

SOCIAL CAPITAL INTERVENTIONS AT FIRM LEVEL AFFECTING PERFORMANCE IN THE ZIMBABWEAN MANUFACTURING SECTOR

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Abstract

Social capital research has largely focused on developed economies and there is conflict of acceptance on the legality of some network relations across cultures. This study pioneered the interventions at firm level aimed at building social capital for company performance in the Zimbabwean manufacturing sector. This was in an effort to provide evidence of the need for network relations to enhance business performance. A survey method was used to collect data to confirm empirically the social capital interventions existing in the sector. Using an econometric model, 10 social capital variables were regressed to determine importance of the interventions. The bivariate results indicated that networks, level of trust and entertainment were significantly associated to firm performance. On the multivariate level, trust, presences of an entertainment budget and government liaison were positively associated with firm performance. It was concluded that investment in social capital through entertainment budget created profitable relationships which if nurtured builds trust which reduces transaction costs thus affecting the bottom line. So social variables which were significantly associated with performance worked in a symbiotic, cyclical nature.

Keywords: Social Capital, Networks, Trust, Performance, Return on Assets

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1 Introduction

Research has traditionally focused on three types of capital, namely natural, physical and human capital and these were considered the basis for economic development and performance (Zhang & Fung 2006) It is now recognized that these three types of capital can only partially determine the process of economic growth the important missing link being social capital. There is growing empirical evidence that these traditional forms of capital need to be augmented with social capital in order for sustainable economic development to be achieved. Prior to the 1990s, social capital seemed to be a preserve for sociologists and subsequent work was by political scientist. Later social capital research and discussions have made inroads into economic analysis and other scientific disciplines as it is now being recognized as the missing link in the process of business growth and performance.

Social capital is viewed differently in the developing and the developed world where some associations are viewed as corrupt relations while in some economies it is viewed as critical for business

performance. The social capital-performance relationship has therefore hardly been examined with more focus being given rather to its legality and morality. With no known theory to base on, there is motivation to create space for social capital in one sector in Zimbabwe. This research therefore seeks to pioneer the social capital interventions at firm level that affect performance in the Zimbabwean manufacturing sector thus providing much needed knowledge on social capital in the Sub-Saharan Africa with specific reference to Zimbabwe. The research utilizes an econometric model to regress 10 social capital variables across data from 62 operating firms. To the best of our knowledge it is one of the first attempts to use panel data to deal with firm heterogeneity and bring out more objective results in the social capital scenario. Antecedent research has been largely qualitative and this study seeks to provide empirical evidence of social capital interventions.

The rest of the paper is organised as follows. Section 2 provides an overview of the Zimbabwean manufacturing sector; Section 3 reviews the social capital environment in the Zimbabwean manufacturing

sector. Section 4 reviews the prior literature on the impact of social capital on firm performance. Section 5 describes the research methodology. Section 6 reports empirical results, while section 7 concludes.

2 Zimbabwean manufacturing sector

The Zimbabwean manufacturing sector started in the 1940s and grew in the backdrop of sanctions during the Unilateral declaration of Independence (UDI) where the white minority government declared independence from England. This resulted in international sanctions and the country adopted an import substitution strategy which resulted in a proliferation of products with very little attention paid to quality and international competition.

Manufacturing is a key sector in the Zimbabwean economy which at its peak in 1999 was the major contributor to GDP at 22% (Zimbabwe Statistics Agency 2010). In as much as the sector faced a

downturn from 2000 to 2009 during the years of Zimbabwe's worst economic woes it is still being recognized by government as a key to economic recovery. The sector is one of the 4 wealth generating sectors and is important to the Zimbabwe economy as it responsible for converting at least 60% of agricultural and mining output and in turn at least 40% of its output is consumed by the afore mentioned sectors (Ministry of industry and commerce 2011). In the government's industrial policy development framework (2011 to 2015), the government has clear objectives for the manufacturing sector which are; to restore the sector's contribution to GDP of Zimbabwe from the current 15% to 30% and its contribution to exports from 26% to 50% by 2015. An average real GDP growth of 15% is targeted under this framework. Table 1 below shows the contribution of manufacturing to the economy.

