

# The Gravity of Entrepreneurs' Network Ties on the growth of the Business in Sri Lanka

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## Abstract

Using the business performances of the firm we investigated how network ties (NT) interfere to obtain business growth in Sri Lankan context. As NT consist of two constructs which are social NT and business NT, this study aims to what extent both constructs engaged to the growth of the business in distinctly. It was mainly hypothesized that entrepreneurs who have high NT could perform more than others who engaged with lack of NT in same context. Finally results confirmed that NT has a positive impact on business growth. However, results indicated that business NT has significant influence on business growth than social NT. The results of the study have important implications to the existing entrepreneurs, potential entrepreneurs, investors, researchers, consultants and policy makers.

**Keywords:** Network Ties, Social Network Ties, Business Network Ties, Business Performance

## 1. Introduction

It is critically acknowledge that entrepreneurship is important for economic growth, productivity, innovation and employment creation, therefore many countries have made entrepreneurship as an explicit policy priority (Semasinghe, 2011). Current context in business performance, outcome is depend on variety of factors in which extensive precedence is given for business network ties and social network ties of businessmen. These two fold ties are played thrive significant especially in emerging economies whose business infrastructure facilitation is not much in developed form. However in developed economies too, the gravity of network ties is understated and thereby widely spelled out. In business firms in developed economies too enjoying these ties in a manner of considerable higher than those of not so, are benefited as the way in competitive advantage in the market. This paper is concerned on how do Businessmen engage in improve social and business network ties to improve on increase in business performance. This business and social network ties work not compliance with a manner to universality acceptable but differ from social and cultural attributes in most cases unique across the countries. Thus it is need of the hour to deeply analyze the manner how do Sri Lankan businessmen deal with the matter in marching ahead with their day today operation and the manner it relates towards the business performance. The importance of network ties is rather emerged in taking into accounts of the meaning of the Chinese proverb that "who you know is more important than what you know" (Zhao, 2005). In case of that external environment changes, the adaptation process of organizations becomes convenience due to network ties (Uzzi, 1977). Thus network ties assist on people to deal with various aspects in physical and physiological such as mental health, aging, retirement, widowhood, job burnout and so the same way network ties may apply in case of issues specifically encounter by the businessmen in order to raise solutions to their own issues in different business aspects which enhancing performances (Ren, 2009). Referring to both constructs, social networks are increasingly importance to businessman to acquire such skills and talents in a manner that access towards markets, ideas, information, advice, business opportunities and other resources (Fang S, 2010). Thus the network ties cause to development of social capital which consists of the ties of knowing each other's and put it workable as a network and utilization as a leverage towards solving business issues as and when arises (Nahapiet J, 1998). Bian (2000) explains that due to proper business NT knowledge could be reduced by 50%. The specificity of business network consists in i. Its orientation to economic advantages ii. Its initial structural and relational formality; though, relations could be informal, this informality is always developed on the basis of well-defined functions and sanctions iii. Business processes are mostly regulated by official law, while social network could refer to common sense notions (Bouzdine & Marina, 2004). Thereby the untimely value of the title, as a matter of fact in context of Sri Lanka is almost worthy in this perspective. Therefore this study focuses on how do Sri Lankan businessman looks forward on this subject in compliance with their own performance enhancement.

## 2. Literature Review

Aldrich and Zimmer (1985) came up with a narrow definition of networks where they defined networks as consisting of those persons with whom the entrepreneur has a direct relationship and those with whom the entrepreneur has indirect relationships through his direct relationships. Considering to NT, prior researchers assert that individuals who encompass massive and variably in abundance network ties are excessively proof on exposed towards cold since they massively and regularly intact with viruses (Cohen.W, 1989). Thus network ties assist on people to deal with various aspects in physical and physiological such as mental health, aging, retirement, widowhood, job burnout and so the same way network ties may apply in case of issues specifically

encounter by the businessmen in order to raise solutions to their own issues in different business aspects which enhancing performances (Ren, 2009). Meantime literature review aspect has been considered on two sorts of perspectives. One perspective is social network ties while the other is the business network ties. These dual perspectives are equally momentous in case of developing business performances. Therefore it is separately discussed over each perspective in respect of literature review (Nohria N, 1992).

Since the entrepreneurship regards as a process of building a team with complementary skills and talents, social NT are increasingly importance to businessman to acquire such skills and talents in a manner that access towards markets, ideas, information, advice, business opportunities and other resources (Fang S, 2010). Thus the social NT cause to development of social capital which consists of the ties of knowing each other's and put it workable as a network and utilization as a leverage towards solving business issues as and when arises (Nahapiet J, 1998). Thus, access to benefit rich social NT in organizational levels is considered as a form of Social Capital which enhance the values of an Organization (Coleman, 1988). According to Monolova et al (2008) Entrepreneurs strong social NT facilitate for receiving pre information regarding future enforcements, regularity changes before come into force from the governmental sources. It benefits them to take pre arrangements to encounter when really changes happen in the legislation or regulatory frameworks.

