Networking capabilities, entrepreneurial competencies, and performance of small and medium enterprises in Kenya

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ABSTRACT

The general purpose of the study was to examine effect of networking capabilities (NC), entrepreneurial competencies (EC) on the performance of Small and Medium Enterprises (SMEs) in selected towns of the North Rift Region -Kenya. The study was anchored by the theoretical approach of Resource Based View. The study employed positivism research philosophy and explanatory research design and using a stratified random sampling technique. Sample size of 323 drawn from a population of 4596 Small and Medium Enterprises registered with the Uasin Gishu, Tranzoia and Nandi Counties was collected using self-administered questionnaires. Hayes Model 4 process Macro was used to analyse data and test the hypothesis. The study found that; networking capabilities significantly affects firm performance. In addition, entrepreneurial competencies mediate the relationship between networking capabilities and firm performance. The study established that firms with effective networking capabilities are more likely to achieve improved performance outcomes. This indirect relationship between networking capabilities and firm performance through entrepreneurial competencies highlights the importance of fostering and enhancing entrepreneurial competencies within the business context. The study contributes to knowledge by revealing a complimentary mediation and that entrepreneurial competencies mediates the relationship between networking capabilities and firm performance.

Keywords: Entrepreneurial competencies, Firm performance, Networking capabilities, Small and medium enterprises. **JEL Classification:** L26; M00.

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Highlights of this paper

- Networking capabilities positively and significantly affect SME performance.
- Entrepreneurial competencies mediate the relationship between networking capabilities and SME performance.
- Effective networking capabilities and entrepreneurial competencies are more likely to improve SME performance.

1. INTRODUCTION

Performance of Small and Medium Enterprises is critical in addressing diverse economic challenges such as high unemployment levels in both developed and developing countries as well as slow economic developments within these countries. The SMEs have also been drivers of economic growth through payment of taxes, industrialization of the country, creation of direct and indirect employment, hubs for innovation and provision of consumer goods and services. Thus, it important to improve the performance of SMEs. Diverse components have been utilized in measuring SME performance across the globe including customer relationships, profitability, quality of products and services, market share and operational excellence (Arham, 2014); effectiveness, efficiency, relevance and financial viability, financial performance, product market performance and shareholder return performance; non-financial indicators and financial indicators of performance (Singh & Mahmood, 2014) competitiveness, financial performance, quality of service, flexibility, resource mobilization and innovation (Kimutai, 2016).

Entrepreneurial networks play a crucial role in enhancing entrepreneurial value by providing avenues for gaining competitive advantages and accessing resources without requiring significant capital investments, as highlighted by Mungania (2017). These networks enable entrepreneurs to tap into new opportunities, acquire knowledge, leverage experiential learning, and harness the synergistic benefits of resource pooling. Okatch (2012) also emphasizes that networking enhances the leverage of internal resources, thereby improving the financial performance of enterprises.

Furthermore, entrepreneurial competence emerges as a key determinant of business success, performance, and growth, or conversely, business failure, as underscored by Yustian, Suryana, Furqon, and Hendrayati (2021) and Mitchelmore and Rowley (2013) and others. Small and Medium-sized Enterprises (SMEs), operating at a smaller scale, often rely heavily on the competencies of their owners or managers. Extensive research has demonstrated the positive impact of entrepreneurial competencies on SME performance, as evidenced in studies by Miano and Bett (2018); Asenge and Agwa (2018) and Mwangi (2018). Enterprises led by managers with robust entrepreneurial competencies tend to proactively assess and navigate their operating environments to identify new opportunities and fortify their competitive positions, as noted by Covin and Miles (1999).

