu 1$, $\mu 2$, $\mu 3$, $\mu 4$ and the cutoff points and residual ε is following a standard normal distribution. The cutoff points and β is estimated using the maximum

likelihood method.

The ordered probit model for this study seems the following:

$Y = \beta o + \sum \beta Xi + €i$

Where, Y is dependent variable, Bo is intercept term, Bi the coefficients of Xi variables, Xi independent variables, €I error terms of the model.

Y is dependent variable measured by a multi-item likert scale. To measure the business performance of medium sized enterprises, the following ordered probit equation was used having the model indicating the impact of independent and control variables on business performance as described as follows:

Y (business performance) = $\beta o + \beta 1$ (GOV) $+\beta 2$ (FIN) + $\beta 3$ (BUS) + $\beta 4$ (TRA) + $\beta 5$ (KNI) + $\beta 6$ (QUR) + $\beta 7$ (RAC) + $\beta 9$ (FIA) + $\beta 10$ (FIS) + $\beta 11$ (ABS) $+\beta 12$ ($\sum$ITE) $+\varepsilon$

Where: GOV= Governmental agencies, FIN = Financial institutions, BUS = Business associates, TRA= Trade associations, KNI= Knowledge institutions, FIA= Firm age, FIS= Firm size, ABS= Absorptive capacity of the business, QUR= Quality of the relationship in the network, RAC = Resource acquisition capability of the network, ITE =Industry type effects. Firm size, firm age, absorptive capacity of the business, and industry type effects were control variables in this study.

Table 1

Variables and Explanation on Hypothesis

No	Variables	Type of data	Explanation	Expected sign	Sources
1	Governmental agencies	Quantitative	Independent variable-Measured on Likert scale	+	Tooksoon and Mohammed,2010
2	Financial institutions	Quantitative	Independent variable-Measured on Likert scale	+	Tooksoon and Mohammed,2010
3	Business associates	Quantitative	Independent variable-Measured on Likert scale	+	Tooksoon and Mohammed,2010
4	Trade associations,	Quantitative	Independent	+	Tooksoon and

			variable-Measured on Likert scale		Mohammed,2010
5	Knowledge institutions	Quantitative	Independent variable-Measured on Likert scale	+	Tooksoon and Mohammed,2010
6	Quality of th e relationship	Quantitative	Independent variable-Measured on Likert scale	+	Li et al.,2013
7	Resource acquisition capability of the network	Quantitative	Independent variable-Measured on Likert scale	+	Ge et al., 2009
8	Business performance	Quantitative	dependent variable-Measured on Likert scale		Li et al.,2013

Source: Own Compilation based on Literature

RESULTS AND DISCUSSION

The Type and Extent of Networking

Concerning the question of the extent or strength of their relationship with external resources for the last three years ranging from the 2010 up to 2012, 0.8% of the respondents did not have any relationship, 21.1% of them at some extent, 26.6% of them neutral, and 51.6% of them at moderate extent have relationship with governmental agencies. Most of the medium sized enterprises had a moderate extent of the relationship with governmental agencies. This moderate extent of relationship might be attributed to a lack of awareness creation programs about the type of service rendered by governmental supporting agencies to the enterprises. Of sampled respondents 3.9%of them did not have any relationship, 24.2% of them at some extent, 42.2% of them neutral, 16.4% of them at moderate extent, and 13.3% of them have a great

extent relationship with the financial institution.

Most of the enterprises choose neutral option to express the extent of the relationship they had with financial institutions over the last three years. This might be related to inadequate (not as per the need of the enterprises) support given by financial institutions to the medium sized enterprises in terms of financial requirements via debt and other related factors. Of sampled respondents 8.6%of them did not have any relationship, 71.1% of them at some extent, and 20.3% of them have a neutral relationship with trade association. Most of the enterprises had at some extent of a relationship with trade associations. This could be related to a lack of promoting the benefit of these associations towards the performance of enterprises. Of sampled respondents, 10.9% of them at some extent, 40.6% of them neutral, 47.7% of them at a moderate extent, and 0.8% of them had a great extent relationship with business associates.

