

Influence of Social Capital on Small and Medium Enterprises Performance in Wakiso District, Uganda

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Abstract

Purpose: This study examined the influence of Social Capital (SC) on the performance of Small and Medium Enterprises (SMEs) in Wakiso District. Specifically, we identified forms of SC and assessed how they influenced SMEs' performance in Kitemu Ward. **Research methodology:** Using qualitative and quantitative methodologies, the study solicited data from 40 participants through interviews and a self-administered questionnaire. Data were edited, cleaned, coded, and entered into MS Excel to generate frequencies and graphs. Content value analysis was used to transcribe the qualitative data and group them into subthemes.

Results: The results revealed internal forms of SC, such as friends/peers, trustworthiness, personal saving, family, and social links, while external forms of SC were customers, financial institutions, governments, and companies. Further, SC influences the customer base, leads to high profits, increases sales volume, and enhances creativity and innovation.

Limitations: Financial constraints prevented researchers from eliciting data throughout the study area. Furthermore, the small sample size might limit the generalization of the study results to the entire district. In addition, time and data collection biases have implications for this study.

Contribution: This study is vital because there are no studies carried out in Kitemu Ward on SC and its influence on SMEs' performance. The findings can be used by policy and decision-makers to design mechanisms for SMEs' proprietors to integrate SC into business operations. The literature reveals that SC forms enhance sales, profits, market share, customer base, and accessibility to finance.

Novelty: This original study was conducted primarily among women proprietors and managers of SMEs because they are reliable and provide firsthand information as compared to men. Thus, if adopted, the findings are vital for other business proprietors and managers to improve business performance.

Keywords: *Networks, norms, reciprocity, ties, trust*

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1. Introduction

Social capital (SC) is a catalyst for SMEs' operations and performance ([Akintimehin et al., 2019](#)). Social capital helps firms acquire and create knowledge, a resource SMEs' exploit to improve their performance ([Analia, Syaukat, Fauzi, & Rustiadi, 2020](#)). Therefore, social capital is not only limited to SMEs performance but also to politics ([Townsend, n.d.](#)), sports, education ([Guðmundsson &](#)

[Mikiewicz, 2012](#)), and music. This finding affirms that SC is vital for all sectors of the economy ([Fine, 2010](#); [Townsend, n.d.](#)).

Social capital (SC) refers to social relationships and networks among the population that supplement the economic, natural, and human capital of an enterprise ([Times, 2023](#); [wellbeing, 2022](#)). This affirms that social relationships/networks capitalize on employee trust, satisfaction, and right communication, which are constituents of business growth. As mentioned, resilient social networking coupled with employee performance is a conduit of business prosperity ([Times, 2023](#)). Consequently, SC includes social norms, shared values, and organizational policies that foster progress ([wellbeing, 2022](#)). Economic capital relates to financial goods and physical infrastructure and technology; natural capital includes environmental resources that provide services, raw materials, and a good climate, while human capital includes the health, skills, and knowledge of humans ([wellbeing, 2022](#)). Thus, SC complements the three forms of capital for any enterprise operation.

SC is defined as the means by which SMEs interact with people to gain a competitive advantage over their counterparts, including access to avenues. Such avenues may influence tangible and intangible resources accessed by businesses for performance ([Ozanne, Chowdhury, Prayag, & Mollenkopf, 2022](#)). Thus, for SMEs to progress exponentially, various forms of social capital should be embedded in the daily running of businesses. To this end, businesses should connect internal and external social networks or ties to which customers or people belong ([Akintimehin et al., 2019](#); [Xie, Wang, & Lee, 2021](#)).

Internal social ties [Xie et al. \(2021\)](#) refer to strong or binding factors to people as social links, close friends, family members, business partners, employees, and peer groups ([Akintimehin et al., 2019](#)). On the other hand, external ties relate to bridging or weak ties to businesses that have less control and include customers, government, credit groups, and associations, among others ([Akintimehin et al., 2019](#)).

A study by [Xie et al. \(2021\)](#) reveals that internal ties are fundamental for business performance compared to external ties in the business environment. This affirms that family, friends, and peer groups are the basis for multiple sales, provided that they are connected very well ([Ozanne et al., 2022](#)). Social capital is vital for business performance ([Times, 2023](#)). This is because business owners/marketers link with a network of friends, peers, families, and business partners with other networks ([Akintimehin et al., 2019](#)). This implies that when a business has more connections with different social ties, its performance is enhanced and social ties are interconnected and appropriately maintained ([Yani, Eliyana, Sudiarditha, & Buchdadi, 2020](#)).

Similarly, although external social ties such as government, credit associations, and supplies are important for business performance ([Turyahikayo, 2015](#)), they do not benefit SMEs' performance. This is because such ties are compromised by affluents and corruption, coupled with ghost beneficiaries. For example, in Uganda, government interventions ([Eton, Mwosi, Ebong, & Ogwel, 2018](#)) such as Entandikwa, Bonnabagaggawale, Youth Livelihood Fund, Operational Wealth Creation, Venture Capital Fund ([Kato & Tsoka, 2020](#)), Emiyooga, and the Parish Development Model have been instituted to uplift community well-being ([Opondo, 2021](#)), but they have had little or no impact ([Petronellah, 2022](#)) due to irregularities. Devastatingly, access to such external social capital resources is a nightmare because of bureaucracy and corruption within the management process. This indicates that corruption, greed, the inadequacy of funds, weak functional government structures, politics, limited stakeholder involvement, and poor planning affect such programs ([Petronellah, 2022](#)). All of the above leads entrepreneurs to capitalize on internal social ties as key social capital for business transformation.

