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Social Capital and Financial Services: A Study of SMEs in the Manufacturing Sector in Tanzania

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ABSTRACT

This paper examines the relationship between social capital on access to financial services for Small and Medium Enterprises (SMEs) in the manufacturing sector. The study area is Dar es Salaam, Tanzania. A cross-sectional design was used and surveyed semi-structured questionnaire to collect data from respondents using convenience sampling. A total of 81 completed questionnaires were subjected to descriptive statistics and ANOVA analysis. The descriptive results for social capital reveal that majority of respondents regularly talk with other business owners (90.1%), meet frequently with family and friends to talk about business (90.1%), and belong to a religious group (93.8%); while for access to financial services the results show that majority of respondents (82.7%) strongly agree that friends and family provide extra capital when needed. Among the inferential statistics findings on the relationship between social capital and access to financial services indicated that regularly talks with other business owners is statistically significantly to access to grants ($p = 0.003$), regularly talks with other business owners is statistically significantly to friends and family provide extra capital when needed ($p = 0.035$), meeting frequently with family and friends to talk about business is statistically significantly to access to grants ($p = 0.012$), having strong ties with people or entities in business with is statistically significantly to access to grants ($p = 0.008$), and having strong ties with fellow SMEs is statistically significantly to access to grants ($p = 0.012$), fellow SMEs have strong ties with one another is statistically significantly to access grants ($p = 0.025$), belonging to a football club is statistically significantly to access to grants ($p = 0.000$), belonging to a Golf Club is statistically significantly to friends and family provide extra capital when needed ($p = 0.001$), and belonging to a community social group is statistically significantly to friends and family provide extra capital when needed ($p = 0.004$). This paper adds knowledge to the issue of the relationship of social capital and access to financial services for SMEs in the manufacturing sector in Tanzania. Future studies can explore financial cultures by SMEs and access to financial services in the manufacturing sector.

Keyword: social capital, financial services, SMEs, Manufacturing Sector

JEL Code: G29, L26, L66

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1.0 INTRODUCTION

The manufacturing sector, as a driver of industrialization in the global context, is growing as evidenced by the increased output of 4.7% in 2017 (United Nations Industrial Development Organization, 2017). The United Nations Industrial Development Organization (UNIDO) noted that developing and emerging industrial economies like Asia had a higher growth of manufacturing output (6.5%) compared to industrialized economies like Europe (4.9%) in 2017 due to increased output of products such as computers, electronics, machinery, basic pharmaceuticals and food. The report by UNIDO added that Africa's output increased by 2%. UNIDO report also noted that factors such as improved business conditions, rising consumer spending and investments have contributed to the positive development in global manufacturing.

The connection between manufacturing sector growth and bank lending has been established by various authors (Hoxha, 2013; Lin, Sun and Wu, 2015). In Africa, Muchingani, Monametsi and Paradza (2017) found that in Zimbabwe there was a positive relationship between bank's commercial lending and growth of the manufacturing sector. This indicates that financial services facilitate domestic and international transactions for Small and Medium Enterprises (United Nations Conference on Trade and Development, 2014).

Financial services have grown faster than Gross Domestic Products (GDP). For example, in countries that are members of the Organization for Economic Cooperation and Development (OECD) recorded growth average annual rate of 6.3% between 2001 to 2012 (United Nations Conference on Trade and Development, 2014). Although there is growth in the financial services, earlier scholars such as Richard and Mori (2012) cited deficiencies in the provision of financial services to SMEs due to lack of knowledge in financial management by SMEs. Similarly, Alemu (2017) argued that SMEs face challenges in establishing new venture due to poor vertical communication and access to finance and credit services. A study by Shankar (2013) found that SMEs failure to access financial services was attributed to their inability to attend group meetings especially from the microfinance institutions. However, the term financial services in this study is focused on ease of access as documented by other researchers such as Per and Benson (2003).

The finding by Shankar (2013) showed that the aspect of social capital which deals with individuals and group networks from a social capital theory perspective, among SMEs, is a challenge. More studies are needed to understand the phenomenon of social capital and financial services, especially in developing countries perspective. This paper examines social capital and financial services with a specific objective of examining the relationship between social capital and access to financial services for SMEs in the manufacturing sector in the context of Tanzania.