Most of enterprises have a moderate extent of the relationship with customers, suppliers, similar enterprises, and subcontracting relationships with large firms. But, in order to improve the performance of enterprises at a great extent it is necessary to have a relationship with business associates beyond a moderate extent. Of sampled respondents, 2.3% of them did not have any relationship, 52.3% of them at some extent, 22.7% of them neutral, and 22.7% of them have at moderate extent relationship with knowledge institutions. The result of the extent of the relationship with knowledge institutions implies that the knowledge sharing between enterprises and knowledge institutions was almost not exist this might be because of knowledge institutions were weak in community service program: in introducing new ways of the production process, in promoting new products to enterprises done through research and development programs.

Construct Reliability

Zikmund (2000), defined that the aim of instrument reliability test is for measuring the internal consistency of items that measuring a given construct and for testing a Uni-dimensionality of items of the questionnaire for checking whether or not items measuring a single construct or not. In this study reliability test was made by Cronbach alpha by taking into account the cutoff point of 0.7 and above (Hair et al., 2006).As it can be seen in the Table: 2, the Cronbach coefficient for all items satisfied the minimum requirement thus certainly suitable for this study objective. In order to minimize the research errors and more to strengthen the reliability of the study, response error (unintentionally filling incorrect answers to questions by respondents)

and non-response error (a problem of not contacting the respondents) a telephone follow-up to respondents, use of self-administered questionnaire and a pilot test was made to items of the questionnaire.

Table 2

Reliability Analyses of Variables of The Study

Variables of the study	Number of items	Coefficient of reliability
Business performance	6	0.84
Quality of the relationship in the network	3	0.80
Resource acquisition capacity of the network	3	0.81
Absorptive capacity	7	0.85

Source: - Own Compilation

Construct Validity

Validity is the extent that an instrument is measuring what it is intended to measure. In this study, the validity of a questionnaire was measured by content and construct validity. Content validity measures whether or not individual items of test measures the construct. In this study, the content validity of the questionnaire was tested by pilot test with 3 university researchers and with 5 medium sized enterprise managers and checked for incorrect instruction, unclear questions, ambiguous words and phrases (Churchill, 2002).Finally the result of the test was included to the final revised questionnaire and the content validity of all variables included in the study was confirmed.

Construct validity is focused on the extent in which a construct is measured by a test. The construct validity was measured by factor analysis, discriminant validity, and reliability test (Sharfman and Fernando, 2008; Hair et al., 2006). To analyze items of scales; factor analysis was made on 20 networking types. The Eigen value method was used for selecting components

because it is free from making subjective bias in selecting components (Stevenson, 1986). Finally, five factors were extracted and there were no items that cross load more than one factor.

The quality of factor analysis was assessed by Bartlett's test for sphercity (if p-value lessthan0.05) and Kaiser-Meyer olkin (KMO) test: which measures the degree of multicollinearity among items included in the analysis which should be greater than 0.5-0.6.In this study, KMO test and Bartlett's test for sphercity were 0.71 and 0.02 respectively which indicated the existence of a significant correlation among items of networking types for factor analysis and which assured the construct validity of networking types items of the questionnaire. The coefficient of reliability for networking types using Cronbach's alpha for factor one, two, three, four, and five were 0.81,0.78,0.79,0.71and 0.72 respectively which is greater than the minimum requirement for the reliability test indicating that internal consistency among items was suitable for measurement instrument. In addition to this the reliability test of variables other than networking types:for business performance, Quality of the relationship in the network, Resource acquisition capacity of the network, and absorptive capacity of the business were 0.84,0.80, 0.81,0.85 respectively which satisfied the reliability test of the study.

The discriminant validity of independent variables included in the study was checked by a variance inflation factor (VIF) and resulted in 1.09 which is between the acceptable range (VIF<10) and revealed that independent variables were free from Multicollinearity problem with each other.

Specification Tests of the Model

Before running the ordered probit model to the study, three assumptions of the model were tested namely: Heteroscedasticity, Normality, and Multicollinearity tests.