Although social capital is recognized as useful for SMEs' performance ([Eton et al., 2018](#)), some firms have not realized its role in business performance. This means that neither SMEs' owners have mishandled tangible and intangible resources nor do they exhibit trustworthiness among the various social networks. Furthermore, such studies have not been conducted, and entrepreneurs are unaware of the usefulness of social capital resources on SMEs' performance in the Kynegera Town Council.

2. Literature Review

2.1. *The concept of social capital*

Social capital (SC) is defined as the resources SMEs employ to stimulate their performance. Resources refer to constructs measured by relationships within the community, ties/networks, and norms ([Claridge, 2019](#)). Similarly, individuals, companies, and/or organizations possess resources to help them achieve their goals through social groups, connections, and relationships/networks ([Lin, 2002](#)). Such possessions complement human, financial, natural, and technological resources. Resources are capitalized within groups or communities, between social groups, social class, race, religion, socioeconomic characteristics, and a range of relationships and network characteristics ([Claridge, 2018](#)). These include tangible and intangible resources that enhance business performance. Intangible resources are assets that hold value to the organization but have no physical touch or feel. However, when aligned with business objectives, it enhances competitive advantage and invests in them with anticipated returns ([Dodd, 2016](#)). Further, ideas, innovativeness, brand loyalty, brand value, customer loyalty, trust, access to networks, ability to attract talented workers, leadership, research, and social and environmental responsibility ([Dodd, 2016](#)) are intangible resources. In addition, goodwill, fellowship, mutual sympathy, and social interaction are practiced by businesses on a daily basis ([Khan et al., 2018](#)) as intangible resources. Tangible resources related to a firm's physical assets may include, but are not limited to cash, raised financial capital, financial investments, equipment, buildings and structures, and land ([Kamasak, 2017](#)).

[Claridge \(2018\)](#) asserts that social capital includes internal and external forms adopted by the study. Internal forms are referred to as bonding or strong ties, whereas external forms relate to bridging or weak ties. Based on the study, the internal forms included friends, family, trustworthiness, knowledge, partnerships, and social ties, while the external forms were government, industry/company, financial institutions, and customers.

Friends and family are bonding social capital elements that are formed between people and provide emotional and material support whenever in crisis and help offset the crisis. Trustworthiness helps individuals network and identify themselves with similar characteristics to bridge and interact as required, which is vital for organizational growth ([Claridge, 2018](#)). Knowledge is acquired from others in a network as a skill through training and becomes competent to aid business performance ([Spottswood & Wohn, 2020](#)). Notably, [Claridge \(2018\)](#) asserted that social networks that bond, bridge, and link people, individuals, and groups together are social ties. These cuts across groups between people and those with authority and power regulate the accessibility of resources. Furthermore, partnerships allow businesses to sign memoranda of understanding as catalysts for financial access to resources for business growth. This is because it regulates the working terms between groups or individuals ([Kamasak, 2017](#)).

Notably, the government, through the Central Bank, regulates the interest rate at commercial banks and micro-financial institutions to borrow money from businesses ([Biryabarema, 2020](#)). The lower the interest rate, the higher the borrowing power of entrepreneurs to improve their capital base. However, the requirement of collateral security by banks and micro-financial institutions for SMEs' proprietors to access loans has jeopardized external forms of social capital that affect the customer base.

SC influences SMEs through increased sales, high profits, increased market share, and customer base ([F. Anoke, Ngozi, Uchechukwu, & Joyce, 2022](#)), and accessibility to finances among others. Even though the respondents reported external forms of SC, they had a limited contribution to SMEs' performance as compared to internal forms.

2.2. *Social Capital Theory*

This study was underpinned by Robert Putman's (1993) Social Capital Theory (SCT). The theory states that social networks and structures, relationships and knowledge are vital resources for entrepreneurial performance ([Guðmundsson & Mikiewicz, 2012](#); [Machalek & Martin, 2015](#)). Social capital is also related to tangible resources such as goodwill, fellowship, mutual sympathy, and social associations

practiced by businesses in day-to-day operations ([Khan et al., 2018](#)). As resources, they are conceptualized into bonding, bridging, and linking forms ([Schuller & Theisens, 2010](#)), which business communities must adopt to progress and enhance performance. When such tangible resources are increasingly integrated into business operations, their performance improves ([Guðmundsson & Mikiewicz, 2012](#)).

For clarity, bonding denotes the relationships between family, close friends and neighbors ([Guðmundsson & Mikiewicz, 2012](#); [Prins & Custers, 2021](#)). In most cases, these ties relate to people with similar characteristics. Because of their interconnectedness, ties help raise the human capital required for business success ([Khan et al., 2018](#)). Thus, bonding brings togetherness, which is a tool for mobilizing solidarity.

