

Networks, Social Relationships and Entrepreneurial Outcomes in Tanzania

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Abstract

Integrating networks, social capital, and entrepreneurship perspectives the paper identifies research on interpersonal network differences between female and male entrepreneurs and their effect on entrepreneurial outcomes as a priority areas of study in Tanzania. Many reports in the early 1990s looking at the start and growth of micro enterprises in Sub-Saharan Africa (SSA) have demonstrated how women are dominant amongst those starting micro enterprises but declining in proportion quite dramatically amongst those who go into, expand and transform and become formal small businesses, despite, in some cases, the presence of support services specifically directed at promoting female-owned businesses. The question that this study seeks to investigate is: could women's low performance in business be partly explained in terms of the way they form interpersonal business discussions networks? More specifically, how do female entrepreneurs networks differ from those of their male counterparts, both in terms of composition, size, characteristics, and in terms of the way they are exploited to gain informational resources for business development and growth? The paper comes up with a number of propositions to guide this type of research in Tanzania.

Introduction

The role of networks and in particular social networks in enterprise development and survival, hence poverty alleviation in Sub-Saharan Africa (SSA) has not adequately been investigated. As a consequence, the productive nature and capacity of such networks have remained unclear. Where it has been studied, the gender-networks nexus has remained unexplored. Hence issues of women's access to social networks, women's network composition and characteristics and their influence on entrepreneurial outcomes in relation to those of their male counterparts are hardly known in these countries. This proposed research attempts to use the network theorizing to investigate these issues at the small business level in Tanzania. We

integrate the networks, social capital, gender, and entrepreneurship perspectives to inform research on network differences between female and male entrepreneurs. We focus on social networks and explore the effect they may have on women's business start-ups and survival. We argue that the social-cultural context in which interaction networks are embedded produces constraints on women entrepreneurs, causing their business discussions networks to differ from those of their male counterparts both in terms of composition and characteristics and entrepreneurial outcomes. Women's strategies to access these networks are also conditioned by such context.

Historically, women in SSA countries have been marginalized and have been relegated to subordinate positions in these economies when compared to men. Their access to critical resources has been very limited. As a consequence, female business ownership is a very recent phenomenon. In the recent past, however, female business ownership in SSA countries has risen dramatically, partly as result of the economic crises that these countries went through in the late 1970s and 1980s. This increase has been in quantitative rather than qualitative terms. What has led to their poor performance could partly be answered through the conduct of this study. The proposed research on gender differences in social networks is therefore very timely.

The major point of departure in the network research in business development is that "firms or entrepreneurs generally exist and develop drawing on a set of suppliers, customers and social support partners which have substantial impact on entrepreneurial performance, as no business is an island". (Hakansson and Snehota, 1989). The literature points to the fact that networks allocate a variety of instrumental resources that are critical for business development as well as expressive (psychosocial) benefits. That means that entrepreneurs are dependent on others in the environment to gain access to resources such as information, capital, personnel, technology, raw materials, markets and the like. This environment of entrepreneurs, which is an important part of their existence, from the perspective of an entrepreneur is viewed in terms of its networks, which basically is the set of people, or organizations the entrepreneur is interacting with (Bangens, 1998).

In this proposed research we distinguish between networks, which are used by entrepreneurs to develop and maintain contacts for trading or resource exchange purposes (which involve flow of tangible capital resources), and those that are used for social exchange purposes but provide both instrumental and psychosocial benefits, and we opt to focus on the later, which is herein referred to social networks