In order to test whether or not an error term is Heteroskedastic or possesses unequal variance: meaning checking for whether a parameter judged to be significant when it is actually not, the white general test was used because of its applicability for non-linear and normally distributed data. Figure: 1 reflects the p-value is greater than 0.05 (0.1259 >0.05) indicating that the error term is homoscedastic (not heteroskedastic) or having equal variance. Thus heteroscedasticity assumption of the model was not violated.

In order to make the interpretation and inference drawn from the collected data reliable and

valid, the normal distribution of the random variable was tested. Before testing the normality assumptions of the model, quantitative variables such as firm size and firm age were transformed to logarithmic values in order to keep the normality of the data. In this study, the test of normality was undertaken by a numerical method statistically known as Shapiro-Wilk test because of its best estimating ability. As shown in Table 3: the p-value for all variables in the study is greater than 0.05 fulfilling the normality assumption of the ordered probit model.

Table 3

Shapiro-Wilk Test of Normality

Variable	No, observation	W	p-value at 0.05
Business performance	128	0.98882	0.61234
Governmental agencies	128	0.99724	0.99343
Financial institutions	128	0.99150	0.62847
Trade association	128	0.99635	0.98707
Business associates	128	0.99519	0.85225
Knowledge institutions	128	0.98877	0.38329
Resource acquisition capacity	128	0.99403	0.84178
Quality of the relationship in the network	128	0.99278	0.75627
Absorptive capacity of the business	128	0.99301	0.82322
Textile and garment sector	128	0.99076	0.61345
Leather and leather product sector	128	0.99516	0.85412

Wood product sector	128	0.99602	0.98712
Metal work and engineering sector	128	0.99530	0.92226
Food processing and beverage sector	128	0.99411	0.79000
Ln of firm age	128	0.99172	0.68113
Ln of firm size	128	0.99694	0.98875

Source: Stata Output

Since the VIF value is less than 10 and the tolerance value is greater than 0.2, there is no a problem of co linearity among independent variables. Therefore, Multicollinearity assumption was achieved as indicated in Table 4:

Table 4

Test of Multicollinearity

Variable	VIF	1/VIF
Quality of the relationship	1.13	0.885064
Business associates	1.10	0.908431
Governmental agencies	1.09	0.920415
Trade associations	1.08	0.921812
Resource acquisition capability	1.08	0.922821
Financial institutions	1.08	0.926284
Knowledge institutions	1.08	0.928037
Mean VIF	1.09	

Source: Stata Output

Ordered Probit Model Test Result

The result of the probit estimation was presented in Table 5, the p-value is less than 0.05. The model significance level is p=0.0002 and the chi-square is 42.20 and the model log likelihood(LL test) was-106.36715.The first hypothesis networking with governmental agencies is positively and insignificantly related with business performance rejecting our hypotheses, while the second hypothesis networking with financial institutions is positively and significantly related with business performance confirming our hypotheses. The third hypothesis trade associations are negatively and insignificantly related with business performance rejects our hypothesis. The fourth hypothesis networking with business associates positively and significantly related with business performance confirms our hypothesis. The fifth hypothesis networking with knowledge institutions negatively and insignificantly related with business performance rejecting our hypothesis. The six hypothesis resource acquisition capability of the network is negatively and significantly related with business performance confirming our hypothesis, while the seventh hypothesis the quality of the relationship in the network is positively and significantly related with business performance confirming our hypothesis. Regarding the result of control variables except for the firm age, all the control variables in the study namely industry type effect, the absorptive capacity of the business and firm size were statistically insignificant in the model.

Table 5

Ordered Probit Model Test Result

Variables in the Model	Coefficient	P value (at 0.05)
Governmental agencies	0.064472	0.674
Financial institutions	0.2873355	0.012
Trade associations	-0.1681317	0.446
Business associates	0.4037304	0.017
Knowledge institutions	-0.119843	0.375
Resource acquisition capability of the network	-0.3301507	0.027
Quality of the relationship in the network	0.3658749	0.037
The absorptive capacity of the business	-0.1017562	0.443

Textile and garment	0.389222	0.495
Leather and leather products	-0.8014281	0.303
Wood products	0.661191	0.227
Metal work and engineering	0.0842006	0.783
Food processing and beverage	-0.3036326	0.603
Ln of firm age	0.814924	0.046
Ln of firm size	0.2629984	0.069

Source: Stata Output

Marginal Effect of Independent Variables

In this section to interpret the result of the ordered probit model more effectively and present clearly the factors that explain the choice of medium sized enterprises business performance responses, the marginal effect of independent variables was calculated.

