

## **NETWORK CREATION AND MICRO, SMALL AND MEDIUM FIRMS' SUSTAINABILITY**

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### **Abstract**

*Micro, Small and Medium enterprises undoubtedly contribute significantly towards the economic growth and development of any country. SMEs' have been the source of innovation and employment creation in most economics. Despite the contribution it makes toward national building its sustainability is hindered by several challenges especially in emerging economies such as sub-Saharan African countries. These challenges include lack of capital in terms of both human and finance, lack of innovation due to scarce resources, inadequate managerial and knowledge skills. Although there have been several studies on how to deal with MSME challenges most studies do not examine the relationship of firms and other entities within a particular business ecosystem and how it affects the performance of firms. The study seeks to address the question, How to foster the creation of micro, small and medium enterprise*

*networks? And how it influences the sustainability of individual firm. The study provides theoretical insights into how interaction between firms and other entities in its business ecosystem. In addition well-established networks increase the firm propensity to value added innovation resulting in positive performance. And this contributes towards the sustainability of both the industrial sector and individual firms' performance.*

*Keywords: Small and Medium Enterprise, Network Creation, Firm Sustainability, Innovation Capabilities*

## **INTRODUCTION**

The immense contribution that small and medium enterprises has on an economy cannot be underestimated. Small and medium enterprise has been the sources of economic growth, innovation and employment creation among others in a particular economy. Despite small and medium enterprises can be found in every economy, it's predominately found on larger scales in emerging economies and sub-Saharan Africa is of no difference. The business climate of most emerging economies in sub-Saharan Africa is characterized by several micro, small and medium enterprises as compared to relatively larger firms. Therefore contributing substantially toward economic and national development and growth. For instance in Ghana micro, small and medium enterprises contributes a larger portion of national gross domestic product whiles tagged as the largest employment sector in the country. This presents micro, small and medium enterprises and key stakeholders in an economic with the challenge to continuously coordinate to provide satisfactory products and services to satisfy customers' whiles contributing to national growth on a continuous basis. Since these firms are the backbone of any economy. Therefore the growth, development and survival of a particular economy especially in sub-Saharan Africa depends on a flourishing micro, small and medium enterprise sector that is equipped with sufficient tools to success in both the short and long run (McMillan & Woodruff, 2000; Mullineux, 1997; Ward, 2005; Brusco, 1992; Turyakira, 2012).

Although micro, small and medium enterprises contributes enormously towards economic growth and development their survival is threaten by the expanding globalization and other factor. In addition several factors such as the lack of managerial skills and expertise, lack of resources, financial constraints among other factors are cited as challenges affecting the growth and development of this sector (Aryeety et al, 1994; Harorimana, 2009; Schifter & Weder, 1991). Despite there have been several studies in the domain of micro, small and medium enterprises, most of these studies seeks to identify new innovative channels to solve challenges such as financial constraints, inadequacy of managerial skills and expertise (e.g.

Aryeety et al, 1994). These studies focus on micro, small and medium enterprises as a holistic entity rather than an entity involved in economic, relational and transactional exchanges between diverse entities within a business ecosystem. Therefore firms need to evolve and adapt to its environment in order to survive both competition and rapidly changing business environment (Polanyi, 1994; Woolock, 1998). In addition, this limits researcher understanding of how interaction and coordination between the various actors can contribute the mitigation of challenges affecting the sustainability of micro, small and medium enterprises.

The ability for firms to interact with its environment is essential for its survival in both long and short run. Interaction and coordination between the various stakeholders in a business environment would enable firms' gain the needed skills and expertise to foster the growth of individual firms. And this is evidently from studies conducted among SME networks in developed economics (Lin & Zhang, 2005; Thrikawala, 2011). The interaction between the various actors results in the production of a rich social capital resulting in value knowledge creation. This is attributed to the fact that actors within a particular network contribute various forms of resources from diverse backgrounds. The collective resources provide firms with alternative resources that can be utilized to enrich internal process and innovation performance. Furthermore, firm therefore can tapped into this generated knowledge pool to enhance its internal product and service quality and others (Pensore, 1956; Bower, 1993; Carey & Tanewski, 2009).

Insofar as interaction and coordination between various actors in the micro, small and medium enterprise sector plays a significant role in the performance of a particular firm, it can be seen that there exist limited number of formal SME-networks in sub-Sahara Africa as compared to developed economy. In addition there is lack of institutional supports to foster the creation of these networks. Aside institutional supports other factors such as weaken incentives due to high transaction cost, non availability of formal coordination platform have weaken the incentives of firms especially micro, small and medium enterprises to forms business or organizational networks (McMillan & Woodruff, 2003).