2.0 LITERATURE REVIEW

2.1 Definition of Concepts

2.1.1 Social Capital

The concept of social capital appears in various articles (Coleman, 1988; Portes, 1998, Lin, 1999; Buskens and Van de Rijt, 2008; Sato, 2013). Coleman (1988) defines social capital at the community and societal levels. Further literature provides the definition of social capital as the resources embedded in social networks accessed and used by actors for action (Lin, 1999). Sato (2013) noted that social capital has been defined at the individual, the meso and the societal level. In this paper, social capital refers to SMEs social networks from the perspectives of the business, friends and family, as well as the community.

2.1.2 Financial Services

Financial services provide services such as domestic and international transactions and credits to primary, industrial and tertiary sectors as well as to individuals (United Nations Conference on Trade and Development, 2014). Financial services mean firms in retail banking, commercial lending, insurance, credit cards, mortgage banking, investment advisory, and asset management (Hatzakis, Nair and Pinedo, 2010). Further understanding of financial services as a concept is

connected to mobile devices as mobile financial services and this is noted in recent articles such as Kim, Zoo, Lee and Kang (2018). In this paper, financial services are referred to as ease of access in terms of finance sources such as access to grants as well as extra capital from friends and family as defined by Per and Benson (2003).

2.1.3 Small and Medium Enterprises

Small and Medium Enterprises (SMEs) are defined as non-subsidiary, independent firms which employ fewer than a given number of employees, for example, the European Union the upper limit for SMEs is 250 employees while the USA is 500 employees (OECD, 2005). According to OECD, SMEs are not only defined by number of employees but also by financial assets. The definition of SMEs is based on a fixed quantitative measure, for example, number of workers, number of capital, total assets and sales turnover (Hashim and Abdullah, 2000; Omar *et al*., 2009). Other countries such as Mexico define SMEs as employing 1 to 250 employees; Japan, Norway, Switzerland and Turkey from 1 to 249 employees; and United States from 1 to 499 employees (OECD, 2010; Berisha and Pula, 2015). The definition of SMEs in this paper is adopted from the Tanzania SME Development Policy 2003 by the Ministry of Industry and Trade indicated in UNIDO (2013) which states that Small and Medium Enterprises (SMEs) include micro enterprises.

2.2 Theoretical Framework

This paper adopts the social capital theory developed by Bourdieu and Wacquant (1992). In developing the social capital theory, Bourdieu and Wacquant assumed that social capital is resources by individuals or groups which accrue due to having durable networks that have either more institutionalized or less institutionalized relationships of mutual acquaintance and recognition. Social capital is commonly defined as social networks (Sato, 2013). Sato defines social capital in terms of four aspects which are goals and utility, levels of definition, coverage of social capital and types of social capital. Gudmundsson and Mikiewicz (2012) noted that social capital in relation to education means the degree of social engagement of residents. In this paper, social capital is referred to as the usage of one's network in gathering information to enable the business owner to excel his/her business.

Hang and Hsu (2016) are among the scholars who have used the social capital theory. Hang and Hsu applied the social capital theory to determine users' subjective well-being in social networking sites. On the other hand, Agyapong *et al*. (2017) did a study in Ghana and used the social capital theory to understand performance of micro and small firms in an emerging economy. In examining the relationship among social capital, innovation and performance, the results revealed positive influences between the relationships of social capital and performance as noted by Agyapong *et al*. This paper applies social capital theory to guide the analysis on the relationship between social capital and access to financial services for SMEs in the manufacturing sector.

2.3 Empirical Literature Review

Financial services documented in India by Shankar (2013) involved financial inclusion which implies expanding access to financial services to those who do not have access to financial services. The study used qualitative approach and the results showed that one of the major barriers on access to financial service is the inability to attend group meetings (Shankar, 2013). The study by Asmundson (2011) described financial services as the process of acquiring the financial good. In this paper, financial services are considered as access to financial services through grants and loans.

Iturrioz, Aragon and Narvaiza (2014) did a case study in Spain to illustrate how to foster shared innovation within SMEs' networks. Findings from existing documents and interviews from informants revealed that the main drivers for developing innovation networks were dependent on intermediaries and social capital systematic dynamics as noted by Iturrioz *et al*. In 2015, a study in Italy examined social capital by looking at evolution of inter-organisational social capital with foreign customers by SMEs (Presutti, Boari and Fratocchi, 2015). The findings indicated that

relational and cognitive social capital has positive effects only for low levels of inter-organizational psychic distance. This study also examines social capital but in relation to financial services as opposed to SMEs performance.