Bridging relates to social ties between dissimilar people, such as loose friendships and workmates, but has trust, shared norms, and reciprocity ([Guðmundsson & Mikiewicz, 2012](#); [Khan et al., 2018](#); [Prins & Custers, 2021](#)). This allows connection with people in diverse groups, which brings wider networks and social cohesion–social harmony ([Guðmundsson & Mikiewicz, 2012](#)). This enhances tolerance, solidarity, and trust among people, which calls for cooperation and social governance that is suitable for business progress.

Linking is the relationship between power and authority in society ([Prins & Custers, 2021](#)). Linking refers to ties between community-based organizations, government agencies, or other funders in the community ([Claridge, 2018](#)). This clarifies that clear ties between agencies and business communities offer unique accessibility to socioeconomic support for business performance. Based on these ties, resources are also brought near beneficiaries for use to enhance business growth. Such connections allow people outside the community to leverage the resources available and usable by the community. This confirms that, as people from different power levels relate, they capitalize on the resources required by the business entity.

Thus, when all three forms of social capital are combined, they stimulate the functioning of business enterprises. Thus, it is clear to ascertain the means through which various ties or relationships are used to create and maintain better interactions between people and their business entities. Moreover, various forms of social capital exist only when trust is exhibited among social networks ([Kato & Tsoka, 2020](#)). Importantly, norms, reciprocity, shared values, and networking are values of social capital ([Young, 2012](#)) that firms need to exploit for their efficiency.

Notably, SCT allows people to know themselves with regard to trust, respect, kindness, and reciprocity, which promotes firm growth ([Capital, n.d.](#)). This indicates that trust, respect, kindness, and reciprocity form the basis for business prosperity. It is worthwhile to be trustworthy, kind, and respect customers, which drives the business forward. The interchange between the stated concepts within ties assumes entrepreneurial growth ([Fine, 2010](#)). Therefore, in any network, knowledge as a resource bonds members in a network or ties as more knowledge is generated and shared among themselves. Such knowledge shared, coupled with good governance, acts as a resource for driving business to higher levels.

The theory further affirms that such a bond creates strength and goodwill for groups and social networks. Thus, members of each network can easily access social resources within the network. It is further explained that tangible and intangible resources ([Capital, n.d.](#)) are disclosed to members within social networks and treated as forms of capital, thus stimulating decision-making ([Claridge, 2019](#)).

Moreover, the theory assumes that:

...the more the network, the greater the social capital; the greater the social capital, the higher the priority of the norm of equality, and the greater the social capital, the easier it is to mobilize support for solutions to problems ([Kato & Tsoka, 2020](#)). This implies that social capital forms of social ties and norms ascertain financial support for those in the network. This indicates that forms of social capital

(bonding, bridging, and linking) help entrepreneurs access funds and other resources for business growth.

However, this theory has been criticized by some scholars, as indicated below ([Capital, n.d.](#); [Moskoff, 2011](#)):

1. The lack of a clearly accepted definition results in confusion, disagreement, and contradictions. The social capital theory does not specify how individuals control social capital resources.
2. It is not social, capital, or theory, as stipulated by the author, which lowers its validity and substance; hence, it is a fraudulent theory.
3. Its ambiguity and subjectivism render its contributions unclear to users.
4. The benefits of social capital theory are outweighed by its costs, lowering its adaptation by the business community, and hindering business growth.
5. There is no clear evidence provided by this theory to confirm that social capital solves society's problems. This implies that relying on it provides no guarantee of solutions to community problems, which might be applicable to business enterprises.
6. Social capital forms as stipulated in the theory; for example, bonding with bad networks results in unsustainable mannerisms, such as financial corruption and bribes.

Interestingly, more studies have been conducted to ascertain clear and understandable definitions of social capital ([Claridge, 2018](#)). The criticisms help highlight the gaps in the theory to provide avenues that strengthen its benefits. Studies on social capital have established its forms and usefulness in business growth.

3. Research Methodology

The study adopted a descriptive design employing both qualitative (QUAL) and quantitative (QUAN) approaches for data collection. The design was employed to systematically obtain information on the forms of social capital and the influence of social capital on SMEs performance among the selected population ([Voxco, 2021](#)), and it is cost-effective. It provides critical questions regarding the problem under investigation.

Further, the design helps elicit large volumes of data from the sample in the shortest possible time ([Creswell, 2014](#)). The design is integrated into QUAN and QUAL methods, as they help to provide accurate and comprehensive data required in the study ([Voxco, 2021](#)). QUAN helped elicit quantifiable and systematic data to generate descriptive statistics, such as frequencies and graphs for analysis. QUAL collects people's opinions through interviews and observations to describe the problem ([McCombes, 2019](#)).

The study focused on Kitemu Ward, which is found in the central region of Uganda. It is located near Mukono and Nsangi Wards and lies between 0.2736° or 0° 16' 25" " N and 32.4661° or 32° 27' 58" E ([Mapcarta, n.d.](#)). It is a growing peri-urban area with an influx of business people and entrepreneurs from Kampala City due to evictions, high house rent, and congestion. This has resulted in increased growth of small and medium-sized enterprises (SMEs). However, many have not yet realized the need for social capital in business performance.

