

Network Capability and Performance: Link in Small Event Management Ventures In Kenya

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Abstract

In the dynamically growing hospitality industry, small firms stand little chance of survival given heightened competition. Attaining a competitive edge could be from key inter-firm networks and upholding network alliances. This paper examines the link between network capability (NC) and performance for small Event Management Ventures (EMVs) in Kenya. The target population was 313 entrepreneurs concerned with event planning out of which 271 were sampled. Analysis of Moment Structures (AMOS 18) software was used for analyzing data. Results indicated that NC significantly predicted performance ($\beta=0.86$, $p<0.001$) thus, NC is facilitative of Venture Performance. Entrepreneurs should participate in networking activities and form associations to manage relationships within the network.

Keywords: Event Management, Kenya, Network Capability, Performance

INTRODUCTION

Firms need to be embedded in networks of professional, social and exchange relationships that are founded on appropriate governance mechanisms, sharing routines, and able to initiate changes in these relationships whenever necessary (Dyer, Kale and Singh, 2001). This, according to Walter *et al.*, (2006) is referred to as network capability. With a focus on educational entrepreneurship, targeting Universities in Germany, they identify four dimensions of NC namely; coordination between collaborating firms, knowledgeability of the firm's partners, the ability to initiate relationship skills with other firms and, the ability to enhance internal communication skills. Moreover, Walter *et al.*, (2006) hold key the ability of a firm to coordinate inter-organisational activities while providing mutually supportive interactions among participatory ventures.

A growing body of studies has evidently shown the benefits of networking on the performance of firms clearly indicating positive correlation. Pittaway *et al.*, (2004) observe that higher performance in new ventures can be achieved through combined efforts and networking with competing firms. A more recent study by Teng (2007) identified collaboration of new ventures with other firms as the most flexible beneficial alternative for acquiring resources due to shared risks and costs. This can eventually foster fast growth as opined by (ACUMEN, 2015), a global venture that focuses on reducing poverty through entrepreneurial approaches. EMVs can make the best out of their networking activities with professional advisors like lawyers, consultants, bankers and accountants to name but a few, who are well equipped in devising strategies for better performance and growth. Orphan's (2001) study on women business owners in France, asserted that professional experts are an entrepreneur's first source of advice. Africa in a comparative regional perspective has had very scarce studies on network capabilities as much as embracing technology intensifies in the continent. To mention for instance is a study by Human and Naudé (n.d), undertaken to establish relationships between network competences, network capability and firm

performance in which they found that network capability highly correlated to a firm's performance that competency. Yet no studies have been done in Kenya to conceptualize the effect of network capability on firm performance. Therefore performance of EMVs in Kenya can be better understood by exploring relationship networks in which they are engrafted.

Hypothesis

H₀₁: There is no significant statistical association between Network Capability and performance of small event management ventures

LITERATURE REVIEW

Networking is the mutual give and take that results in a win-win situation for everyone involved in the transaction. Ford (2002) avers that an organization is dependent on networking and creates its identity through interaction. Networks and alliances are used in acquisition of important and complementary resources (Ireland *et al.*, 2002) while jointly developing new resources (Gulati *et al.*, 2000), that are critical to forming exchange relationships between the firm and stakeholder. They affirm that stakeholder interactions include information exchange, expertise, goods and services as well as payments and loans with suppliers, customers and other stakeholders which form the basis of a resourceful enterprise. This could be true in the case of event ventures which widely depend on their external counterparts as much as on the parent relationships.

Other studies have established that networks and alliances are considered important in achieving a firm's competitive advantage and success. Cooper (2002) for instance, opines that ventures would most benefit from these networks and alliances as their establishment is limited by resources and capabilities. In their study carried out in Australia, Mazzarol and Reboud (2006) discover the importance of strategic information resulting from network relations as being critical to commercial operations' success. It can therefore be deduced that firm performance is evidently enhanced by a firm's competitive advantages as such; ventures can increase these advantages through engaging in networks and alliances. However, resource constraints can ultimately hamper a ventures' performance. Such constraints, as suggested by Watson (2007) and Cooper (2002) can be faced out through building strong networks and alliances. By so doing, ventures stand a high chance of improving their performance defined by large market share and profitability. Networking sets ground for ventures to easy access complementary resources including information.