As shown in Table: 6 below, networking with governmental agencies decreases the chance of reporting 'strongly disagree' in business performance by 0.0 percentage points, 'disagree' by 0.1, 'neutral' by 0.7,' agree' by 1.7, and increases the chance of reporting 'strongly agree' by 2.4 percentage points. Medium sized enterprises networking with financial institutions decreases the chance of choosing alternative 'strongly disagree' in business performance by 0.1 percentage points, 'disagree' by 0.3, 'neutral' by 2.9, 'agree' by 7.4, and increases the chance of choosing alternative 'strongly agree' by 10.7 percentage points. Medium sized enterprises networking with trade associations increases the chance of reporting 'strongly disagree' in business performance by 0.1 percentage points, 'disagree' by 0.1, 'neutral' by 1.7, 'agree' by 4.3, and decreases the chance of reporting 'strongly agree' by 6.3 percentage points.

Networking with business associates decreases the chance of reporting ‘strongly disagree’ in business performance by 0.2 percentage points, 'disagree' by 0.4, 'neutral' by 4.1,'agree' by 10.4, and increases the chance of reporting ‘strongly agree’ by 15.1 percentage points. Medium sized enterprises networking with knowledge institutions increase the chance of reporting 'strongly disagree' in business performance by 0.1 percentage points, ‘disagree’ by 0.1, ‘neutral’ by 1.2, ‘agree’, and decreases the chance of reporting 'strongly agree' by 4.5 percentage points. The Resource acquisition capability of the network in terms of intangible and tangible resources

increases the chance of reporting 'strongly disagree' in business performance by 0.2 percentage points, 'disagree' by 0.3, 'neutral' by 3.4, 'agree' by 8.5, and decreases the chance of reporting 'strongly agree' by 12.3 percentage points. The quality of the relationship in the network decreases the probability of choosing alternative ‘strongly disagree’ in business performance by 0.2 percentage points, ‘disagree’ by 0.3, ‘neutral’ by 3.7, ‘agree’ by 9.4, and increases the probability of choosing alternative 'strongly agree' by 13.7 percentage points.

Table 6

Marginal Effects of Independent Variables
Source: Stata Output

Variables	Business performance measured using ordinal scales				
	Strongly dis-agree(1)	Disagree(2)	Neutral(3)	Agree(4)	Strongly agree(5)
Governmental agencies	-0.000	-0.001	-0.007	-0.017	0.024
Financial institutions	-0.001	-0.003	-0.029	-0.074	0.107
Trade associations	0.001	0.001	0.017	0.043	-0.063
Business associates	-0.002	-0.004	-0.041	-0.104	0.151
Knowledge institutions	0.001	0.001	0.012	0.031	-0.045
Resource acquisition capability of the network	0.002	0.003	0.034	0.085	-0.123
Quality of the relationship in the network	-0.002	-0.003	-0.037	-0.094	0.137

Discussion

This study investigated the impact of networking in the form of extent of the relationship with different type of networks, the quality of the relationship in the network, and the resource acquisition capacity of the network on the business performance of Medium sized enterprises in the manufacturing sector in Addis Ababa.

According to the reviewed related literature to the topic of this study, to Ethiopian case in testing the impact of elements of networking including strength of networking with external resources, quality of the relationship in the network, and resource acquisition capacity of the network, this study is the first in investigating the impact of networking on the performance of Medium sized enterprises.

Networking with Governmental agencies is positively and insignificantly related with business performance of medium sized enterprises rejecting the hypotheses. This was not in line with previous studies reviewed in the literature part. The fact that the Governmental agencies was

not found to be significant for the performance of Medium sized enterprises might be attributed to firstly, to lack of enough business support program by governmental agencies related to skill development, collecting market information, the transfer of technology, basic managerial training, general advise and so on. Secondly, the kind of support service given to enterprises might not be as per the need (weakness side) of manufacturing firms. Thirdly, might be because of rendering unequal support programs for medium sized enterprises depending on the strength of governmental agencies located at different sub-cities of Addis Ababa.