Putting attention on business NT it is well documented in past literatures (Eg: Dacin & Delios 2005; Carney 2005; Greif & Tabellini 2010). Hamilton (1996) regarded business NT as "More significant - that is, stronger - than the individual firms that make up the networks". Meantime according to Misner and Morgan (2000), business networking will become gradually more important for an array of reasons. These reasons include the ever-changing environment, the degree of constancy offered by relationships and the technological innovations of the contemporary era that do not recognize the importance of human communication. In addition, people are forced to move out of their comfort zones by interacting with people that are different from them and because of growing stress people need to interact and share their experience with others to gather support, strategies and techniques from others. According to Kay (2004), interpersonal connections and the development of trustworthy relationships are becoming increasingly important to the success and effectiveness of any business. Visibility and your importance are increased, a competitive advantage can be developed, profitability can be increased and a balance is created (Boe and Youngs, 1989).

Prior researchers contribute to identify the significant of the network ties share in emerging economy. Institutions in emerging markets which perform under an atmosphere on underdeveloped infrastructure and process systems not as on developed nations, much weight has given on the network ties for access priceless market intelligence, speed up the procedural flows and priorities attentive on the works when the traffic in another institutional influence jobs and so on (Sheng, 2011). Thus network ties enact as a salient factor which link between strategic orientation and performance in emerging markets. Such markets are intensely dominance by social relationships between institutional frameworks (Boe, 1989). It emphasizes the intensely collectivistic cultures in developing societies symbolize their influential power of local community leaders such as chiefs, kings, priests and industry leaders who provides on vast influence on resource allocation and information dissemination (Acquaah, 2007). As stated by Kranton 1996, Emerging economies' potential towards institutionalization of relationships to impact upon business activities, drive enterprises to provide to build up such relationships (Kranton, 1996). According to Chung (2012) strong social ties make happen conservation of individual businesses and also enact a force on potential investments (Chung H, 2012).

### **3. Conceptual Framework and Hypotheses**

#### **3.1 Conceptual Framework Adopted**

The model which has been depicted the connectivity of both the social network ties and business network ties along with the performance factor of an Organization. The model simplifies the connectivity of dual factors of social relationship and business relationship to the manner entrepreneurs use them for the purpose of getting successful of the performances of their businesses. Thus modifications are transplanted to the original model<sup>1</sup> produced by Nathaniel, Vicky, & John, 2013 which plays the role of a moderator between a relationship. Using the assist of prior literatures conceptual framework depicts as below figure 1.

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<sup>1</sup>In journal of business venturing .Entrepreneurial orientation, market orientation. Network ties and performance: Study in entrepreneurial firms in a developing economy, has been adopted, and NT contributes as a moderator for the performance of the business

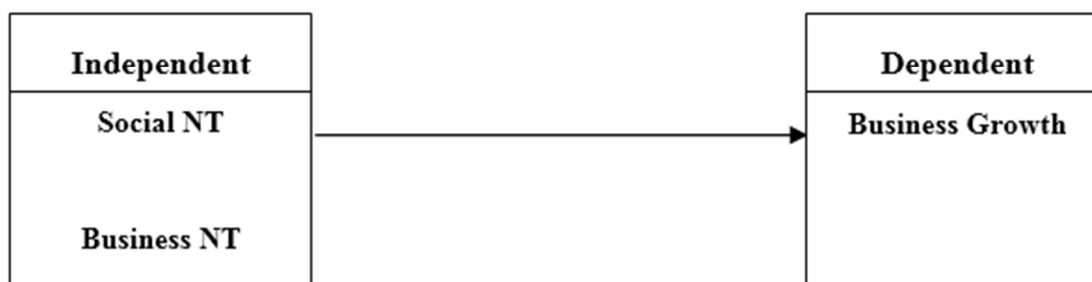


Figure 1: Conceptual Framework for the Study

### 3.2 Testing of Hypothesis

This study consists with main hypothesis which evaluated using two sub hypotheses. Literatures discussed about NT interference on business growth in deeply (Eg: Aldrich and Zimmer 1985; Cohen.W, 1989; Ren, 2009). Prior researchers emphasized that case of that external environment changes, the adaptation process of organizations becomes convenience due to network ties (Uzzi, 1977) . network ties cause to development of social capital which consists of the ties of knowing each other's and put it workable as a network and utilization as a leverage towards solving business issues as and when arises (Nahapiet J, 1998) .