Network Capability and Performance

A firm's ability to develop and manage multiple relationships, through appropriate governance, shared routines, and initiation of necessary changes in those relationships can be traced back to Dyer *et al.*, (2001) definition of *Network Capability (NC)*. Walter, Ritter and Gemünden (2003) place NC at a higher order construct defining it as the ability of a firm to develop and utilize inter-organizational relationships. These authors' recognition of the contribution NC has on performance of ventures comprehended four latent dimensions of NC as: coordination, relational skills, market knowledge and internal communication. In their view, NC (considered a high order 'resource') is a composite construct whose magnitude increases with an increase in each of the four components thus requires a formative measure. Ventures expand their relational boundaries through coordination with concomitant interactions (Gittell, 2006). The inter-personal aspect is key to most business relationships through which management can become successful through relational skills.

Such skills include emotional stability, communication, conflict management, extraversion, empathy, self-reflection, cooperativeness and sense of justice.

Knowledge relations at a firm level enable “situation-specific management” which includes deploying mechanisms to reduction of transaction costs enable conflict resolution and it stabilizes a firm’s position while safeguarding effective exchanges. Walter *et al.* (2003) posit that apart from improving internal communication between parties, this knowledge adds to the efficacy of coordination. It is commonly believed that internal communication is central to a relational perspective dealing with assimilation and dissemination of up-to-date information on collaborating firms’ resources and instigating clear agreements to avoid process redundancy, miscommunication, and improve the detection of synergies.

Small ventures are resource constrained (Nieto & Santamaria, 2010) compared to large ones hence networking makes it possible for access and utilization of resources required without enhancing the overall performance (Dickson & Weaver, 2011). While the argument on the benefits of networking is overwhelming, Hitt, Ireland and Hoskisson (2009) argue that networking may not always be beneficial. On the contrary, Gulati, Nohria and Zaheer (2000) contend that networking may lock benefits on unproductive activities and end up wasting resources. However, ventures are no longer individual and self-fulfilling units. This is attributed to their embedment in social networks with other firms (Walter *et al.*, 2003).

Ventures are considered as learning aspects of critical capabilities and protection of firm-specific competencies resulting from friendship, respect and trust between interacting parties (Walter *et al.*, 2003). However, a ventures’ competitiveness cannot only be improved through network relationships, thus should be kept from such relationships if they have capabilities to introduce, advance and make use of the relationships. The skills to cultivate and maintain valuable relationships cannot be generated by habitual social behavior (Kim & Aldrich, 2005).

Network relationships are usually dynamic and proper management is therefore essential. It requires good governance and embracing change if necessary. According to Gulati *et al.* (2000) a firm’s strategic network consists of enduring inter-organizational ties and tactical significance for the interacting firms. Therefore network relationships will benefit individual firms through knowledge partnership, coordination, relationship skills and communication skills (Walter *et al.*, 2006). However, lock-in effects may be created by collaborating firms to prevent new relationships. In their study, Kale *et al.* (2002) affirm that management and monitoring of such network relationships and activities to trace out conflicting or overlapping firms or activities. To properly manage those relationships, awareness of the capabilities and trustworthiness portrayed by potential partners, suppliers, customers, and competitors is a requisite (Walter *et al.*, 2006). This complements good relational skills and partner knowledge of collaborating EMVs. Efficiency of a venture can then be achieved from its networking activities through openness, responsiveness and inter-organizational learning (Walter *et al.*, 2006), ensuring *internal communication* to integrate and coordinate knowledge within the firm while generating feedback from prior and ongoing collaborations (Kale *et al.*, 2002).