Table 1. Manufacturing contribution to the Zimbabwean economy 2010

Manufacturing Aspect	Contribution to economy 2010
Contribution to GDP	13.37%
Employment	15%
Exports	26%
National output	15%
Economic growth	2.7%
Capacity utilization	44%

Source: Zimbabwe Statistics Agency (ZIMSTAT) 2011

The manufacturing sector is divided into light and heavy industries further subdivided into 8 subsectors producing a range of more than 6000 products from food, textiles, chemicals to rubber and tyre manufacturing. Their contribution to the economy differs and agricultural processing dominates the sector. The major subsectors are food and beverages, clothing and textiles, leather and leather products, fertilizer, chemicals and pharmaceuticals, timber and wood, motor industry, and non-metal products, plastic and packaging and rubber and tyre manufacturing. The Government through the Industrial Development framework has identified six priority sectors as the pillars for growth in the manufacturing sector namely Agro-processing (Food and beverages, Clothing and Textiles, Wood and Furniture), Fertilizer Industry, Pharmaceuticals and s industry (Industrial Development Framework 2011, p.14).

The sector has been under a lot of pressure from 2000 and to date companies are still closing down or operating under 40% capacity. The study was motivated by a need to examine other means that can direct the recovery of the manufacturing sector and enable it to fit into a highly competitive global village.

3 Social capital status in Zimbabwe manufacturing sector.

Generally firms in similar pursuits network together and connect with their suppliers, bankers key customers and other key stakeholders. The question is are Zimbabwean companies in the manufacturing sector part of any networks at all. It was encouraging to note that the majority of businesses were networked. Networks provide organizations with information, ideas and resources to perform better (Wu 2008; Gulati & Sytch 2007). It can be posited that the more networks the business has the higher the probability of it performing better. This networking is not a futile pursuit as at least 49% of the organizations get their business from networks. This rather low benefit from networks could be a typically Zimbabwean phenomenon as organizations are known to keep information close to their chest and networking is closely associated with corruption which has been rife during and after the economic challenges from 1999 to 2008. Foreign firms are by nature more exposed than local firms (Wignaraja 2007). Further analysis was therefore carried out to determine the correlation between ownership and business from networks. In tandem with empirical evidence, Zimbabwean manufacturing firms show a

significant relationship between firm ownership and business from networks.

Manufacturing organizations have relationships at an informal level which can be deemed weak or strong. The value of the ties is in their strength. This refers to the intensity of reciprocal obligations of the network players as it provides the necessary lubrication for transactions and exchange of information and resources. The stronger they are the more influence they would have on the firm performance. There seems to be distribution of the number of ties possessed by the firms in the sample range from none to more than 10. The sample was across 6 subsectors in the manufacturing sector involved in producing vastly different products thus the ties would be few and difficult Chiripanhura (2010). It was further noted that those firms who are locally owned have more ties than those which are foreign owned or with mixed ownership. Further to that, even though the ties are few, they are strong. This might mean that they have an influence on the operations of the firm. The manufacturing firms in Harare which is the study area co-locate by default through the local authority which is the Harare City Council so land use laws and not by design as in deliberate clusters. Therefore knowledge may not be transferred or available to all as a public good and thus the value of the strength of the ties.

The level of trust in the networks is critical in the social capital discourse. The level of trust ranges from fair to very high in the sector and this may indicate an ability to work together. This result seems to be in tandem with the fact that all the companies are in the manufacturing sector and the bonding social capital is in sync with high levels of trust. Trust is fostered with frequency of interaction. The majority of the firms interact fairly frequently which would benefit their performance.

Another networking platform is business associations. Organizations join different business associations which have a myriad of functions, from advocacy, linkages and to voicing concerns to government. In many cases there are umbrella associations like the Confederation of Zimbabwe Industries (CZI) in Zimbabwe which takes care of the interests of all member manufacturing companies. At least 90% of the firms are members of one association or another.

The array of membership is influenced by the spread of the subsectors. Also worthy of note is the fact that some industries coerce players to join associations and this inflates membership figures. While in some subsectors membership is truly voluntary and thus some firms do not find it necessary to join them thus the probable reason why some firms are not members of any association.