Although business or organizational network has an impact on the performance of firms' performance previous studies suggests that such networks are mostly informal in sub-Saharan Africa. And this is usually based on buyer-supplier relationships. This results in an informal relational contracting between the buyer and a supplier (Bigsten et al, 2000; Barr, 2000; Fafchamps, 2000). Therefore creating a vacuum in relation to how networks influences the growth and sustainability of micro, small and medium enterprises in sub-Saharan Africa except studies conducted by (Turyakira & Mbidde, 2015) that examined the empirical factors that undermine networks in small and medium enterprises. Therefore the central theme of this study

is to answer the question, How to foster the creation of micro, small and medium enterprise networks? And how it influences the sustainability of individual firms. The rest of the study is divided into the following sections, section 2 focus on the challenges of SME network formation, section 3 focus on network formation and sustainability of SMEs' and lastly section 5 discusses the conclusion for this study.

### **Challenges of Micro, Small and Medium Enterprise Collaborative Network formation**

Micro, Small and Medium enterprises are normally characterized by relatively firms that small in size in relation to the number of employees, capital and assets. The size of these firms does not provide the needed mitigation mechanism to deal with shocks and unanticipated circumstances and happenings. In addition the volatility of macroeconomic indicators in the macro sector of most sub-Saharan countries economics affects the development and sustainability of micro, small and medium enterprises. Generally, MSME is defined as a firm with less than 250 employees and this is the adopted definition for this study (NUTET, 2004; Aryeetey et al, 1994; Turyakira, 2012).

Furthermore, the size of these firms affects its decision to go into alliance with other firms to boost its innovation performance that influences a firm's long time sustainability. Due to the relatively small amount of resources such as financial and human capital disfranchise firms from going into long-term alliance with each other since research and development and other collaborative activities would take a tow on the financial healthiness of a particular firm. In addition the size of MSMEs' does not allow network to evolve over the various stage and might die along the way and this would affect the performance of firms. Or even let to them folding up (Aryeetey et al, 1994; Lester & Parnell, 2002; Miller & Friesen, 1984).

The geographical distribution of firms makes it difficult for firms to form any kind of inter-organizational network beyond the scope of a particular firm. This geographical restriction is an essential factor that hinders the creation of valuable inter-organizational network between MSME. Firms are sparsely located across various regions of a country therefore making it challenging to promote interaction activities between various stakeholders in this sector. Since these firms are not located in close proximity it creates a gap in information and knowledge transfer process therefore affecting the coordination activities of such an alliances. Since the benefits of this alliance is to share and utilized information and knowledge coming from diverse streams the existence of such a structural hole have a negative impact such a process. The brokerage of information and knowledge flow cycle limits the ability of firms to tap into this resource for further utilization (e.g. Burt, 1992; Barham, 2012).

### **Network Formation and Sustainability of Micro, Small and Medium Enterprises**

In order to foster effective interaction and coordination between both related and unrelated MSMEs' firms it is essential to create and maintain a dynamic strategic inter-organizational alliance between firms. The rationale behind network formation is evidently seen in the result member of previous networks has enjoyed in relatively larger firms. And it is attributed to the amount of resources that is pooled together and enjoyed collectively and individually by individual firms respectively. These resources exist in the outer boundaries of a particular firms therefore the formation of such networks or strategic alliance serves as a catalyst that enable firms to explore relevant resources outside its definite boundary (Gulati, 2007; Lavie, 2006).

In dealing with the proximity factor that affects the formation of MSMEs' network in order to achieve high performance and sustainability of this sector, there should be a conscious effort to enact policies and strategies to locate these firms a geographical location. As evident from several industrial clusters of diverse characteristics it can be seen that the proximity of firms both related and unrelated in a particular geographical location has immense benefits on individual firm innovation and firms' performance. Industry cluster arises from the concentration of firms in a spatial location. The rationale for spatial location is critical since it enables actors to bridge the gap in information and knowledge flow between actors. Since actors are concentrated in a particular location it shortens the communication process resulting in less distortions and timely availability of information. And this happens to be two key components of efficient communication in any form of alliances. In addition the proximity enables actors to be embedded within its industrial ecosystem. And further have an impact of a firm survival rate and high productivity. Since cluster are major source of technology innovation (Porter, 2000; Tether, 2002; Ackah & He, 2016; Carey & Tanewski, 2009).