Venture firms that include EMVs are often limited to one or two employees on entry into the industry thus sharing experiences in practice of internal communication skills which at this time only resides within the owners or managers can prove impossible. More so, previous studies on NC have not shown appreciation for a firm’s ability to engage in new network

relationships. This study assumes the ability to build new relationships as a key performance indicator for EMVs. The network-based theories acknowledge novel collaborators as providers of new ideas and resources to improve performance of a venture. They argue that ventures facing high levels of technological change and increasing market uncertainty attain improved performance to manage those problems. The ability of a venture to position itself in the market in this era of rapidly changing technology is extremely fragile and remains a fundamental concern for EMVs' performance. However, it becomes manageable by forming ties with new partners who possess capabilities to contend the challenge Nohria & Garcia-Point (2002) cited in (Shenkar, 2006). A venture without insight into which new relationships to pursue is likely to leave the firm with bounded rationality rather than hyper-rationality (Kim & Aldrich, 2005). Such ventures stand a high chance of losing potentially valuable relationships and possible new opportunities; thus missing an opening into new collaborations that could have otherwise augmented entrepreneurial opportunity. From the foregoing discussion, being open to new relationships could be an additional NC dimension to Walter and others' four dimensions stated earlier.

Therefore another dimension, to be open to and to initiate new relationships, is added to a venture's NC. A venture's propensity to risk taking and innovation is a competitive advantage that can be established through network capabilities in initiating new relationships with collaborative firms. In so doing, partner knowledge and relational as well as internal communication in a firm is enhanced, ultimately providing a learning platform for ventures to recognize opportunities thus increasing commercial performance and strategy. Good network relationships initiatives deter ventures from unworthy relationships that do not add to their competitiveness and performance (Walter *et al.*, 2006).

A recent study conducted in Chinese, Turkish and German firms, to establish elements of network capabilities that promote performance by Papastamatelou, Busch, Ötken, Okan & Gassemi (2016) established variations with each country having firm specific driving forces to performance. For instance China had "information sharing" and "trust" as significant factors to firm performance; Turkey "network coordination" while Germany was more concerned with "human capital resources" (Papastamatelou, *et al.*, 2016).

Bengesi & Le Roux (2014) on seeking to find out the influence of entrepreneurial orientation, market orientation and networking capability on the performance SMEs in Tanzania, establish Marketing orientation as the pivotal construct to the performance of SMEs, placing Entrepreneurial orientation and networking capability as less impact influencers. Ideally, strengthened links between NC and VP should be a result of inter-organizational alliances. This study therefore examines the relationship between Network capabilities and Venture performances as a link for EMVs in Kenya.

METHODOLOGY

The unit of analysis consisted of small event management ventures identified from three counties in Kenya i.e. Kisumu, Uasin Gishu and Nairobi with the main justification for the choice of the counties as having good number of established event ventures that participate in networking alliances. The event management ventures specialized in confectionary, décor and event planning, outside catering, banqueting and conferencing as well as rental ventures for tents, furniture and sound equipment. The choice of event management was anchored on the fact that events are characteristically dynamic with diverse, varied customer demands and high dependency among ventures. For example a customer may order for more tents

than the vendor owns which makes it difficult for them to execute the event without outsourcing from other vendors. The study employed census sampling; reporting no variation between the early and late respondents thus ensured a non-biased response. A total of 313 ventures met criteria for this research but 271 ventures participated in the study yielding an effective response rate of 86.6%. Self-administered questionnaires were used to collect data which was screened for missing values, normality, univariate and multivariate outliers using missing value analysis, Box and Whisker plots, standardized Z-scores, and Mahalanobis distance respectively. The data collection instruments were pre-tested in Kisumu County using 53 respondents who formed part of the actual sample of the study. Computation of Cronbach's alpha coefficients was done to check reliability and internal consistency of the measurement scales for items were above 0.75.