Other scholars such as Mwathi *et al*. (2018) from Africa have investigated financial services and this is in relation to mobile money services. For example, Mwathi *et al*., examined mobile money transfer services and financial inclusion in Uganda. Mwathi *et al*., used correlation coefficient and regression analysis as tools of analysis, and the results showed that system quality, intention to use, and user satisfaction were the major factors that predict financial inclusion. Faith (2018) demonstrated further that there is a strong link between companies who invest in information technology and level of innovativeness. Faith recommended that there is a need to identify mechanism that can improve SME and entrepreneurial performance in Uganda. In Ethiopia, Alemu (2017) argued that SMEs face challenges in establishing new venture and this is because the majority of the sampled entrepreneurs who were male (59.7%) had poor vertical communication and access to financial and credit services.

In Tanzania, Marwa (2014) explored the causes of access to external financing by Micro, Small and Medium Enterprises (MSMEs). By using a desk review methodology, the results revealed that credit rationing is due to the mismatch between requirements of formal financial institutions' lending process and structural problems in MSMEs. Gamba (2016) explored the nexus of social capital and development and findings shows social capital can be recognized as a tool for development. This study is interested in social capital in relation to financial services access. Existing literature (Richard and Mori, 2012; Marwa, 2014; Swai *et al*., 2016; Agolla *et al*., , 2017; Mkwizu *et al*., 2018; Mwathi *et al*., 2018) shows extensive research on SMEs and financial services but limited studies on social capital and financial services. This paper examines social capital and financial services by examining the relationship between social capital and financial services with a focus in the manufacturing sector. This paper hypothesizes that there is a significant relationship between social capital and access to financial services for SMEs in the manufacturing sector.

3.0 METHODOLOGY

This study selected food processors in the manufacturing sector by SMEs due to Tanzania's policy shift from agricultural economy towards the industrial economy as indicated in the National Five Year Development Plan 2016/17 -2020/21 by the Ministry of Finance and Planning (2016). The Dar es Salaam region was selected in this study because according to the National Bureau of Statistics SMEs survey of 2012, Dar es Salaam (45%) is the second region after Mbeya (46%) in terms of percentage of SMEs in businesses.

A cross-sectional design was adopted, and the population of 141 SMEs was sourced from the Tanzania Food and Drugs Authority (TFDA) website (https://www.tfda.go.tz/) under food products registered SMEs manufacturers in Dar es Salaam region in Tanzania as the study area. Convenience sampling method was used in this study. A search for telephone contacts of the manufacturers were done through their websites and social media search, and questionnaire was administered via telephone calls. A total of 81 completed questionnaires from respondents, representing 57% of the population which the authors thought were sufficient for descriptive statistics analysis and one way ANOVA.

The independent variable, social capital was analysed through an instrument that was adopted and customized from Pishghadam *et al*. (2011), and Per and Benson (2003). The dependent variable being financial services is measured using ease of access. The measurement items on access to financial services are adopted and customized from studies by Per and Benson (2003). Pilot study prior to data collection ensured the validity of the data collection instrument and the reliability using Cronbach's Alpha showed social capital as 0.796 and financial services as 0.905. A Cronbach's alpha value of 0.70 or above is considered as acceptable for reliability test on consistency of responses (Saunder *et al*., 2012).

4.0 FINDINGS AND DISCUSSION

The demographic information for the sampled respondents is shown in Table 1. Majority of the respondents were aged between 31 to 40 years old (32.1%), male (54.3%), 2-5 years of operating business (48.1%), sole proprietor (46.9%), registered (90.1%) with 1 employee. These findings suggests that most of the SMEs in the manufacturing sector are middle aged males with 2-5 years of operating business as registered sole proprietors and have 1 employee. The findings from Alemu (2017) are similar to those of this study in that majority of the SMEs were male.