The literature points to two forms of social networks. First, in an established economic exchange or inter-firm linkages, social networks provide the social mechanisms, which, safeguard exchanges from the "dilemmas of collective action" (i.e. it eliminates opportunism by a stronger party). Here the role of social networks is to foster social

trust (social capital) and generalize reciprocity, which facilitate adaptation, coordination, and safeguarding of exchanges for mutual benefit. Social capital plays the role of interlocking the actors into a long-term relationship, which is not necessarily bounded by legal recourse but trust. Secondly, social networks outside economic exchanges provide an environment for exchange of valuable information, provides mentoring as well as social insurance. Support from kinship membership, friends, colleagues, or one's membership to some associations or ethnic group is an example. Here social networks also foster social trust and generalized reciprocity which facilitates exchange of valuable information such as market data, sources of capital, sources of labour, sources of inputs and the like. As pointed out above, this proposed research focuses on the individual entrepreneurs interaction networks, which are based on mutual trust (social capital). The term social capital defines the ties or bonds of individuals in social relations through social trust. In Lin's (1999) conception, social capital provides channels of access to resources that inhere in someone's social relations. According to Renzulli *et al*, (2000) the ties provide "differential incubation prospects for new business ideas, depending on the quality of the information and resources flowing through them."

Existing literature points to gender differences in social networks. In the same vein, some researchers have found that "women and men are embedded in different social networks and have suggested that network differences lead to divergent economic consequences" (Renzulli, et al *op cit*). More specifically, women and men's networks have been found to differ in both composition and characteristics. Several studies have found that women business owners included more kin and less non-family members in their business discussion networks than did men. By contrast, men's networks comprised of fewer family ties and more coworkers (Gwen 1990). Women's networks were therefore more homogenous than those of their male counterparts. Such gender differences have been interpreted to pose a disadvantage for women in the business world. It has been argued that "women who include greater proportions of kin in their discussion networks may secure greater social support than men, but at the cost of sacrificing the necessary instrumental support needed for economic achievement", for depending on the type and goals, networks have been found to provide not only economic benefits but may also pose a barrier to business development.

Social Relationships and Entrepreneurial Outcomes: Problem Definition

Many reports in the early 1990s looking at the start and growth of micro enterprises in SSA countries have demonstrated how women are dominant amongst those starting micro enterprises but declining in proportion quite dramatically amongst those who go into, expand and transform and become formal small businesses, despite, in some cases, the presence of support services specifically directed at

promoting female-owned businesses. In the same vein, women's performance in business in Tanzania has been found to be poor (Rutashobya, 2000). The question that comes to mind is: could women's low performance in business be partly explained in terms of the way they form business discussions networks? More specifically, how do female entrepreneurs social networks differ from those of their male counterparts, both in terms of composition, size, characteristics, and in terms of the way they are exploited to gain informational resources for business development and growth? What role does kinship play in business discussion networks? We note that while a lot of scholarship work in this direction has been undertaken in Western Industrialized countries, little by way of serious research has been undertaken in Tanzania. The role of networks in enterprise development and growth in these countries remains unexplored and therefore unclear. It is very surprising that even where the strength of the African kinship structure and the Asian network phenomenon has been observed, their role in business relationships has not adequately been investigated. This research will attempt to answer the above questions.

Results on the effect of networking as well gender differences in terms of economic consequences have been mixed. Other researchers have found that networking, has no influence on business performance and survival (Reese and Aldrich, 1995), yet others have reported some influence. It would be interesting to investigate the phenomenon in Tanzania.

Research Objectives

The primary objective of the study is to investigate gender differences in social networks of business owners, and explore their influence on business development and survival. More specifically, the study intends to:

- i) Investigate the difference between female and male business owners interpersonal networks
- ii) Investigate the composition and size of female and male business owners social networks
- iii) Investigate the relationship characteristics of female and male business owners social networks
- iv) Explore the influence of social networks on business development and survival, among female and male business owners

Significance of Research Focus on Small Business Networks in Tanzania

As most Third World countries are still searching for viable ways of developing enterprises, most policy makers, planners and academics in SSA have now

acknowledged that the future of their countries competitiveness and economic growth will heavily depend on the private sector in which small enterprises play a major role. In the same vein, small businesses have been recognized as “seedbeds for indigenous entrepreneurship”, which may lead to economic prosperity in SSA, especially after the failure of the large public enterprise sector. According to ILO estimates about 70% of the people in Sub Saharan Africa (SSA) rely on small and informal establishments for their livelihood. Similarly, employment data from eight selected SSA countries revealed that, by 1997, the share of small firms in total wage employment ranged between 48% and 85% (Bendera, O.M, 1997). Tanzania’s small business sector contributed 57 percent of total wage employment.