In the Kenyan context, SMEs play a critical role in the economy, contributing significantly to the Gross Domestic Product (GDP), employing a substantial portion of the youthful population, and generating a substantial portion of new jobs. Despite their importance, SMEs in Kenya encounter numerous challenges, including high costs of raw materials and interest rates, which hinder their access to essential inputs and capital, ultimately impacting their performance. Disturbingly, statistics from the National Economic Survey and Kenya National Economic Outlook reveal a stark reality: a significant percentage of SMEs face failure within their first year of operation. Moreover, a substantial number of small enterprises have shuttered over the past five years, according to the Kenya National Bureau of Statistics UNICEF Kenya Country Office (2017). The existing body of empirical literature highlights various factors contributing to business failure, ranging from financial constraints, lack of managerial expertise, insufficient access to equipment and technology, regulatory hurdles, limited access to international markets, inadequate education and skills, poor infrastructure, to a scarcity of market information (Wanjohi &

Mugure, 2008). Consequently, the quest to unravel the intricacies of how multiple factors influence the performance of small businesses remains a critical area of research inquiry. Locally Maina, Marwa, Waiguchu, and Riro (2016) used network content, network governance and network as a measure of networking capabilities, other studies have used network intensity and range as entrepreneur's competence dimensions (Lagat, 2016). According to Bengesi and Le Roux (2014) the study utilised relational skills, internal communication, partner knowledge and coordination dimensions of NC to determine its effect on firm performance. Furthermore, some studies have looked at networking capabilities as a moderator in firm performance relationship (Korir, 2018). This clearly shows that the effect of networking capabilities on firm performance is mixed and inconclusive. Also, different methodological approaches have been used to test effect of networking capabilities on firm performance opening up new areas for further studies to be done on networking capabilities -firm performance relationships. The current study will bridge the gap by exploring networking capability dimensions of relational skill, partner knowledge, internal communication and coordination and its effect on firm performance. In view of the inconsistencies and divergent views about networking capabilities -firm performance relationships, there is a need to further examine networking capabilities -firm performance relationships by introducing a mediator as the relationship is more complex than a simple main-effects-only relationship. Although previous empirical studies have made substantial contributions regarding performance of SMEs, there has been no focus on combining the three variables under the study. The present study aimed to address this gap in the knowledge by exploring the mediation (entrepreneurial competencies) variables in advancing the networking capabilities-firm performance relationships.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Concept of Small and Medium Enterprises Performance

The term "SME" encompasses a wide range of definitions, which can vary significantly from one country to another, often relying on criteria such as headcount, sales, or assets. For instance, the Inter-American Development Bank characterizes SMEs as businesses with a maximum of 100 employees and revenue below \$3 million. In Europe, these enterprises are typically identified as having a workforce of fewer than 250 employees, while in the United States, they are defined as having less than 500 employees (Natarajan & Wyrick, 2011). As a set of general criteria, the World Bank's classification of SMEs includes enterprises with a maximum of 300 employees, annual revenues of \$15 million or less, and assets totaling \$15 million or less. In Kenya, various definitions of SMEs exist, which have yet to be harmonized. For instance, a national baseline survey of Micro and Small Enterprises (MSEs) conducted in 1999 defines small enterprises as those employing 6-10 people, while medium-sized enterprises are expected to have 11-100 employees (CBS, 1999). According to the MSE Act of 2012, microenterprises are defined as having a maximum of 10 employees, small enterprises as having 11-50 employees, and medium/large enterprises as having more than 50 employees. In Kenya, several studies have examined the concept of SME performance and have utilized different measures to measure it. A study focusing on the role of Information Technology on the performance of SMEs in Nairobi used financial indicators such as ration of turnover comparative to revenues, profitability, increase in assets and decrease in liabilities, and increase in investments (Kimutai, 2016). Study that focused on the role of entrepreneurial orientation on performance of SMEs in Information Technology sector in Nairobi used sales growth rate, market share, operating profits, profit to sales ratio, market development, and product development (Osoro, 2012). According to Waithaka (2016) volumes of sales, increase in number of employees, increase in branch network, customer loyalty levels, product diversification, and decrease in cost of production measured SME firm performance.