Table 1. Demographic information of Respondents

Variable		Frequencies (n)	Percentage (%)
Age :	21-30	22	27.2
	31-40	26	32.1
	41-50	18	22.2
	51-60	15	18.5
Gender:	Male	44	54.3
	Female	37	45.7
Year of Operating Business:	Less than a year	16	19.8
	1-2 years	15	18.5
	2-5 years	39	48.1
	Above 5 years	11	13.6
Type of Business:	Sole Proprietor	38	46.9
	Partnership	27	33.3
	Limited Liability company	16	19.8
Registration Status:	Registered (Formalized)	73	90.1
	Not Registered (Not Formalized)	8	9.9
Size of Business in numbers of employees:			
	1 employee	39	48.1
	2-4 employees	20	24.7
	5-10 employees	18	22.3
	11 or more employees	4	4.9

Source: Field Data (2018)

The findings on social capital dimension which was divided into ties with general community (such as football club and social groups), and ties with the business community (such as fellow SMEs, friends and family, and business entities) show that majority of respondents regularly talk with other business owners (90.1%), meet frequently with family and friends to talk about business (90.1%), and belong to a religious social group (93.8%). The results imply that majority of the sampled SMEs in the manufacturing sector talk with other business owners, meet frequently with family and friends to talk about business and belong to a religious social group. The findings of this study are not in line with Shankar (2013) which showed inability to attend group meetings. The variations of the study by Shankar (2013) conducted in India and this study is because of networks abilities in terms of meeting frequently.

Descriptive findings on financial services show that majority of respondents strongly agree that friends and family provide extra capital when needed (82.7%), and friends and family are their first stop when their cash strapped (72.8%). On the other hand, the majority of respondents strongly disagreed that they have not applied for a loan in the past three years (43.2%), have applied for a loan and were denied (39.5%), and have access to grants (38.3%). The results of this study suggest that most of the SMEs in the manufacturing sector rely on friends and family for financing their business and less on formal lending institutions for loans and grants. This is in line with a study

conducted in Ethiopia by Alemu (2017) which showed that entrepreneurs faced challenges in access to financial and credit services. The only difference is that in Tanzania's SMEs, the manufacturing sector rely more on friends and family rather than formal institutions.

One way ANOVA analysis for the relationship between social capital and access to financial services is shown in Appendices 1a, 1b and 1c. The findings in Appendix 1a show that regularly talks with other business owners is statistically significantly to access to grants ($p = 0.003$), regularly talks with other business owners is statistically significantly to friends and family provide extra capital when needed ($p = 0.035$), meeting frequently with family and friends to talk about business is statistically significantly to access to grants ($p = 0.012$), having strong ties with people or entities in business with is statistically significantly to access to grants ($p = 0.008$), and having strong ties with fellow SMEs is statistically significantly to access to grants ($p = 0.012$).

Appendix 1b, shows that fellow SMEs have strong ties with one another is statistically significantly to access grants ($p = 0.025$), belonging to a Football Club is statistically significantly to access to grants ($p = 0.000$), belonging to a Golf Club is statistically significantly to access to grants ($p = 0.002$), belonging to a Golf Club is statistically significantly to friends and family provide extra capital when needed ($p = 0.001$), belonging to a Golf Club is statistically significantly to friends and family the first stop when cash strapped ($p = 0.010$), belonging to a Golf Club is statistically significantly to having not applied for a loan in the past three years ($p = 0.048$).

Further findings in Appendix 1c show that being actively involved in a political party association is statistically significantly to being part of a loan credit saving society ($p = 0.011$), being actively involved in a political party association is statistically significantly to having applied and was successful in obtaining a loan from a financial institution in the past three years ($p = 0.022$), belonging to a community social group is statistically significantly to access to grants ($p = 0.012$), belonging to a community social group is statistically significantly to friends and family provide extra capital when needed ($p = 0.004$), belonging to a community social group is statistically significantly to friends and family are the first stop when cash strapped ($p = 0.029$), belonging to a community social group is statistically significantly to having not applied for a loan in the past three years ($p = 0.002$). From the findings in Appendices 1a, 1b and 1c, this study proved that there is a statically significant relationship between social capital and access to financial services and this supports the social capital theory.