It is quite clear therefore that the sector plays a catalytic role in poverty alleviation in SSA. The question then remains of how to stimulate growth of the sector and more specifically how to enhance women’s qualitative participation in business in these countries. The role of finance in stimulating growth in the small business sector has, for example, received a great deal of attention in policy and development programming. In the literature, however, this emphasis on finance has met with some criticisms. It has been argued that the weak financial position in most small businesses could be a manifestation of serious management problems, which may include their weak capacity to build networks, especially among the women. Women’s access to social networks may be limited by culture just as is their access to other social resources.

Literature Review and Hypotheses Generation

As pointed out earlier this study is grounded on the assumptions of the networks, social capital, and gender and entrepreneurship perspectives. Central to all is the network theory, which attempt to explain the characteristics of the relationships, and the benefits that accrue from such relations. A number of entrepreneurship perspectives, have attempted to explain why some entrepreneurs are more successful than others. The main focus has been on the individual personality traits (the psychological perspective), the influence of the environment (contextual perspective) and the strategic role of the entrepreneur (strategic perspective). Network theorists and researchers have however argued that networks, which means effective interaction with others can also play a role and can engender successful entrepreneurial outcomes. This study uses network theorizing to attempt to explain gender differences in entrepreneurial outcomes. We argue that the social system in which interaction networks are embedded produces constraints on women entrepreneurs, causing their business discussions networks to differ from those of their male counterparts both in terms of composition and characteristics and entrepreneurial outcomes. We use insights from organizational and gender

perspectives to further show how the social system engenders differential access to social networks and its beneficial resources. Before we do that however, we review the networks and social capital theories to gain a better understanding of the network properties that are purported to enhance or constrain entrepreneurial performance.

The Network Perspective

The network paradigm borrows heavily from other disciplines such as marketing, organizational theory, industrial organization, economics as well as sociology, among others. As a starting point, we subscribe to Thorelli's (1992) view that the classical economic theory of the firm does not offer the network analyst a suitable point of departure. A number of social and cultural factors that play some role in economic relationships are taken for granted in these economic theories. We therefore distinguish between those theories that explain the network phenomenon in exchange relationships (such as the transaction cost economics (TCE) theory by Williamson (1975), and the International Marketing and Purchasing group (IMP) perspectives), and those that explain social exchanges, and opt to focus on the later given the focus of our current research. The social exchange theories are further divided into two groups, namely those that attempt to explain social mechanisms in inter-firm or economic (trading) relationships, and those that explain social interaction in a society, but provide instrumental resources to businesses.

As alluded to earlier, the social network perspective goes beyond economic theories of the firm (such as the TCE) to prescribe social mechanisms that allow network governance to emerge and thrive and that are necessary for coordinating and safeguarding exchanges (Jones, Hesterly & Borgatti (*op.cit*). The major focus in this theory is the individual personalities who make economic exchanges possible and bind the actors through mutual orientation, trust, and investment in the social exchanges. It is understood that such needs and conditions engender "structural embeddedness which provides the foundation for social mechanisms such as restricted access, macro culture, collective sanctions and reputations" to emerge in the network governance. The underlying premise is that these social mechanisms reduce transaction costs, gaining comparative advantage over markets and hierarchies, which enable network governance to emerge and thrive.

According to the proponents of social network theory, therefore, networks facilitate coordination, and communication, amplify reputations and thus allow "dilemmas of collective action" to be resolved. When social exchanges are rooted in dense networks of social interaction, incentives for opportunism are reduced. According to the social network theorists, the depth and durability of social networks rest on social capital-which refers to features of social organizations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit.

Social Capital

Industry researchers have provided a strong evidence that “suppliers and buyers embedded in relationships of trust and repeated exchange, behave in ways contrary to those predicted by models of short-term economic optimization in favor of sustaining longstanding relationships of mutual consideration and obligation”(Uzzi, 1996), and that such firms are likely to survive as a result of their participation in these relationships. The contributing factor in such relationships is what we herein refer to as social capital. Social capital outside economic exchanges can be equally productive, in the sense that it can provide both instrumental and psychosocial resources.