2.2. Concept of Networking Capabilities

Firms require networking capability to effectively leverage external knowledge resources and information flows. Various terms have been employed in the literature to address inter-firm relationships, such as relational capability and network competence (Pigola & Da Costa, 2023). Additionally, terms like network capabilities (Walter, Auer, & Ritter, 2006) and networking capability (Chen, Greene, & Crick, 2009) are often used interchangeably, displaying significant similarities and overlaps.

These network capabilities are also referred to as social capital, external links, and personal networks. As stated by Bengesi and Le Roux (2014) networking capabilities encompass a firm's ability to initiate, nurture, and effectively utilize relationships with various partners to its advantage. In essence, networking capabilities revolve around establishing and sustaining network relationships with the aim of exchanging strategic resources and capabilities to benefit the firm. Bengesi and Le Roux (2014) emphasize the importance of initiating, maintaining, and leveraging relationships with partners. Networking capabilities encompass four key components: coordination, relational skills, partner knowledge, and internal communication (Srećković, 2018).

In contrast to the perspectives of Bengesi and Le Roux (2014) and Papastamatelou, Busch, Ötken, Okan, and Gassemi (2016) propose a three-dimensional framework for network capabilities, consisting of network characteristics, network operations, and network resources, each with its sub-indicators. Network characteristics involve tie strength, relational capability, and trust as sub-indicators (Papastamatelou et al., 2016). Network operations encompass sub-indicators like initiating business relationships, coordination, and learning. Finally, network resources include indicators such as network human capital, synergy-sensitive resources, and information sharing (Papastamatelou et al., 2016).

Networking capabilities encompass four vital dimensions: coordination, relational skills, partner knowledge, and internal communication. These dimensions are mutually reinforcing, where, for instance, higher levels of partner knowledge and internal communication contribute to better coordination. Partner knowledge can also result from strong coordination and relational skills, while internal coordination facilitates the gathering of information for improved partner knowledge. Coordination activities serve as boundary-spanning efforts, linking the firm to other businesses and connecting individual relationships into a network of mutually supportive interactions (Walter et al., 2006).

2.3. Concept of Entrepreneurial Competencies

The Council (2006) defines competency as a blend of knowledge, skills, and attitudes, encompassing an individual's capacity to translate ideas into actions. This encompasses attributes like creativity, innovation, risk-taking, as well as the ability to plan and manage projects for goal attainment. According to Aliedan, Elshaer, Alyahya, and Sobaih (2022) successful entrepreneurs must exhibit creativity, a willingness to take risks, and innovative thinking to adapt to the ever-changing external environment. The concept of entrepreneurial competency has long been a staple in management literature, distinguishable into two categories: natural and learned competence. Natural competence comprises characteristics, attitudes, self-perception, and social roles. On the other hand, unnatural or acquired competence involves skills obtained through practical and theoretical learning, encompassing skills, knowledge, and experience (Ismail, 2012). Therefore, entrepreneurial competencies constitute the inherent traits that enable individuals to perform tasks effectively (Lazar & Paul, 2015). A review of the literature reveals that entrepreneurial competencies can be categorized into ten competency areas: strategic, conceptual, learning, opportunity, ethical, organizing and leading, relationship, technical, operational, and personal competencies. These competencies exert both direct and indirect influences on enterprise performance.