In this study, 40 SMEs were determined from 45 SMEs operating in Kitemu Ward using the Yamane formula. The formula was employed to determine the accuracy, and the findings and conclusions can be easily applied to the entire population ([Projectclue12, 2021](#)). In this study, respondents were purposively and randomly selected. Using purposive samples, the researchers selected the key informants for interviews, while random sampling was used to select employees from sampled SMEs operational in Kitemu Ward. Relatedly, purposive sampling helps provide rich and relevant data, while random sampling provides an opportunity for every member to be selected ([Kothari, 2004](#); [Yin, 2011](#)).

Data were collected using interviews and self-administered questionnaires (SAQ). SAQ refers to a data-collecting tool designed and delivered in person, online or by email, and paper-pen formats ([Bhandari,](#)

2021). The researchers designed the SAQ, which included both open-ended and closed-ended questions. Close-ended questions had predetermined answers, while open-ended questions gave respondents a chance to express their opinions on statements (Bhandari, 2021; Creswell, 2014; Yin, 2011).

In addition, the researchers adopted face-to-face interviews (Creswell, 2014) to administer the questionnaire to maximize time and a sound recorder to capture data. This was done after obtaining the consent of the respondents.

Using the interview method, semi-structured interviews comprising open-ended questions were designed to elicit data from SME owners. The questions included: What are the common forms of social capital employed by your business? Does social capital improve SMEs' performance? The tool allowed for a discussion of natural conversation between the interviewer and interviewee (Elhami & Khoshnevisan, 2022). This implies that the interviewees became part of the interview process and provided their responses freely. Thus, the interviewers gathered respondents' thoughts and opinions to answer questions on social capital and SME performance. The researchers used an audio recorder to capture the participants' responses verbatim. Furthermore, interviews were scheduled according to the interviewees' convenience and availability.

Before the questionnaire was administered to the respondents, a pilot study was conducted to ensure reliability. A few participants were selected from whom the questionnaire was administered. This helped refine (Yin, 2011) and applied it to data collection from the sampled respondents (Bhattacharjee, 2012). Thereafter, Cronbach's alpha was used to test reliability and was established as 0.7, making it a reliable data collection tool. This helped the researchers submit the questionnaire to experts in SMEs to verify the questions in the tool.

Furthermore, validity was ensured through a critical review and validation of the questions in the tool by experts on SMEs' performance. This helped the researchers refine the questions in the tool. The content validity index (CVI) was computed as follows: $CVI = \frac{\text{Number of items rated relevant}}{\text{Total Number of items rated relevant}}$. The results showed a value of 0.71, which allowed experts to verify and credit the data collection tool.

After data collection, the researchers reviewed the completed questionnaires to ascertain content by editing and cleaning the data. This helped us to understand the respondents' perspectives. Thereafter, the researchers provided numbers to responses that were used for their entry into Microsoft Excel (MS Excel) for analysis. Thus, the researchers ran the program and generated frequencies and percentages from which the interpretation and analysis were performed.

Researchers listened attentively to the recordings of qualitative data and compiled a list of themes. Themes were further scrutinized and grouped into subthemes.

4. Results and discussions

4.1. Results

This study established forms of social capital practiced by SME owners and their influence on SMEs' performance in Kitemu Ward, Kyengera Town Council. The results are presented in the following subsection.

4.1.1. Forms of social capital practiced by the SMEs in Kitemu Ward

Social capital is a resource employed by SMEs to enhance their performance. These are categorized as internal and external resources, respectively. Social Capital refers to bonding and bridging resources or strong ties or weak ties, respectively (Claridge, 2018). Thus, the researchers capitalized on both categories to ease eliciting data from respondents. The results are as follows:

4.1.1.1. Internal Forms of Social Capital

The respondents were required to provide answers on the internal resources employed as a means of enhancing business performance. Thus, respondents reported friends/peers, family (relatives),

partnerships, trustworthiness, knowledge/skills, social links, social norms, and personal savings as internal forms of social capital vital for business performance. The summary results are shown in Fig. 1.