According to Wellman (1999), social capital generally indicates the relationship characteristics of a person’s ties to others who may provide access to important resources. It generally refers to the “actual and potential resources individuals obtain from knowing or relating to others, being part of a social network with them, or merely from being known to them and having a good reputation” (quoted from Baron and Markman, 2000). Lin (1999) has argued that social capital is instrumental for business and work in a way similar to that of human capital investments. Whereas social capital is quality created between people, human capital is a quality of individuals (Burt, 1997) Findings from recent empirical research have shown that entrepreneurs possessing high social capital based on networks, status, personal ties, and referrals are more likely to gain access to venture capitalists, customers, and others. As a consequence, social capital has been found to translate directly into financial outcomes. Social capital benefits have also been found in a variety of social settings, including the civic society. Putman (1993) argues that high levels of social participation in the form of civic engagement and participation at community level are indicative of a certain density of interaction that is instrumental in building mutual trust and commitment.

Since the social capital paradigm has emphasized the productive capacity of the phenomenon—that is the value to an actor in attaining a goal, it would appear that differences in social capital accumulation created through ties will lead to differential outcomes, suggesting that differences in business performance among various social groups in society, such as gender, ethnic, and racial groups, could be explained by differential possession of or differential access to social capital. The degree to which social capital provides access to instrumental and social support resources, and hence reduction in transaction or information search costs, is contingent upon characteristics of the networks or contacts as well as the relationship among the actors or parties to the network. Hence three themes are delineated from the literature on social capital, namely, 1) the potential benefits provided by social capital, 2) the characteristics of the ties, and their positive and negative influences on the productive capacity of the networks, 3) the relationships between the parties or actors and their influence on social capital benefits. The point of departure is that, depending on the network properties

(outlined in 2 and 3 above), social capital can provide both benefits and barriers to entrepreneurship development.

Sandefur and Laumann (1998) have identified three important benefits provided by social capital. These are its ability to facilitate or hinder the flow of information (information), the control of others and ones own influence (influence and control), and the potential it provides for social solidarity (social solidarity). As pointed out above the degree to which social capital can provide these benefits will depend on the characteristics of the ties (network composition) and the relationships of the actors (tie strengths). For example, the structure of the network or network properties will indicate the redundancy of its information benefits. For information to be instrumental in entrepreneurship development it has to be non-redundant. The literature delineates two network indicators of redundancy in information: homogenous or equivalent networks and cohesive or strong ties. These indicators affect the other benefits as well as we will show in the ensuing sections.

Network composition

The productive capacity of social capital will depend on the types of people that one interacts with (Ibarra, 1993), that is the network composition. In an African cultural context, social network composition is likely to be based on group affiliation along gender, tribe, kinship or racial lines. Such groups share identical characteristics and common interests. In the literature, homophily has been referred to as the degree to which network actors are similar in identity. In short, it means restricting one's network interaction to "similar others" say on the basis of gender, race, kin or tribe. It is argued that homophily increases ease of communication, improves predictability of behaviour and fosters relationships of trust and reciprocity (Kanter, 1977). Relations to similar others are argued to be preferred in an uncertain and turbulent environment for solidarity and social insurance. Restricting ones network interaction to similar others however reduces access to instrumental information from a wide range of groups in the social system (Granovetter, (1973, 1985), and strengthens peer group enforcement of norms concerning appropriate behaviour (monoculture). As a consequence also, information shared among actors in homophilous networks will be redundant, and the ties to similar others may stifle innovation, which is counter entrepreneurship. This is because, "equivalent" networks or homophilous ties will share the same source of information and therefore provide redundant information benefits. On the contrary, non-redundant ties or heterogeneous networks offer instrumental information that is additive rather than redundant (Burt, 1997). Perhaps, Burt's analysis on the structural hole theory provides us with a better understanding of the importance of non-redundant ties, when he says that "certain people connected to certain others, trusting certain others, obligated to certain others, dependent on exchanges which can bring certain others" can enable people otherwise disconnected

in the social structure to share non-redundant information. In Burt's analysis, the structural hole theory explains how a structural hole provides "an opportunity to broker the flow of information between people and control the form of projects that bring people together from the opposite sides of the hole.