2.4. Theoretical Framework

The Resource-Based View (RBV) theory, developed by scholars like Wernerfelt, examines the resources of firms to determine their competitive advantages and overall performance (Wernerfelt, 1984). It sees a firm as a collection of tangible and intangible resources, with differences in resource profiles leading to varied performance. To achieve superior and sustainable performance, firms need resources that are valuable, rare, difficult to imitate, and well-organized (VRIO framework) (Ferlie et al., 2015). RBV theory includes concepts like core distinctive competencies, dynamic capabilities, absorptive capacity, and organizational ambidexterity (Karia, 2021). These concepts highlight a firm's ability to develop sustainable advantages, adapt to changing markets, absorb knowledge, and balance resource profiles. Small and medium-sized enterprises (SMEs) can also accumulate knowledge and unique resources, giving them a competitive edge (Othman, Arshad, Aris, & Arif, 2015). RBV logic emphasizes the importance of specific investments in resources and capabilities for entrepreneurial success. When entrepreneurship relies on complex or tacit resources, hierarchical governance (i.e., firms) is favored over market-based arrangements (Andersson, 2000). SMEs can use intangible resources, such as networking capabilities, to gain competitive advantages (Baia, Ferreira, & Rodrigues, 2020). Heterogeneous competencies become a source of competitive advantage when they are valuable and possessed by only a few firms in a given competitive environment (Baia et al., 2020). Entrepreneurial competencies are crucial for firm performance, growth, and success (Man, Lau, & Chan, 2002). This study suggests that entrepreneurial competencies mediate the relationship between networking capabilities and SME performance (Man et al., 2002). RBV theory explains how SME owners/managers build their businesses by leveraging existing and attainable resources for sustained competitive advantages (Wekesa, 2015). It identifies six types of resources: financial, physical, human, technological, reputation, and organizational. Inadequate management capacity, lack of skills, and low managerial competencies are common reasons for SME failure (Mughan, Lloyd-Reason, & Zimmerman, 2004).

2.5. Networking Capabilities and SME Performance

Numerous empirical studies, both domestically and internationally, have explored the impact of networking capabilities on firm performance. These studies have employed various variables to assess this effect, yielding mixed and inconclusive results. For instance, Maina et al. (2016) findings revealed a positive and significant relationship between these network elements and firm performance. Maina et al. (2016) emphasized the role of networking dimensions in the performance of manufacturing SMEs in Kenya, particularly under network intensity and range. The study highlighted that closer relationships among SME managers resulted in faster resource sharing, consistent with previous research by Seck and Mazzarol (2006) which found that network intensity predicted firm performance. Furthermore, this study supported Lagat (2016) findings that network intensity influenced supply chain performance. Korir (2018) discovered that networking dimensions, including network capability, structure, and dynamics, positively affected firm performance in the context of event management ventures in Kenya. Their study confirmed a strong predictive relationship between networking dimensions and venture performance. In Singapore, a study on strategic networking and the growth of technology-oriented SMEs revealed that firm growth was independent of network range but was predicted by network intensity, contrasting with Hisrich (2015) findings in China, where network intensity and range were positively associated with firm performance. A study in Ireland by Kenny and Fahy (2011) demonstrated a positive relationship between strong network ties, network coordination, human capital resources, and export performance among SMEs, while weak ties and other factors did not show such correlations. Hilmersson, Johanson, Papaioannou, and Lundberg (2022) also highlighted the benefits of business networking for SMEs, including increased employment, knowledge transfer, and innovation

opportunities. The study suggested that firms with partners' knowledge were more likely to identify suitable networking partners to bridge resource gaps, and effective relational skills and internal communication fostered trust and strategic resource sharing. Therefore, this study argues that networking capabilities are critical for SMEs' performance. Hence, we hypothesized that:

H: Networking capabilities has significant effect on SME performance.

2.6. Networking Capabilities, Entrepreneurial Competencies and SME Performance

Entrepreneurial competencies (EC) and their link to firm performance have been extensively explored in various studies. Mitchelmore and Rowley (2010) underscore the substantial contribution of EC to firm growth and overall performance. Song and Kee (2013) emphasize the vital role of robust EC for SMEs, whether they operate locally or globally, to not only survive but also thrive in today's fiercely competitive and rapidly evolving business landscape. Maru, Tallam, and Lagat (2015) delved into the interaction between networking capabilities (NC), marketing capabilities, and the performance of small Kenyan firms. Their findings revealed that both marketing and networking capabilities had a positive impact on small firm performance, albeit without significant moderation by NC in the relationship between marketing capabilities and performance. In Walter et al. (2006) study, the focus was on the moderating influence of NC on the connection between entrepreneurial orientation (EO) and the performance of university spin-offs. The results demonstrated a positive association between NC and spin-off performance, with NC further strengthening the relationship between EO and performance. Ajayi (2016) explored the intricate interplay between entrepreneurial orientation, networking capability, institutional environmental factors, and export performance within Nigerian agricultural firms. Their research unveiled the direct influence of proactive entrepreneurial orientation and effective networking capabilities on export performance, with institutional factors exerting a moderating effect.