RESULTS

Correlations

Correlations among NC dimensions were statistically significant, ranging from $r = 0.170$ ($p < 0.01$) to $r = 0.409$ ($p < 0.01$). Correlation between open communication and developing relationships was however low and insignificant at $r = 0.100$ and $p > 0.05$). Correlation between non-financial and financial performance was statistically significant at $r = 0.196$ and $p < 0.01$. Most correlations between NC dimensions were significant and positive. This correlation ranged from $r = 0.125$ ($p < 0.05$) to $r = 0.299$ ($p < 0.01$). There was a low and insignificant correlation between open communication and non-financial performance at $r = 0.058$ and $p > 0.05$).

Hypothesis testing

The study model was tested using the Analysis of Moment Structures (AMOS 18) while testing of the hypothesis was done by structural equation modeling. First, confirmatory factor analysis was employed towards assessing the factor structure of NC. The path diagram in Figure 1 shows the standardized regression weights (factor loadings) for NC and its corresponding four indicators. The squared multiple correlation coefficients (R^2), describing the amount of variance the NC explains in the indicators are also displayed. It is evident that Partner Knowledge and Initiating Relationships appeared to be the best indicators of NC. Their standard regression weights were respectively 0.65 and 0.63 with R^2 values of 0.42 and 0.40. This means that NC explains up to 42% of the variance in Partner Knowledge (ptner-Knldge) and up to 40% of the variance in Initiating Relationships (In-Rlnships). Open Communication (op-comm) and Developing Relationships (Dvlping-Rlnships) with R values of 0.09 and 0.12 and corresponding regression weights of 0.29 and 0.35 respectively were found to be poor indicators of NC but were nonetheless retained.

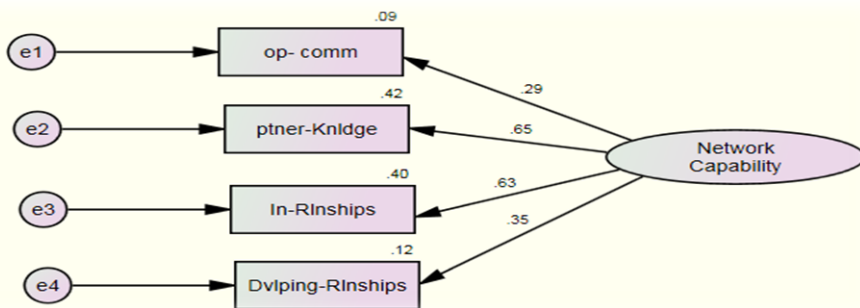


Figure 1: Confirmatory factor analysis - network capability

The structural model is presented in Figure 2. The model fit indices indicated a good model fit ($\chi^2 = 17.290$, $\chi^2/df = 2.161$, GFI=0.980, AGFI=0.946, NFI=0.896, CFI=0.939, and RMSEA=0.066). The hypothesis predicted a positive relationship between NC and VP of EMVs. The results indicated that NC has a positive impact on VP ($\beta = 0.86$, $p < 0.01$), hence the hypothesis was not supported. This means that NC tends to influence performance of EMVs. In particular, the standardized coefficient indicates that an increase of 1 standard deviation in NC was likely to lead to an increase of 0.86 standard deviations in performance of EMVs