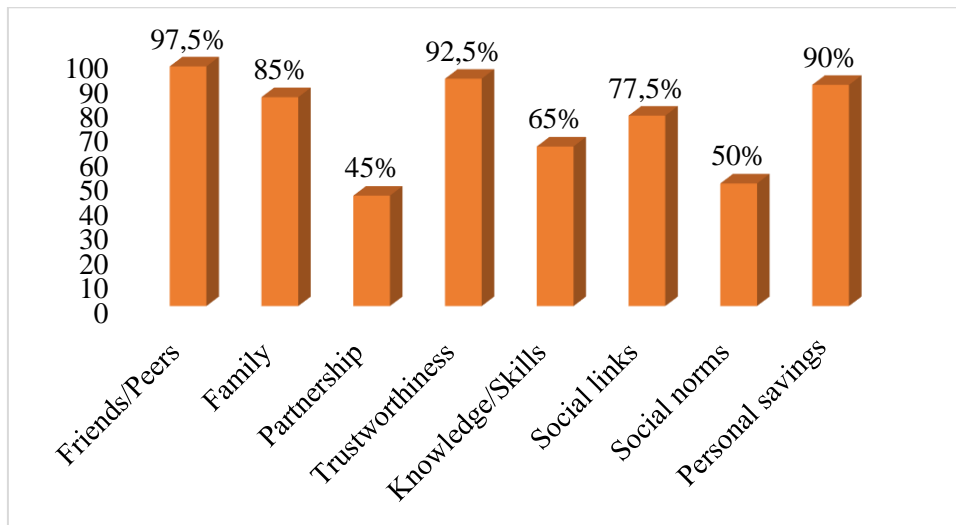


Figure 1. Internal resources in Kitemu Ward
Source: Field Data, 2022

The results in Fig. 1 show that friends/peers (97%) were the key social capital resources employed to build the Business Empire. This was followed by trustworthiness (92 %), personal saving (90%), family (85%), social links (77%), and knowledge/skills (65%). Furthermore, the results revealed that social norms (50%) were vital on average, while partnerships reported last with 45%. The results indicate that personal savings are key resources, implying that the more you save, the better the resources to boost the business. Interestingly, friends/peers are good resources, but they should be treated with utmost faith, and these are friends who matter. Recall that this turns into customers for goods and services. It is also important to recall that for any business to succeed, businessmen should be trustworthy, as these resources provide many benefits to the business, stimulating performance. The results indicate that family members are a critical resource for business progress. This is because relatives significantly contribute to business success, provided they are coupled with great friends.

4.1.1.2. Eternal resources

Respondents were asked to provide external resources that enhance business performance. Based on their responses, the government, customers, financial institutions, and industry/company were reported, as indicated in Fig. 2.

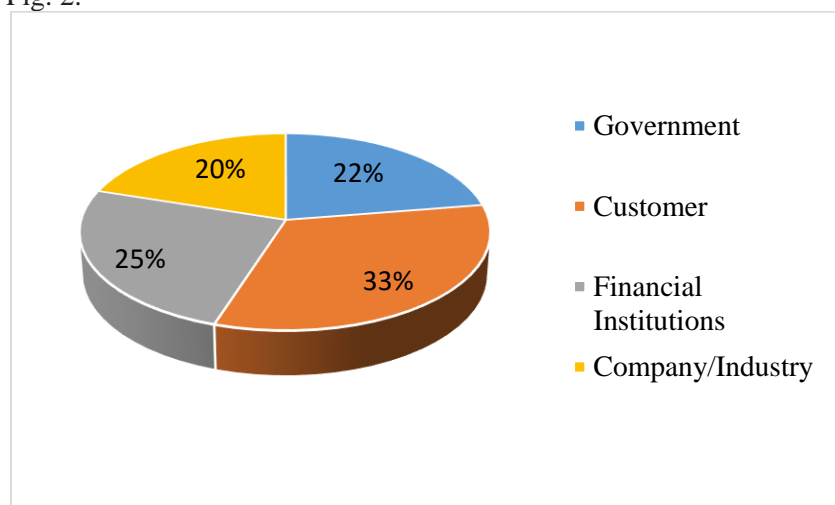


Figure 2. External Sources of Social Capital in Kitemu Ward
Source: Field Data, 2022

Based on the results in Fig. 2, customers accounted for 33% of the total respondents. This was followed by financial institutions (25 %), government (22%), and company/industry (20 %). The results signify that customers are a resource to business, and as the saying goes: “customer is a king for a business” (Kim & Aggarwal, 2016) fits with the results. The more customers a business has, the greater its performance. This determines the quantity of goods sold and, hence, more profits to the business. Financial institutions, such as banks, microfinance, SACCOs, credit unions, and forex bureaus, contribute similarly to business performance. The government includes the ability to provide an ambiance environment in which businesses operate as well as avenues to entice business prosperity. These avenues include but are not limited to, loans/grants, subsidies, tax holidays, initiatives and information resources for the business community. Further, companies/industries are resources, including suppliers and creditors, who extend their products to retailers through various channels, that is, promotion and distribution. This implies that external resources are the basis for business performance.

4.1.2. Influence of Social Capital on Small and Medium Enterprises (SMEs) in Kitemu Ward

Respondents were asked to respond to the influence of various forms of social capital on SMEs’ performance, and the results are presented in Table 1.

Table 1: Influence of Social Capital on the Performance of SMEs in Kitemu Ward

| Influence | Freq. (n=40) | Percent |
|------------------------------------|--------------|---------|
| High volumes of sales | 32 | 80 |
| Increased market share | 21 | 52.5 |
| Competitive advantage | 15 | 37.5 |
| Creativity and Innovation | 30 | 75 |
| High Profits | 37 | 92.5 |
| Increased customer base | 38 | 95 |
| Credit Purchases | 24 | 60 |
| Accessibility to financial support | 20 | 50 |

Source: Field Data, 2022

The results in Table 1 reveal that businesses increased their customer base (95%) by integrating social capital (SC) resources into their businesses, resulting in higher profits (92%) due to increased sales volume (80%) of the goods to a wider market niche. Furthermore, social capital resources enhance creativity and innovation (by 75%) among SMEs. In addition, businesses received good credit (credit purchases), which accounted for 60%, and the market share increased by 52%. As shown in Table 1, SC plays an important role in SMEs’ performance. This implies that SMEs can expand their market networks to reach various markets as they look for customers through various social networks. Thus, the more customers a business has, the greater its sales (Liviani & Rachman, 2021). Therefore, as a business receives more profits, the better for its return on investment. Thus, social capital helps businesses widen their niches within the community and sell them to groups, and youth and professionals stimulate competitive advantage.