Therefore hypothesis could be formulated as,

H: Network ties positively influence on Business Growth

This main hypothesis tested using two sub hypotheses. Two constructs deeply discussed in literatures. Considering to social NT, social networks are increasingly importance to businessman to acquire such skills and talents in a manner that access towards markets, ideas, information, advice, business opportunities and other resources (Fang S, 2010). Entrepreneurs strong social network ties facilitate for receiving pre information regarding future enforcements, regularity changes before come into force from the governmental sources. It benefits them to take pre arrangements to encounter when really changes happen in the legislation or regulatory frameworks (Monolova T, 2008). Same as for business NT, business network is emerged by dual way drivers. Firstly, to bridge the structural gaps via the inner connections that fixes the different aspects of the relationships. Secondly, the requirements of even further improve the corporative motives and relationships between the different network players to develop more tight relationships along with create a strong sense of community (Meyer, 2002). According to Misner and Morgan, networking emphasizes another variety of reasons including ever changing environment, the extent of consistency offered by the relationships and technologic innovations of the modern era. Using above critical evaluations sub hypotheses developed as,

Ha: Social NT positively influence on Business Growth

Hb: Business NT positively influence on Business Growth

## 4. Methodology

### 4.1 Research Design

This research process designed to investigate two factors. One is to identify extend of NT and other one is to identify extend of practicing Social NT and Business NT in Sri Lankan context. Growth of the business will assess using most prominent and frequent measure which is known as sales growth and employment growth (North & Smallbone, 1993; Storey et al., 1987). This study based on primery data and a questionnaire was developed to gather the responds of the entrepreneurs. Questoinnaire initially contains demographical data and then address the content we are going to investigate. Entrepreneurs were randomly taken in to the survary process while putting sampling technique as simple random sampling. Sample size mentioned as two hundrad and questionnaire disseminated in Sri Lanka to obtain responds.

### 4.2 Analysis Technique

Conceptual framework contains two independent and one dependent variable (Figure 1). Simply multiple regressing analysis use to evaluate the relationship between one dependent variable between multiple independent variables. Literatures elaborate multiple regression analysis is used to predict a dependent or criterion variable from two or more independent or predictor variables (Osborne & Waters, 2013). Some researchers described it as, regression analysis is a statistical technique used to relate variables (Higgins, 2005). Our intention to build a relationship and measure the strength between them so, multiple regression analysis regarded as most appropriate analysis technique for this research process.

## 5. Analysis and Results

Reliability of the questionnaire tested under Cronbach's Alpha and variables of interest are close to 0.7. Hence, it

can be seen that survey questions are reliable (Mohsen & Dennick, 2011). To assure the variables are significant for parametric test skewness and kurtosis used to analyzed. Results indicated that Skewness and Kurtosis statistics of the variables fall within the boundaries for normality (Shapiro & Wilk, 1965), allowing parametric test of significance. SPSS output describe that all correlations with absolute value above .20 are significant at  $P < 0.01$ . Table 1 and table 2 below describe descriptive statistics and correlation of the variables respectively.

Table 1: Descriptive Statistics

Variable	Mean	Std. Deviation
Social NT	23.7500	3.24758
Business NT	23.5242	3.51411

Table 2: Correlation Matrix

		SNT	BNT	BG
SNT	Pearson Correlation	1		
BNT	Pearson Correlation	.828**	1	
	Sig.	.000		
BG	Pearson Correlation	.789**	.852**	1
	Sig.	.000	.000	

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

Referring to the SPSS output table 1, both mean values for social NT and business NT are high values which implies high network ties maintained by Sri Lankan entrepreneurs.

Model analysis computed and it was significant at .001 confident level (table 3). As well as R square value .748 which describe it close to the regression line. It implies that model is accurate and we can describe that we are confident 99% to explain the model accuracy.

Table 3: Model Summary

Model	R	R Square	R Square Change	F Change	Sig. F Change
			1	.865	.748

Same time ANOVA analysis provides proves of significant behavior of the respective model in below table 4. It contains .000 significant level where highly significant in .001 confident level.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	328.537	2	164.269	179.533	.000 <sup>b</sup>
	Residual	110.713	121	.915		
	Total	439.250	123			

Finally, coefficient calculated for the regression analysis of the study. Results interpret as below table 5.

Table 5: coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	BNT	.339	.044	.631	7.749	.000
	SNT	.155	.047	.267	3.280	.001

Results indicated both business NT and social NT significant in .001 confident level. BNT contains .339 as B and .631 as beta so it implies high correlation between business growth. Same time SNT gain .155 as B and .267 as beta, which is moderator correlation between business growth. Meantime standard errors for both BNT and SNT indicated as .044 and .047 respectively which is very low error occurrence. Hence both BNT and SNT are significant we can explain that both BNT and SNT are stimulating business growth according to the analysis. Therefore we can conclude that Ha and Hb hypotheses are accepted according to the analysis. Both hypotheses were accepted under same context and we can emphasize that main hypothesis H can be accepted in this context.

## 6. Findings and Recommendation

The main purpose of the study is satisfied in this research process, which is to identify the relationship between NT and business growth. It regarded as a positive value. Same time the extent of having BNT and SNT of Sri Lankan entrepreneurs. It is recognized as high value while BNT regarded as dominated. It means both BNT and SNT interfere on the business growth and entrepreneur's business NT are more contribute to the business growth. Considering to the extent of using BNT and SNT are high among Sri Lankan entrepreneurs'. So this study finally supported to the prior findings (Eg: Sheng, 2011, Krantoon, 1996, Chung H, 2012).

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