Donations to different institutions and causes has been viewed in social capital literature as investment in

social capital (Zhang & Fung 2006; Putnam 2000). Firms in Zimbabwe are not new to this phenomenon as donations are requested for causes ranging from charitable to political. Almost all the companies (96%) donated something in the four year period. In Zimbabwe it is prudent to donate to such national events like the Independence day celebrations, Heroes day celebrations and Christmas cheer fund for the less privileged. Companies feel that they are seen in good light by the government if they ‘participate’ in politically driven donations. The donations recorded ranged from \$100 to \$300 000 per year with larger firms tending to spend more than smaller firms.

Entertainment is also viewed as investment in social capital (Zhang and Fung 2008). The majority of organizations (97%) have allocated funds for entertainment which amounted to at least 1% of their total budgets to entertainment. This will translate into quite a substantial amount of money for larger firms with high turnovers. This probably indicates the seriousness attached to building social capital by the firms.

Though institutions in emerging markets are not fully functional, liaison with government officials can be a source of valuable information and policy shifts that can affect organizations. Larger organizations in Zimbabwe are known to employ government liaison officers whose mandate is to create very close and profitable relationships with relevant government ministries. It is thus a form of investment in social capital as government decisions have a potentially serious effect of the operations of firms. Zimbabwe has witnessed its greatest policy shifts since independence in 1980 which have heralded a lot of uncertainty in the economy and such liaison has become priceless as businesses need up to the moment information to maintain competitive advantage. It is evident that the majority of the firms (93%) liaise with government from fair to great extent, fair extent (39%), good extent (26%) and to a great extent (29%). In Zimbabwe government is the largest consumer of both goods and services and such capital can stand organizations in good stead.

4 Prior literature on social capital

Social capital theory postulates that both internal and external networking relationships provide resources and information on best practice to their organizational benefit. Early writers on social capital (Bourdieu 1986, Lin 2001) as cited by Acquah (2007) define social capital as ‘sum of resources actual or virtual that accrue to an individual or an organization as a result of the development of personal and social networking relationships.’ Adler and Helfat (2003) later defined social capital as ‘social relationships that confer influence control and power’. They further posit that

social ties a leader has, allows them to acquire different useful information which can be used for the good of the business. This suggests dependence which enhances the performance of relationships and therefore organizations.

The influence of social capital on firm performance has been well documented in literature. The influence may not be direct because social capital works as a catalyst in converting the networks into other forms of capital which can be considered the raw material for economic wealth and in turn contributes to firm performance (Wu 2008). The results from studies to date confirm that social capital may result in capital accumulation, skill acquisition, innovation, the transfer of information and technology, and reduced transaction costs. In addition, social capital may facilitate the management of common property and provision of public goods, increase investment, and reduce the social costs of crime, corruption and other forms of non-cooperative conduct. Alternately, low levels of social capital may impede economic activity by limiting the viable range of transactions (including the exchange of ideas), particularly in an environment of social polarization (e.g. income inequality or ethnic tension). The evidence to date also indicates that social capital has a diminishing marginal rate of return (i.e. social capital is more valuable in developing countries (Wallis, Killerby & Dollery 2004).

Social capital reduces transaction costs and helps the diffusion of new knowledge and adoption of new technologies. Depending on the quality of information, in terms of its detail, accuracy, and timeliness and exchange process, social capital can be instrumental in the performance of a firm (Gulati & Sytch 2007). Social capital may also facilitate production through greater provision of public goods, improved management of common property resources, and lower social costs.

Davidsson and Honig (2003) find a significant positive association between social capital and performance. According to the resource-based view, a firm's competitive advantage is achieved by controlling the endowment of rare, valuable, non-substitutable, and inimitable resources and capabilities (Tödtling 2008). However, in today's increasingly dynamic business world, more and more firms are starting to find themselves trapped in the uninviting situation that their existing firm-specific resources and competencies are

no longer sufficient to maintain their competitive advantages.

To out-perform their competitors, firms are increasingly motivated to seek harmonizing resources and develop new capabilities through collaboration with other firms and even longstanding competitors in the form of both informal and formal networks such as strategic alliances. Social capital is a critical source of knowledge and skills for the creation of the inimitable value-generating resources that are intrinsic in a firm's network of relationships. It allows people to benefit from knowledge accumulated by close contacts and associates. With the growing importance of the role of business networks in enhancing a firm's competitive advantage, the social capital-performance relationship has emerged as a prominent research area of strategic management (Gulati et al 2000).