4.2. Discussion

4.2.1. Forms of social capital

These are social network relationships through which businesses access opportunities and resources for progress (Akintimehin et al., 2019). These resources can be tangible and intangible, and accrued to businesses for sustainable performance. However, as a means to achieve performance trustworthiness, honesty and kindness (Analia et al., 2020) need to be exhibited by business owners. Other scholars argue that social capital is expressed as information about internal and external resources (Olamide & Ogbechie, 2021) for business.

4.2.1.1. Internal forms

Internal forms are referred to as bonding or strong ties ([Olamide & Ogbechie, 2021](#)), on which businesses rely to stimulate their performance. In this regard, the internal forms of strong ties for social capital resources employed by the respondents were not limited to social norms, social links, family, friends, knowledge, trustworthiness, personal savings, and partnerships.

Notably, the findings indicate that SMEs in Kitemu Ward relied on friends as social capital resources for their performance. This is in line with [Khan et al. \(2018\)](#), who asserted that close and extended families create great relationships through which businesses sell their products. In addition, these are also means of financing that stimulate business. This implies that family networks provide higher chances of acquiring resources, finance, knowledge, technology, and leadership prudent for business performance ([Amegayibor, 2021](#)).

Further, friends and peer groups to which a business belongs enhance its prosperity. In another study, women were found to rely on less focused and impenetrable social networks of friends for technical advice, financial support, patronage, and referrals ([Olamide & Ogbechie, 2021](#)). This means that close friends and appropriate peer groups coupled with strong ties enhance business performance.

Similarly, trustworthiness is regarded as a key resource for business performance. This includes honesty, kindness, trust, and goodwill exhibited by the SME proprietors. This implies that trustworthiness (norms, reciprocity, and calculative self-interest) influences social networks in the community to build long-lasting relationships for business interactions ([Analia et al., 2020](#); [Khan et al., 2018](#); [Townsend, n.d.](#)). Further, trustworthiness is related to reciprocity, goodwill, friendships, culture, norms, and networks. All these factors result in richness within the group and society, which stimulates sales and profits as measurements of SMEs' performance. Thus, trustworthiness is seen as a market potential for businesses in which business owners may be able to receive goods on credit, and because of this trust, customers become loyal to the business and later translate into business performance.

Remarkably, respondents noted that social ties are a great social capital resource for enhancing their performance. Further social ties, such as social networks, social media, and group associations to which a business relates, were vital for performance. One respondent noted that she was associated with various social networks that had a significant impact on business performance. Additionally, social ties such as WhatsApp groups, Facebook groups, village savings, and loan associations (VSLA) were common among the respondents. Studies affirm that businesses that have strong social ties have shared values acquired through networks, groups, or associations—better performance ([Akintimehin et al., 2019](#)). Another respondent added that belonging to various social ties brought more customers and increased sales and income, increasing profits for her business.

Interestingly, the respondents reported personal savings as a resource for business performance. This implies that SME owners boost their businesses through the personal savings accumulated over time. One respondent asserted that he had saved money in a metallic box for three years, and upon opening it, he received five million Uganda shillings. This money was a stepping stone to current business growth. He reaffirmed that savings arose from reduced alcohol consumption as advised by friends. Another respondent asserted that savings depended on someone's willingness to save compared with their willingness to consume. Thus, associations and groups to which members belong play a key role through sensitization in financial management skills.

Further, the findings indicate that knowledge is another SC resource vital for SMEs' performance. Thus, knowledge relates to the skills acquired by a person to transform a business. The findings are complemented by [Khan et al. \(2018\)](#), who explained that the knowledge and skills gained offer an opportunity for businesses to compete favorably in the market environment. [A. F. Anoke, Onu, and Agagbo \(2022\)](#) add that SMEs owners and operators with technical knowledge in business management enhance business profitably, effectiveness and efficiency. Thus, if the knowledge acquired is shared among the members of a group, it is a stimulus for business growth ([Harjanti & Noerchoidah, 2017](#)).

Therefore, knowledge and skills over time turn into competencies useful for business transformation and build solid networks that lead to a competitive advantage over the competitor ([Olamide & Ogbechie, 2021](#)). Respondents retorted that they had received knowledge and skills from their friends on social networks. Such knowledge and skills are related to record keeping; market surveys; applicability of the price, product, place, and promotion(4Ps); customer care; customer attraction; and retention to their businesses. This allowed them to make appropriate decisions regarding what to buy, where to buy, where to sell, who to sell and reinvest, and how much to bank for SMEs' sustainability. This also agrees with [Chenhall, Hall, and Smith \(2010\)](#), who infer that competence and good leadership, coupled with appropriate management control systems, stimulate social capital dimensions such as bonding, bridging, and linking. This ensures creativity and innovation among SMEs for self-sustenance, a competitive advantage that enhances their growth ([Weerathunga & Seneviratne, 2023](#)).