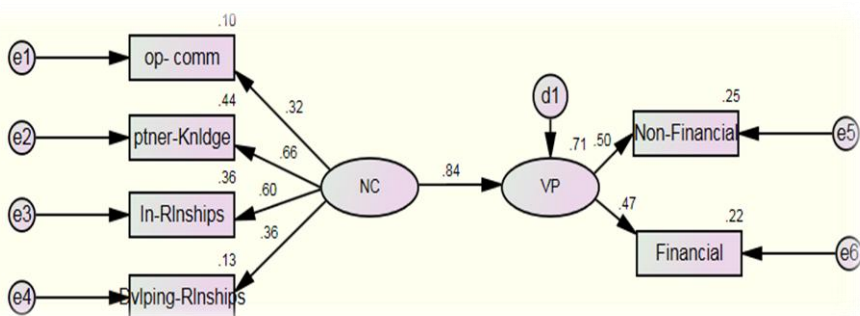


Figure 2: Structural model of network capabilities and venture performance

DISCUSSION

The statistical results obtained in this study showed that NC has a significant positive impact on performance of small EMVs. More to it was an indication that when small EMVs have higher capability to network their ventures, they will improve their performance both financially and non-financially. These findings are consistent with other studies conducted by Nohria and Garcia (2002); Walter *et al.*, (2006); Kale *et al.*, (2002) and Westerberg and Wincent (2008). A case in point is the observation by Walter *et al.* (2006) that involvement of a venture in network relationships requires that such ventures are capable of coordinating inter-organizational activities and collaborative firms into reciprocally supportive interactions. The level of NC showed that besides close coordination between ventures, there is also close scrutiny of competing ventures which enables ventures to initiate and sustain relationships with others for mutual benefit. These findings concur with those of

Walter *et al.* (2006) that easy and quick access to new markets and customers is enhanced by ventures' collaboration with other firms. In addition, Narver *et al.* (2004) and Coltman (2007) support this notion by noting that a venture which acts proactively or responsively in identification and satisfaction of customer needs may influence the extent to which the ventures' NC affects its social capital and performance.

New ventures forming a networking relationship to exchange capabilities and resources should be more cooperative to enhance learning experiences from proper management of those relationships (Kale, Singh & Perlmutter, 2000). Overall, the findings indicated that NC positively influences venture performance. That is, the better a venture is in open communication, partner knowledge, initiating and developing relationships, the better the performance. Knowledge ability of partner and relationship initiatives increased a venture's ability to act proactively, whereas its ability to find and initiate new relationships increased its proclivity towards innovation and risk taking. Therefore, a venture's ability to establish new relationships is a crucial part of its networking capability, because lack of insight on open communication and knowing its partners as well as being able to relate well with partners might hinder the venture's possibility to create new networks aimed at entrepreneurial opportunity (Kim & Aldrich, 2005). The findings from this study support that in order to initiate, develop and maintain networks, there is need for open communication, partner knowledge, initiating and developing relationships. Entrepreneurs should attempt to build good relationships inside and outside the establishment and also be accommodative and flexible in order to manage the relationships. Having partner knowledge helps ventures learn to deal with different members in the network and also enhance in initiating relationships.

Moreover, by cooperating with new relationships, ventures obtain a variety of resources, capabilities and information deemed at improving NC. The challenges faced by a venture can therefore be alleviated by its NC using a variety of strategic resources. For instance, a venture can develop open communication by initiating new relationships that could give it a competitive edge in the market. Thereafter, becoming established in the market and further developing its product/service it could benefit from shared partner knowledge to stage it at a more proactive ability thereby enhancing performance. However, there is need for ventures to have frequent meetings between each other in order to enhance interpersonal relations necessary for maintaining networks.

From the findings, this study supports previous research suggesting that ventures benefit from the network opportunities, through the capability to initiate, develop and make use of networks as advanced by Rothaermel and Deeds (2006). The findings from this study support that in order to initiate, develop and maintain networks, there is need for open communication, having partner knowledge and the ability able to initiate and nurture relationships.

CONCLUSIONS

The study findings indicated that the more the network relations, development and management of these relations the higher the NC. Therefore, a venture's NC can be considered as being facilitative means, or tools, in enhancing NC. These empirical findings provide several important venture management implications. First, EMVs can strive to improve NC by providing adequate training programmes related to open communication. Entrepreneurs should strive to initiate and develop relationships with other partners who

would enable them to acquire and integrate different sources and types of knowledge to be shared and transferred from one venture to another. With proper networking, entrepreneurs will be able to use and apply the knowledge to improve efficiency within their ventures. Second, it is essential for EMVs to appreciate that VP can not only be measured in financial terms but also non-financially. Fair performance appraisals should then focus on these dimensions of performance and could possibly see many ventures remain a float in the market. However, this work was unable to make causal inferences due to its cross-sectional nature. Networking requires time to bear results hence; a more appropriate method would have been to conduct a longitudinal study. This study was limited to EMVs located in only three counties of Kenya thus findings obtained may not be generalized to other counties across the country.

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