5 Research methodology

The net effect of social capital depends on the balance of the social capital variables. Following onto the study of Chinese firms by Zhang and Fung (2006, p.200), the variables of networks, investment in social capital and membership to business associations were selected and included in the regression model. These form the backbone of social capital. Worthy of note is the fact that empirical studies around the world have not come up with conclusive results on the effect of social capital on firm performance (Wu 2008, p.122). The majority of studies hardly find any social capital variables significantly explaining firm performance. The relationships between social capital, variables and organizational outcomes using return on assets as a proxy were therefore tested using stepwise bivariate and multivariate linear regression analysis.

To date the manufacturing sector is dwindling and the companies still operating only 40% are at more than 80% capacity. Using data from 75% of such firms (62 companies), the following model was estimated :

$$ROA = SC_t$$

Where

ROA = Return on Assets measuring operating performance

The model was expanded to reflect the 11 social capital variables as suggested by Zhung and Fung (2006:200.)

$$ROA = \alpha + \beta_1 PN + \beta_2 BN + \beta_3 BT + \beta_4 ST + \beta_5 T + \beta_6 I + \beta_7 BA + \beta_8 DO + \beta_9 EN + \beta_{10} EB + \beta_{11} GL$$

Where

α and β = the parameters to be estimated

PN= Presence of networks in the firm

BN= Proportion of business from the networks

BT= Business ties a firm has

ST= The strength of the ties

T= Level of trust in the ties

I= Frequency of interaction

BA= Membership to business associations

D= Donations made

EN= Presence of an entertainment budget

EB= Entertainment budget as a proportion to the firm budget

GL= Government liaison

The characteristics of the variables and the literature support are given in the table below.

Table 2. Social Capital variables

Variable	Description	Reference
Presence of networks	- Identification firm's social capital	Zhang and Fung 2008:
Expenditure on network creation	- Donations -Purchase of gifts -Entertainment budget	
Number of ties	- Quantifying of the ties a firm has	Maurer et al 2012:166
Strength of the ties	- Dependability of the ties	
Frequency of interaction	- Social capital is maintained by periodic interaction	
Level of trust	- Trust is a backbone of social capital development	Maurer et al 2012:166
Affiliation to industry associations	- A fast way of obtaining bridging social capital	Zhang and Fung 2008:202

6 Results

6.1 Multicollinearity for social capital variables

Linear regression requires the absence of a problem of multicollinearity between the independent variables introduced in the same model (Bouaziz 2012). As

validity of the data is indicated by a lack of multicollinearity the correlation matrix shows that the Pearson correlation between the different independent variables is moderate as the correlation is not more than 0.8 as suggested by Kumar and Singh (2011) as indicated by the table (3) below. This implies the absence of multicollinearity problem between the variables.

Table 3. Correlation matrix for social capital variables

	Profit	Business from networks	Ties	Strength of ties	Trust	Interact	Associations	Donations	entertainment	Budget	Government liaison
Profit	1.0000										
Business from networks	0.1618	1.0000									
ties	0.0747	0.1063	1.0000								
Strength of ties	-0.0404	-0.1843	0.4782	1.0000							
Trust	0.1470	0.2149	0.1160	0.3145	1.0000						
interact	0.0406	0.2793	0.1983	0.4437	0.4235	1.0000					
Associations	-0.0788	0.1139	0.0374	0.0667	0.1840	0.1595	1.0000				
donations	0.0226	-0.0196	-0.0185	-0.0315	-0.0442	-0.0474	-0.0103	1.0000			
Entertainment	-0.1504	0.0373	-0.1756	-0.1881	-0.0963	-0.0116	0.0770	-0.0353	1.0000		
Budget	-0.1047	0.0580	0.0756	0.1213	0.3683	0.0831	0.3456	-0.1227	0.1665	1.0000	
Government liaison	0.0946	0.1551	0.1211	0.2526	0.4199	0.6365	0.1902	-0.1326	0.0738	0.1538	1.0000

Source: Primary data

The absence of multicollinearity validates the following regression results.