Empirical studies on networking's impact on SME performance have yielded mixed results. Watson (2007) found positive associations, while Rowley, Behrens, and Krackhardt (2000) found a negative link between networking and performance. The interaction between entrepreneurial orientation and organizational capabilities facilitated internationalization. Sánchez (2012) established the influence of entrepreneurial competencies on firm performance, competitive scope, and organizational capability, emphasizing the direct and indirect effects of EC. Pulka, Ramli, and Mohamad (2021) showed the mediating influence of EC on the relationship between entrepreneurial competence and the performance of small hospitality firms in Ghana. Rosli and Sidek (2013) found that EC partially mediated the relationship between microfinance and small business growth in Malaysia. Sarwoko, Surachman, and Hadiwidjojo (2013) revealed that entrepreneurial competence mediated the relationship between entrepreneurial characteristics and business performance in Indonesia. tthese studies highlight the significant role of EC in mediating the relationship between various factors (e.g., networking capabilities, entrepreneurial orientation, and microfinance) and firm performance. Thus, we proposed that:

H₂: Entrepreneurial competencies significantly mediate the relationship between networking capabilities and SME performance

Based on the summary of empirical literature review and identified gaps, the study proposed Figure 1 to address the conceptual gap. It also acted as a basis of testing the hypothesis for the conceptual models of the study. The 2 models were diagrammatically conceptualized as follows.

- 1) Direct Model: The direct effects of NC on SME performance (H₁).
- Mediation Model: EC as a mediator in the relationship between NC and SME performance. H₂₌ (a_{1*} b₁).

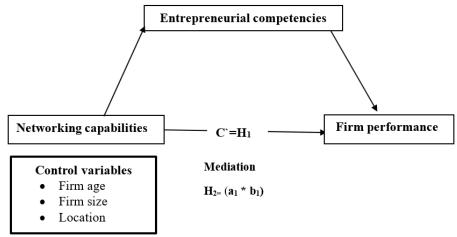


Figure 1. The conceptual framework.

Source: Hayes (2018) and Hayes (2013) Model 4.

3. METHODOLOGY

The study adhered to the positivist research philosophy, which embraces a quantitative outlook, asserting the existence of an objective reality that can be quantified, offering both explanatory and predictive capabilities (Hatch & Cunliffe, 2006). Consequently, the research adopted an explanatory research design.

3.1. Sampling

The population of this study comprised SMEs in retail and wholesale trade, service industry, production and manufacturing in the towns of Eldoret, Kitale and Kapsabet, within North Rift region, Kenya. The SMEs are in the three towns within the North Rift Region of Kenya and therefore stratified random sampling together with proportionate sampling from a sampling frame of 4,596 SMEs were used. Using Stratified random sampling the study only considered active SMEs based on their current licenses to operate from the County Governments. The study utilized a sample size of 323 owners of SMEs distributed as follows: 169 respondents from Eldoret, 109 respondents from Kitale and 45 respondents from Kapsabet. The samples were picked from all the three strata (Eldoret, Kitale and Kapsabet). In selecting a sample from each stratum, a simple random sampling technique was used where a number is given to every subject member of the accessible population in the stratum, In the current study questionnaires was used. The questionnaires were formulated to capture all information needed to meet the study objectives. In this regard, each section in the questionnaire was conceptualized to measure one variable in the study using five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

3.2. Reliability and Validity Measurement of Variables

The financial and non-financial performance indicators were adopted and modified from Kotane (2015). The financial comprised four perceptive indicators: sales, annual profits, capital invested and return on investment. Non-financial measures included customer satisfaction levels, customer service improvements and number of employees.