The social capital that firms enjoy from the formation of a network is numerous as compared with parties that are not part of a particular network. In relation to resource-base view theory firms in an alliance or being a member of a particular network presents firms with several alternative resources such as access to new technologies, resources and expertise. Capital resources can take the form of both capital and human capital. Furthermore, the availability of these complementary resources enables firms to enrich its internal innovation processes resulting in the development and production of value-added services and products. Value added products turns to satisfy customers leading to repetitive purchases whiles gaining customer loyalty. A continuous increase in a firm's loyal customer base is critical to the survival and sustainability of MSMEs' since customers are the backbone of any organization. Forming a network between MSMEs firms enables actors to complement each other weakness whiles

sharing strengths in a collection responsible manner that influence the sustainability of individual firms (Pensore, 1956; Field, 2003; Bourdieu, 1986; Edwards, 2001).

In formation of MSMEs network is prudent for various institutional stakeholders to contribute to its design and development. The rationale for institutional stakeholder involvement emanates from the fact that micro, small and medium enterprises do not possess all the needed resources especially the management skills, expertise and financial resources to create and maintain such a network. Therefore institutions have the mandate to simulate these processes through the introduction of financial and human capital towards the creation of such a network. Furthermore due to the sparse location of firms it is prudent to compile a up to date database of firms to enable institution identify the number of firms, its service and products and this would enable actors to design and implement mechanism that would simulate interaction between intended actors. The availability of such a database will reduce the search cost and also enable firms identify the right partners to form an alliance or network with in order to reduce the risk of unsuccessful network. In addition it will reduce the occurrence of weak ties no matter how strong the network might be. When there exist weak ties between actor in a particular network it affect the ability of actors to utilize the pool of social capital available while resulting in mistrust. In order to achieve high productivity from alliances and inter-organizational network especially among MSMEs' trust is a critical ingredient. When actors trust each other it smooth the flow of information and speeds up the attainment of collective goal and benefits (Granovetter, 1972; 1985; He et al, 2013; Adler & Kwon, 2003; Francois, 2003; Coleman, 1990).

### **Benefits of Network formation for MSMEs**

Network or alliance provides actors with immense benefits. In this study due to the characteristics of micro, small and medium enterprises we argue that network formation benefits firms in several reason with knowledge and information sharing, access to complementary resources and the opportunity to enable firm enrich it innovation performance is of critical value. Since the theme of this study is to promote the sustainability of MSMEs through the formation of inter-organization network is critical for such a network to embody these properties.

Through the formation of MSMEs network it will provide firms with a common platform to cooperate on various aspects of the business cycle. Actors are able to share industrial information and also catch up to new markets through the interaction between diverse actors. Since each actor possess diverse strength and weakness, they turn to obtain complement each other resulting in improve standards and quality of product and service. The collective resources enable each actor to serve as a check on each other and further enhance the reputation of particular industrial sector.

Having timely access to information and knowledge is critical to both business decision-making and firm productivity. Being part of an organizational network will enable firms or actor in a particular social network gain access to information and knowledge firm diverse sources in relatively timely manner. In the long run this will enable firms to avoid several pitfalls and improve it competitive advantage that is crucial to be survival and sustainability.

The availability of timely information and knowledge coupled with complementary resource in a particular network enables firms to improve on it value proposition. The access to vast array of information enables firms to improve it product and service to catch the hearts of customers. A value added service or product has a high propensity of satisfying customer needs and desires. A loyal customer base results in repetitive purchases and impacts the profit margins of a firm. A profitable firm has the propensity to survive through ups and downs.

## **CONCLUSION**

The purpose of this study is how to foster the formation of MSMEs network to facilitate interaction and coordination between micro, small and medium enterprise in order to achieve continuously growth and development. The sustainability of MSMEs' is critical to the economic sustainability of most economics in the sub-Sahara region. Although MSMEs' happens to be the catalyst of economic growth and development in these diverse economics, the sustainability of these firms is threated constantly by diverse factors such as globalization, lack of innovation and others. Despite several scholars have addressed these factor, most of the studies focus on development new channels to foster changes in individual firms access to credit, managerial expertise and other. Eliminating the fact that MSMEs resides and interact with several other entities in its business cycle. Although previously proposed model and channels of improvement can have an immerse impact on the performance of a particular firms, the intended result is not always the case. This is attributed to the fact that firms are not able to integrate into the business ecosystem it finds itself. Therefore most firms are left out or not able to access the numerous resources outside are business boundaries and further affecting the sustainability of this sector.

Therefore to deal with this it is prudent to promote the formation of networks between MSMEs in order to share resources and information. Member can tap into these resources to boost its internal productivity. In view of this, the study makes strides in areas of networks formation in micro, small and medium enterprises and how it impacts firms' sustainability. The study provides theoretical insights into how MSME network can be created and maintains in order to boost the performance and sustainability of micro, small and medium enterprises.

Although the study makes some essential contribution to this domain of studies, still have some form of limitations. Therefore the need for further studies to examine which factor empirically contributes to the formation of MSMEs network and also how it affects firms' performance over time.

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