This implies that for SMEs in the manufacturing sector to have access to financial services in the context of Tanzania should possess social capital networks in terms of regularly talking with other business owners, strong ties with business entities and fellow SMEs, and belong to the general community. These findings are not consistent with Alemu (2017) which showed that SMEs in Ethiopia have poorer communication. Further differences in results is noted in a study by Shankar (2013) which indicated that access to financial services in India is hindered by the inability to attend weekly group meetings. In this study, SMEs communicate by regularly talking to other business owners, and meet frequently with friends and family to talk about business hence have ties with the general and business communities which are important aspects for access to financial services.

5.0 CONCLUSION

We conclude that the relationship between social capital and access to financial services is statistically significant and support the social capital theory in terms of strong social capital networks among SMEs with other business entities, fellow SMEs and friends and family.

The outcome has policy implications for industrial decision makers to encourage SMEs to have social capital networks that have strong ties among SMEs by talking and meeting frequently, and belonging to groups such as a community social groups and football club. The practical implications of this study is that in order for SMEs in the manufacturing sector to access financial services, more efforts to instil strong networks with the general community such as belonging to a football club, golf club and social groups. Furthermore, access to financial services can be enhanced

if policy makers provide more business networking opportunities where business owners can meet regularly to discuss business.

Future researchers could analyse social capital and financial service for SMEs in other sectors since this study was limited to SMEs in the manufacturing sector. In addition, a longitudinal study may be adopted in order to capture data over a period of time.

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APPENDIX

Appendix 1a. One way ANOVA findings of Social Capital and Financial Services

I regularly talk with other business owners.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	37.884	12.628	5.181	0.003
	Within Groups	187.671	2.437		
	Total	225.556			
Friends & Family provide extra capital when needed	Between Groups	14.897	4.966	3.015	0.035
	Within Groups	126.831	1.647		
	Total	141.728			
I meet frequently with family and friends to talk about business.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	24.391	12.196	4.729	0.012
	Within Groups	201.164	2.579		
	Total	225.556			
I feel I have strong ties with people or entities that I do business with.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	31.889	10.630	4.226	0.008
	Within Groups	193.667	2.515		
	Total	225.556			
I feel I have strong ties with fellow SMEs.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	24.402	12.201	4.731	0.012
	Within Groups	201.154	2.579		
	Total	225.556			

Source: Field Data (2018)

Appendix 1b. One way ANOVA findings of Social Capital and Financial Services

My fellow SMEs have strong ties with one another.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	30.469	7.617	2.967	0.025
	Within Groups	195.087	2.567		
	Total	225.556			
I belong to a Football Club.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	47.395	15.798	6.828	0.000
	Within Groups	178.160	2.314		
	Total	225.556			
I belong to a Golf Club		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups	44.099	11.025	4.617	0.002
	Within Groups	181.457	2.388		
	Total	225.556			
Friends & Family provide extra capital when needed	Between Groups	29.263	7.316	4.944	0.001
	Within Groups	112.465	1.480		
	Total	141.728			
Friends & Family are my first stop when I am cash strapped	Between Groups	22.139	5.535	3.568	0.010
	Within Groups	117.885	1.551		
	Total	140.025			
I have not applied for a loan in the past three years	Between Groups	27.306	6.827	2.516	0.048
	Within Groups	206.249	2.714		
	Total	233.556			

Source: Field Data (2018)

Appendix 1c. One way ANOVA findings of Social Capital and Financial Services (FS)

I am actively involved in a political party association.	**Sum of Squares**	**Mean Square**	**F**	**Sig.**

l am part of a loan credit saving society	Between Groups Within Groups Total	28.550 153.771 182.321	7.138 2.023	3.528	0.011
I have applied and was successful in obtaining a loan from a financial institution in the past three years	Between Groups Within Groups Total	19.827 123.086 142.914	4.957 1.620	3.061	0.022
I belong to a community social group.		**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Access to grants	Between Groups Within Groups Total	29.870 195.685 225.556	9.957 2.541	3.918	0.012
Friends & Family provide extra capital when needed	Between Groups Within Groups Total	22.420 119.308 141.728	7.473 1.549	4.823	0.004
Friends & Family are my first stop when I am cash strapped	Between Groups Within Groups Total	15.441 124.584 140.025	5.147 1.618	3.181	0.029
I have not applied for a loan in the past three years	Between Groups Within Groups Total	24.173 118.741 142.914	8.058 1.542	5.225	0.002

Source: Field Data (2018)