Another network property related to composition that has been discussed in the theory is range of the networks. Burt (1982) has defined range as the degree of diversity contained in a personal network. Network range, therefore, refers to differences in contacts within a focal actors network rather than similarity or difference between focal actors. It has been argued in the literature that broad range of network relationships provides greater access to instrumental resources than drawing contacts from a restricted or narrow group.

Relationship Characteristics: Tie strength and density

The social capital paradigm therefore distinguishes between weak and strong ties, and advocates that weak ties engender instrumental benefits. And that networks characterized by strong ties are inefficient for instrumental purposes. According to Granovetter (1973), "weak ties are channels through which socially distant ideas, influences, or information reach the individual." Strong ties, on the other hand bond similar people, and similar people tend to be interconnected, and therefore share same sources of information. Information exchanged will thus more likely be redundant. There is thus a relationship between network composition and strength of the ties in the sense that homophilous ties will tend to be stronger than heterophilous ties

The redundancy of strong ties is further reflected in the way they restrict an individual actor's freedom and capacity to influence. The solidarity, which arises out of intimate relationships work against individual mobility and freedom to relate to other instrumental contacts outside the group. Strong ties which restrict ones freedom and force one to behave like anybody else in the group may stifle innovation (Sandefur and Laumann (op, cit). This view appears to be consistent, implicitly, with Max Weber's "spirit of Protestantism" which stimulated an individualistic ethic that renounced traditionalism including the extensive obligations that provided security for all those included in the extended family or ethnic group (Marysse, 1999, p.8). On the basis of this view some scholars have called for the need to "free individuals from family and kinship ties as a condition for a successful transition to capitalism" (Marysse, *op.cit*). Strong ties have further been blamed for creating other set of problems. For example, K'Obonyo (1999) has argued that too much embedded ness may generate what he calls a "dysfunctional state of organizational isolation" to the disadvantage of weak members in the economy. Roger (1995) also argues that while social capital is advantageous in many ways to members of particular social group, the social isolation that occurs puts outsiders, especially if the groups are organized along ethnic and gender lines, at a

disadvantage. He further argues that since the cooperation is based on trust, those within the group will win more credibility than those outside it. Therefore strong ties within a social network will lead to isolated cliques of entrepreneurs that are not integrated with the other groups. As a result, entrepreneurship development will be unequally distributed among different groups in society. The Asian network phenomenon in East Africa is a case in point here.

On a positive note, strong ties are more likely to provide assistance in an uncertain environment or crisis situation, or in situations where the transactions are frequent. Such strong ties eliminate chances for opportunisms by network members. Strong ties however take time to build and maintain.

Another network property that has been discussed in the literature on tie relations is density, which refers to the extensiveness of the contacts among members of an individual's personal network. Density has much in common with tie strength, in the sense that both weak and sparse networks indicate non-redundancy of contacts or relationships that connect the individual to different people and groups and, thus, to different resources. Strong ties and densely knit networks by contrast provide greater social support and solidarity at the expense of instrumental benefits.

Network properties and their interrelationships

The three network properties-network composition, tie strength, and density described above are interrelated (Ibarra, op, cit). According to the network analytic literature, they all share the notion of access to diverse versus redundant resources, and that homophilous ties tend to be stronger than heterophilous ties because of the notion that similarity fosters intimacy and that networks composed primarily of strong ties tend to be densely knit.

The above discussions have implications for the current research on gender differences in network structure. First the degree to which social capital is beneficial or constraining is dependent upon the type of network properties, which also depending on the type, engender instrumental or expressive benefits. Second, the relationship between homophily networks and the other properties is highly contingent upon the social structure. Third, the relationship among network properties and the implications the properties may have for resource access, may vary by gender. Hence differential performance in entrepreneurship by gender may partly be explained by the differential access to social capital benefits arising out of gender differences in network relationships and network composition.