Table 4. Bivariate and multivariate regression results

profit	Bivariate analysis			Multivariate analysis		
	coef	Z	p> z	Coef	Z	p> z
Business from networks	0.512992	1.71	0.087	0.7444159	1.38	0.167
Ties	0.0937587	0.087	0.385	0.1717482	0.94	0.348
Strength of ties	-0.0153387	-0.15	0.882	-0.1716176	-0.87	0.386
Trust	0.2626041	1.78	0.075	0.4504325	1.97	0.049
Interact	0.0638382	0.50	0.614	-0.3098879	-1.18	0.239
Association	-0.0338353	-0.98	0.325	0.0280156	-0.78	0.438
Donations	0.4707993	0.74	0.457	0.6095788	0.29	0.772
Entertainment	-0.3317818	-1.97	0.048	0.3482575	-1.44	0.151
Budget	-0.263772	-1.20	0.229	-0.6877001	-1.92	0.055
Government liaison	0.0443869	0.33	0.738	0.4915136	1.70	0.090

Source: Primary data

6.2 Presence of business networks

Networks are the backbone of Social Capital theory as they can provide avenues that lead to new investments, new business, access to valuable resources and information that is not in the public arena and thus reducing transaction costs (Hitt et al 2007). Networks differ in structure and importance across countries. In western Africa networks with local traditional leaders are deemed important while in the Chinese context networking with government is critical which same networks are termed as corruption by the Western countries (Zhang and Fung 2008; Acquah 2007, Szeto & Wright 2006). The statistics indicate that business networks exist and there is some business stemming from these networks which make them important in the Zimbabwean context. The result found business from networks positively associated with firm performance which was in tandem with (Dicko et al 2010) who found the same result. Kirchmaier (2008) noted a negative and insignificant association between the CEO's networks and firm performance positing that the CEO's networks do not necessarily further the interests of the stakeholders, rather his own.

6.3 Trust within the networks

Trust is viewed as the glue that holds interacting firms together as it builds confidence in the exchange among network members. This is confidence in the players' intentions, in the information passed, in the reliability of the information and confidence in the capabilities of the associates. An inquiry into the levels of trust in the

networks sought to establish the strength of the bonds as it is one of the core aspects of social capital. Empirical evidence As far back as 1998 in a study carried out by Zaheer (1998) it revealed that there is a positive relationship between trust and firm performance. He pointed out that trust reduces transaction costs as the legal system only becomes the call of last resort where trust is high. The results agreed with this as trust is positive and significant to firm performance. Later studies by Fussel et al (2006), Wu (2008) and Berulava (2013) also found the same result. Interestingly, these studies were carried out in different economies, Fussel (2006) in United States of America, Wu (2008) in China and Berulava across 28 transitional economies all have the same outcome which seem to make trust a universal attribute in social capital construct.

6.4 Network ties

Ties are developed through informal, interpersonal mechanisms to circumvent the limitations of institutions especially in emerging markets Sheng et al (2012). Ties can be political or business and this study sought to determine if such ties existed in the Zimbabwean manufacturing scenario. Being a developing country in which institutions have several limitations it was interesting to note the role and strength of such substitutes as informal ties. The statistics indicate a lack of commitment to ties as the majority of firms have less than 5 such ties. The regression between ties and firm performance. This was in tandem with Kirchmaier (2007) who noted that ties are generally personal and

mainly connected to the CEO. It was noted that network ties are negative and not significant to firm performance. When individuals in a firm are well connected it may not necessarily translate into benefits to the firm. On the contrary, Sheng et al (2012) in a study of Chinese firms found ties positive and significant to firm performance. In agreement, Fussel et al (2006) found the same result as well as Wu (2008) and even Peng and Luo (2000). Interestingly, the majority of the studies which noted a positive and significant association were carried out in China where the concept of *guanxi* which are personal connections especially with government officials highly regarded as a critical means of opening ‘closed doors’ a concept based on favour, trust and unwritten norms of reciprocity (Szeto, Wright & Cheng 2006).