Finally, the findings indicate that partnerships in business operations are another SC resource suitable for SMEs' performance. It is worth noting that partnerships, as other resources, help share resources and complement each other. This indicates that as one provides finance, another provides knowledge, and another may provide space where the venture is established. For example, partnerships aid capacity building, financial support, skills development, provision of competencies, and enterprise development which help SMEs to perform. This implies that even a person who does not have money can start a business in partnership ([Unido, n.d.](#)). However, for partnerships to last longer, entrepreneurs should consult a lawyer to guide them in designing principal documents, which bind the parties together. This will help establish shares as per contract documents.

4.2.1.2. External forms

External forms of social capital are sometimes referred to as bridging or weak ties that a business can employ to promote performance. Thus, the respondents provided government, industry, customers, and financial institutions as key social capital resources to stimulate SMEs' performance.

First, the findings indicate that the government is one of the external forms of social capital for SMEs' performance. Notably, the government includes the ambient environment, policies, regulations, interventions, and financial support to the business community to improve their business performance. Respondents asserted that government interventions, such as low-interest loans through SACCOs, organized groups, women-men associations, subsidies to business inputs, capacity building, tax holidays to investors, and removal of taxes on goods, were vital for business success. These findings concur with [Eton et al. \(2018\)](#), who inferred that government interventions include the provision of credit, training, technology, marketing, and management. The results are also complemented by [Eton et al. \(2018\)](#) who infer that the government uses direct subsidies, tax incentives, and procurement to inject large amounts of resources into the entrepreneurial process.

However, the respondents claimed that existing government interventions benefited a few people. This was because, as money is released to various groups and SACCOs, it does not reach the right beneficiaries. It was also reported that government interventions were full of corruption, to the extent that someone had to pay 10,000/= to sign for 1,000,000/=. One of the respondents asserted that the government had recently introduced the Emiyoooga and Parish Development Model but had less or no achievement for business growth. Thus, the government, as an external form of social capital, cannot be relied upon for business growth but can only work when corruption, bureaucracies, and incompetence are revised and improved.

Additionally, the findings indicated that industry and/or company are resources for SMEs' performance. Previous studies indicate that industry/company includes suppliers and creditors who relate to businesses in any way possible and supply goods either on credit or with cash to businesses. This suggests that such a technique improves business efficiency and effectiveness and ensures the performance of businesses receiving goods on credit ([Khan et al., 2018](#)). However, this is attributed to the honesty/trust of the businessman in the industry, and if it exists, it creates good relations and interactions among the parties. One of the respondents stated that he was on good terms with the

suppliers, and they had so far supplied him with goods on credit for over 10 years. He added that whenever he receives the goods, he promptly pays back the money to the suppliers within the agreed time frame.

Moreover, respondents reported that customers were external social capital resources for SME performance in Kitemu Ward. It is believed that a customer is king in business. Thus, as a business holder, *“the way you interact with your business matters a lot.”* One of the respondents revealed that she handled her customers with care because annoying a customer may result in a decline in business. She claimed that when you annoy a customer, you chase away many who would have bought from you. This is because you annoy communicating with those in their networks, and by the time you realize it is too late. Respondents inferred that a customer to your business can move miles and miles to come and buy from you, and for coming, he/she brings other colleagues who may not be potential customers, but you need to convert them into potential customers for the success of the business.

Finally, it has been reported that financial institutions are good external forms of social capital resources for SMEs' performance. Respondents provided examples of financial institutions such as banks, microfinance, foreign bureaus, and money lenders who, in one way or the other, aid their business operations. One respondent noted that he had grown his business on microcredit from banks as loans. It is worth noting Although loans are good for business operators, they should be acquired after a thorough examination to avoid payback limitations. [Turyahikayo \(2015\)](#) builds on the above statement with the submission that business proprietors must demonstrate their willingness and sufficient equity for the payback period. On the other hand, a female entrepreneur asserted that she was denied a bank loan because of a lack of collateral security. This is linked to [Turyahikayo \(2015\)](#), who affirms that the absence of collateral risks the borrower from accessing a loan for his/her business growth.

4.2.2. *Influence of social capital on SMEs performance*

Social capital from both internal and external sources contributes significantly to SMEs' performance, for example, increases sales, profits, ensures credit purchases, increases customer base, enhances market share, competitive advantage, creativity and innovation, better return on investment, and ensures accessibility to finances.

The findings reveal that social capital results in increased sales volume for businesses. This is achieved through social ties and good customer care practices. Social ties have been reported to accommodate many people through network interactions. This is supported by [Olamide and Ogbechie \(2021\)](#), who acknowledge that good interactions and relationships with potential and loyal customers result in greater sales volume. Thus, the relationship with such ties creates avenues for market opportunities to sell products. One respondent claimed that when you sell more goods, you earn better profits. The profits can be saved, and the other can be reinvested to improve business performance.