Female Versus Male Entrepreneurs Networks

Empirical evidence in this line of inquiry has supported the general view that women's personal networks are different from men's networks, both in composition and size, and that women's discussion networks tend to be comprised of more kin and less non family members such as professionals or co-workers (Gwen, 1990) As a consequence women have tended to have more homogenous networks in terms of kin composition. On the contrary, men's networks have been found to be comprised of fewer family ties and more coworkers. Gwen attributes this finding to two competing theories. One theory posits that men and women have different dispositions with respect to who they would like to form network with, with women being more disposed to maintain closer ties to kin and fewer non family ties and men being disposed to forming more ties outside the family.

The gender perspective has also been used to shed light on the difference between male and female entrepreneurs networks. It has been argued that the social distance or power distance along gender lines in society has produced a constricted opportunity for interaction for women entrepreneurs. Apart from their low position in society, the numerous stereotypes and biases against women as incompetent human beings limit their ability to develop instrumentally usefully heterophilous ties. The psychological boundary between men and women that has been created by gender based power differences has tended to reinforce the situation. Furthermore, the gender division of labor pervasive in society, which has engendered women's multiple roles, has also influenced their network composition. Ties with more kin and less non-family members have been argued to be conditioned by preference for social insurance than economic benefits. Therefore, in our inquiry of Tanzanian's small business entrepreneurs, this suggests that:

Hypothesis 1A: When compared to their male counterparts, female entrepreneurs will have a relatively larger proportion of kinship members than professional members in their network composition.

Hypothesis 1B: When compared to their male counterparts, female entrepreneurs tend to have homophilous than heterophilous ties.

Furthermore, the gender-based division of labor and stereotypes have produced token women in positions of power or decision-making. Similarly, the unequal distribution of societal resources to the disadvantage of women has produced few successful entrepreneurs. Women entrepreneurs therefore lack enough similar others with whom to interact. Hence in our Tanzanian study we hypothesize that:

Hypothesis 2 When compared to their male counterparts female entrepreneurs will have fewer ties.

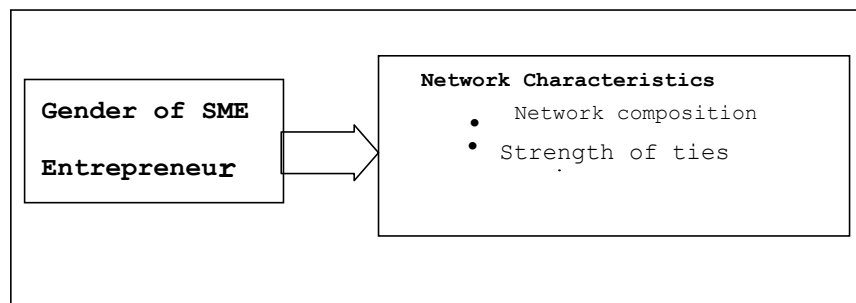
Strength of the ties among network members is another important network characteristic (Cromie, et al. 1993). It defines the intensity and quality of relations, and is often associated with the age of contacts, homogeneity, frequency of interactions and emotional involvement. In that respect, network ties can be categorized as strong or weak. Strong ties are important for their social support and help in solving problems. They are ties to persons or enterprises that are relatively familiar. With female entrepreneurs being perceived to be more inclined to emotional involvement, their network composition being largely focused on kinship members, we expect that:

Hypothesis 3: When compared to their male counterparts, female entrepreneurs will have a relatively large proportion of strong ties than weak ties in their networks.

Model

The analysis presented above can be summarized in a model shown in figure 2. The model illustrates that gender of the SME entrepreneur is the main determinant of, and has a direct influence on the characteristics of the network the entrepreneur is likely to have.

Figure 2. A model linking Gender and Network Characteristics



Conclusion

The paper has attempted to present a review of literature on social networks to inform research on interpersonal network differences between female and male entrepreneurs, and their effect on business performance in Tanzania. Little has been done in this area in a developing country such as Tanzania. The author has planned to implement this research in the near future.

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