6.5 Frequency of interactions

These are on-going repeated transactions between network players. This interplay provides an interface for the growth of trust and exchange of business codes and resources (Wu 2007). The frequency of interaction has a bearing on the amount of information, resources and knowledge exchanged. Continued interaction also builds reciprocity which is a critical aspect in sustainability of relationships and thus the increase in social capital. The examination of the frequency of interaction was an attempt to determine how this social capital intervention was viewed in the Zimbabwean manufacturing sector. Statistics indicate fairly high frequency of interaction but the analyses found no positive association between interactions and firm performance. Zimbabwe being a highly political country, it seems as if the interactions may be on other issues which do not necessarily have a bearing on aspects that affect the bottom line and thus not significant to firm performance.

6.6 Entertainment

Earlier work by Putnam (2000) and later work by Zhang and Fung (2006) agree that investment in social capital takes place over a period of time. Having an entertainment budget is noted by Zhang and Fung (2006) as such an investment which bears fruit in the form of exchanges of information and resources and generally strengthening ties. It was noted that entertainment is not significantly related to firm performance. Contrary to these findings Zhang and Fung (2006) found entertainment positive and significant to firm performance. Allocating funds for entertainment can be viewed as investment in social capital but investments are known to bear fruit after a period of time. So even though larger firms in Zimbabwe allocate at least 1% of their budgets to entertainment the exact

impact on performance may never be known. The Chinese firms on the other hand are likely to follow the norms of gift giving and entertainment so revered in that culture in their development of *guanxi*.

6.7 Donations

This is another form of investment in social capital as pointed out by Putnam (2000) and later work by Zhang and Fung (2006). The researcher sought to examine the level to which firms were investing in social capital as donations is a probable intervention. Statistics indicate that donations are highly regarded as 96% of the firms donated something in the 4 year period. There was however no positive association between donations and firm performance. This is contrary to (Zhang and Fung 2006) in their study of Chinese firms that donating was positive and significant to firm performance. The business donations in Zimbabwe have been closely associated with political favour -seeking and may not be regarded as a means of building social capital. It is an investment which may or may not bear fruit which is a probable explanation for this insignificant relationship.

6.8 Membership to associations

Organizations can build their social capital by being members of industry associations which in Zimbabwe can cover particular subsectors and other times industry as a whole. The majority of firms belong to one association or another, the highest being 10. In Zimbabwe associations are mainly for advocacy and lobbying and their direct influence on firm performance may not be quantifiable. Membership to associations was not positively associated with firm performance. This is in tandem with Zhang and Fung (2000) who also found membership negative and not significant to firm performance. The result seems to imply that membership to associations was viewed as a means of having the voices of the manufacturing being heard but not a genuine network for business development or an investment in building social capital.

6.9 Government liaison

The government of Zimbabwe is responsible for all legislation and policy setting and interpretation. It is also one of the largest consumers of goods and services. Thus liaison with government can have profound effects on being viewed in a favourable position by ‘the powers that be’. The multivariate regression analysis noted that government liaison was positively associated with firm performance. This was in tandem with Peng and Luo (2000) in a study of Chinese firms found government liaison positive and significant to firm performance. Contrary to this, Dicko and Breton (2012)

in a study of Canadian firms noted that government liaison is negative though significant to firm performance. The probable reason is that in China having the culturally based *guanxi* is actually good for business while in Canada having political affiliations influences the firm negatively.

7 Concluding remarks

In the absence of a well-developed theory about the multidimensional nature of social capital, variables suggested by several studies were utilized to establish the social capital interventions at firm level for business performance. There were however common threads among the variables and those selected pertained mainly towards the existence of networks, network management in terms of interactions and trust, and investment in social capital. Performance was noted to be influenced by three of the variables namely presence of business from networks, trust in the network and presence of an entertainment budget. The results noted that the social capital variables that are significant to firm performance act in a cyclical manner which has a direct impact on the inflows to the firm and thus critical to firm performance.

Business from networks ensures that the network is beneficial to the firm in providing profitable relationships. On the aspect of trust, literature notes that, the higher the trust the lower the transaction costs thus clearly affecting the firm's bottom line. Furthermore availing funds for entertainment denotes investment in social capital which increases the number of networks which in turn increases interaction which is necessary for building of trust. This cyclical relationship finally affects firm performance. It can be recommended therefore that firms in the manufacturing sector can invest in social capital interventions that affect performance and enhance the chances for recovery of the sector and the country as a whole.

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