Furthermore, more forms of social capital enhance credit purchases. Respondents acknowledged that if social capital forms are explicitly owned by SMEs, they provide an added advantage for business performance. One of the respondents noted that trustworthiness is goodwill, which creates the willingness of the suppliers to provide goods on credit to the buyer. This implies that an honest business proprietor always interacts with suppliers, which eases credit purchases to businesses. Thus, the seller will sell goods to his/her clients throughout as compared to those who are not honest, thus increasing their competitive advantage. [Turyahikayo \(2015\)](#) states that the absence of an ethical environment and trust among business operators may lead to inefficiencies in SMEs. Moreover, there is increased creativity and innovation among business owners who integrate forms of social capital into their business operations. Through this, proprietors come up with various means to help them compete favorably in the market environment. Thus, creativity and innovation are marketing strategies for products in which information is shared within social ties to attract more clients. Hence, SME proprietors often try to ensure that new ideas are generated through market surveys and converted into tangible products for customers.

In addition, the findings indicate that social capital forms increase the customer base. Respondents asserted that businesses use attractive strategies to attract customers. One respondent reported that the customer base was ensured through social ties, close friends, relatives/family members, and associations. Certainly, shared information builds solidarity among members and translates into strong relationships, an engine for multiple sales (Khan et al., 2018). Such information may include product price, product quality, promotion, and distribution. It is asserted that in such forms of social capital, it is important for members to be honest and trusted. They also stated that it is better to keep in touch with customers to retain such numbers in the enterprise. This could be achieved by sending appreciation messages, seasonal greetings, and congratulatory messages. It is important to provide offers, coupons, and gifts to customers as a means of retaining them in the business.

Interestingly, social capital forms enhance the market share. Market share is defined as the comparison of one's market with that of its competitors (Akintimehin et al., 2019)(Akintimehin et al., 2019)(Akintimehin et al., 2019). Respondents affirmed that this was because of their interaction and the relationship between internal and external forms of social capital to stimulate business performance. One respondent noted the following.

...her business was performing far better than that of the neighbor because of the quantities sold per month. She added that whenever she could chat with a colleague, she would say that her business was performing poorly and made no profits. Another respondent reported that shop X performed better than his and that the guy would offload goods daily, but I would not restock my shop.

Furthermore, respondents reported that forms of social capital encourage accessibility to finances, which enhances SMEs' performance. Respondents further asserted that social capital, such as social ties, associations, and groups, encourages individual firms to access financial support from various financial institutions such as banks, microfinance, and credit associations. It was revealed that through groups such as social networks, borrowers are recommended to acquire microcredits from financial institutions. However, a lack of trust/honesty may result in failure to access capital financing by microcredit associations and banks (Turyahikayo, 2015). Respondents reckoned that collateral security is not a menace to borrowing, as it is for individual borrowing. One respondent indicated that

... She was able to access finances from one of the financial institutions with support from the group where she was a member. Another respondent claimed that his business was prospering because of a loan acquired through the group lending scheme in one of the banks in the area. He also asserted that their interest in group loans was low compared to individual borrowing.

5. Conclusion

5.1. Conclusion

In conclusion, social capital (SC) includes both internal and external forms. Based on the study findings, friends, family, trustworthiness, knowledge, and partnerships accounted for internal forms, whereas government, industry/company, financial institutions, and customers were reported as external forms. This implies that SME proprietors and managers rely heavily on internal forms of social capital to harness business performance. For example, internal forms, such as friends and family, provide emotional and material support and offset crises. Further, external forms may seem to contribute less to SMEs' performance independently, but if integrated into internal forms can stimulate business growth and performance. Interestingly, various forms of social capital enhance SMEs' performance through increased customer base, profits, sales volume, and creativity. This implies that SMEs proprietors/managers who intensively aligned their daily operations to different social capital forms achieved the best performance. Thus, SMEs and other entrepreneurs can use the findings in business operations for outstanding performance to gain a competitive advantage over others.

5.2. Limitation

It was clearly established that SC stimulates small and medium performance (SMEs) in the communities of Uganda. However, not all business operators gain social capital. Thus, this study examined the forms of social capital employed by SMEs and how social capital influences SMEs' performance in Wakiso District, Uganda. Evidently, the study was limited by financial constraints, which hindered researchers

from conducting the study throughout the Kyengera Town Council, but instead focused on Kitemu Ward. Further, the participants were reserved in giving out responses related to finances because they were afraid that the results would attract higher taxes on their businesses, hence limiting the objectivity of the results. Moreover, collecting data from a smaller sample size might limit the generalization of the study findings to the entire Wakiso district.

The study was limited by time and data collection bias. This limited the researcher from conducting the study throughout the Wakiso district. Data collection biases would limit the volume, reliability, and quality of data. Thus, the researchers managed time bias by setting a clear time framework and providing appropriate time to the participants. Similarly, data collection bias was an appropriate method used to collect data. Further, researchers reviewed and refined the questions into a simplified language and applied face – to – face approach to collect data. After obtaining consent from the respondents, the responses were digitally recorded to maintain their originality.

5.3. Suggestion

The study suggested that, for the future performance of SMEs, businesses should integrate two forms of social capital, and stumbling blocks under the external forms should be removed by the government. The study recommended that Future studies should focus on the hindrances to the use of external forms as social capital resources in Uganda. This study did not investigate the challenges affecting SMEs' performance in Kitemu Ward; thus, future researchers should conduct studies on the challenges faced by SMEs in leveraging external forms of social capital. Further, more studies should be conducted on strategies to overcome the challenges of social capital's influence on SMEs' performance in similar studies that should be conducted in the Kyengera Town Council.

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