Networking with Financial institutions is positively and significantly related with business performance confirming the hypotheses. This result supports the prior research of Tooksoon& Mohamed (2010), indicating that the relationship with financial institutions is important in improving the performance of medium sized enterprises. As per the interviewed respondents the necessity of collateral for loan, lack of getting enough amount of finance ,and a shortage of finance for selling the manufactured products abroad were a serious problems related to the relationship with financial institutions beyond the result of the tested hypothesis.

Trade associations negatively and insignificantly related with business performance of medium sized enterprises rejecting our hypothesis. This finding is consistent with the research result of Tooksoon& Mohamed (2010). The insignificant relationship between trade associations and business performance might be explained by the lack of delivering the required support other than registering enterprises to be members of the trade association.

Networking with business associates positively and significantly related with business performance of medium sized enterprises confirming our hypothesis. This result is supported by a number of researchers where they argue that networking with business associates such as customers, suppliers, and similar enterprises and subcontracting relationships with other firms have a significant effect on the performance of SMEs(Tooksoon and Mudor ,2012; Tooksoon& Mohamed ,2010; Pongapanich and phitya-Isarakul ,2008; Chen et al. ,2007; Yiu et al, ,2007). Consistent with the previous studies (Tooksoon and Mudor, 2012; Tooksoon& Mohamed, 2010), this study found that networking with knowledge institutions negatively and insignificantly related with business performance of medium sized enterprises rejecting our hypothesis. Similar to the result of empirical research by Ge et al., (2009) resource acquisition capability of the network is negatively and significantly related with business performance

confirming our hypotheses. The negative and significant relationship indicates that resource acquisition capability of the network has minimal but necessary impact on the performance of medium sized enterprises. The quality of the relationship in the network is positively and significantly related with the business performance of medium sized enterprises confirming our hypothesis. The result indicates that the more trust (quality) in the network of relationship with different external resources the higher the performance of manufacturing medium sized enterprises.

Conclusion and Directions for Future Research

This research was designed in order to investigate the impact of networking on the business performance of medium sized enterprises operating in Addis Ababa. In order to achieve the objective the study: the hypothesis and the research design were developed and finally the research objective was achieved. According to the result of this study, there are four independent variables that were significantly related with business performance of medium sized enterprises namely: networking with financial institutions, business associates, the resource acquisition capability of the network, and the quality of the network in the relationship. Among the four independent variables which have a significant impact on the business performance of medium sized enterprises, networking with financial institutions, networking with business associates, and quality of the relationship in the network positively while the resource acquisition capability of the network negatively related to the business performance of medium sized enterprises.

In this study, firstly the data was collected on single time period on cross-sectional study. This may affect the understanding of the real causal relationship exist or the changes over time between variables in different time periods through longitudinal study. Therefore future studies could design this study based on a longitudinal study. Secondly, in this study the mediating variables were not included between independent and dependent variables. Therefore the relationship between variables may not be explained directly. Thus, future works can include mediating variables other than independent variables included in this study to make the result of the study more reliable. The rationale is that it is difficult to explain the relationship between variables directly without the involvement of mediating variables. Thirdly, in this study, the data was collected from medium sized enterprises operating in the manufacturing sector. Thus,

future studies could be done on the other sectors to check whether or not the result of this study is valid to the other sectors.

Acknowledgments

I wish to acknowledge everyone who has helped me in different aspects in the accomplishment of this study. First of all, I would like to thank the Almighty God for giving me strength and peace. Secondly, I would like to express my deepest gratitude to Dr. Zewdie Shibre for his valuable advice and encouragement to accomplish this study successfully. Thirdly, I would like to also express thanks to my friends and colleagues, to Mr. Asres Abitie (MBA program coordinator, Management Department) and Dr. Mohammed Seid (Chairperson of Management Department), and to my family for their extensive support throughout the entire process of this study.

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