The study adopted and modified measures of networking capabilities from Bengesi and Le Roux (2014) and Walter et al. (2006) and developed by Keller and Holland (1975) and Mohr and Spekman (1994) namely internal communication resources (5 items), relational skills (4 items), partners knowledge (4) and coordination activities (6 items).

The study adopted and modified the six measures of entrepreneurial competencies derived from Man et al. (2002). The study used 9 items to measure Strategic competency level, 10 items to measure Opportunity

competency, 11 items to measure Conceptual competency, 7 items to measure organising competency, 7 items to measure Commitment competency and 7 items to measure Relationship competency.

In the questionnaire validation process, various statistical tests and criteria were employed to guarantee the reliability and validity of the items. Table 1 present data's suitability for Principal Component Analysis (PCA) through the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and Bartlett's Test of Sphericity. The KMO value surpassed the recommended threshold of 0.50, signifying the data's suitability for PCA (Latif, Abidin, Azaman, Jamaludin, & Mokhtar, 2019). Additionally, Bartlett's Test of Sphericity produced a significant p-value, further affirming the data's appropriateness for factor analysis (Hair, Halle, Terry-Humen, Lavelle, & Calkins, 2006). To refine the questionnaire items, factor analysis with varimax rotation was executed. Items with factor loadings below 0.5 were eliminated from the analysis, ensuring that only items strongly linked to their respective constructs were retained. This procedure enhances the questionnaire's validity. Furthermore, the questionnaire's reliability was evaluated using Cronbach's Alpha (α) coefficients. A reliability coefficient of at least 0.7 is typically considered acceptable for research instruments.

Table 1. Reliability and validity measurement of variables

	Factor	Cuanbaah'a	
		Cronbach`s	
	etraction (Loadings)	alpha if item deleted	
Firm performance (Eigen value = 1.885, KMO = 0768, Bartlett's test	(Loadings)	deleted	
=0.00*, Cronbach's alpha:0.768)			
Annual profits have increased during the years due to increase in sales and cost control measures	0.87	0.80	
The number of employees has increased due to job satisfaction.	0.51	0.67	
The number of customers has increased due to increased demand in our products	0.58	0.71	
Networking capabilities (KMO = 0.769, Bartlett's test of sphericity = 18	88.502*, Cronback	n alpha:0.816)	
The firm analyses what it would like and desire to achieve with which partner	0.58	0.80	
Judgement in advance of possible partners to talk to about building up relationships occurs.	0.58	0.81	
Business information across departments / All workers is often communicated	0.54	0.80	
I ensure that managers and employees give intensive feedback to each other	0.51	0.80	
I can deal flexibly with partners	0.53	0.80	
Problems are solved constructively with partners	0.59	0.80	
We know our partners' potential and strategies	0.52	0.80	
I deliberately study partners strength and weaknesses	0.56	0.81	
I know which ways competitors attract customers	0.55	0.81	
Entrepreneurial competencies (KM0 = 0.768 , Bartlett's test of sphericity	= 978.325, Cror	bach alpha:0.935)	
Strategic competency			
I am able to determine long term issues, problems or opportunities	0.58	0.93	
I am aware of the projected directions of the industry and how changes	0.52	0.93	
might impact the firm			
I prioritise work in alignment with business goals	0.80	0.93	
I assess and link short term, day to day tasks in the context of long term direction.	0.61	0.93	
I always evaluate results against strategic goals	0.53	0.93	
Opportunity competency			
I constantly seek and act on high quality business opportunity	0.56	0.93	
I always identify goods or services customers want	0.52	0.93	
I conduct marketing and promotion activities for seeking new business opportunities	0.52	0.93	
I actively look for products or services that provide real benefit to	0.51	0.93	

	Factor etraction (Loadings)	Cronbach`s alpha if item deleted	
customers	(Doudings)	ucicicu	
I identify goods or services customers want.	0.58	0.93	
I have marketed very many new lines of products or services in the past 3 years.	0.54	0.93	
I always seize high-quality business opportunities	0.52	0.93	
I am able to perceive unmet consumer needs.	0.97	0.93	
Conceptual competency			
I often take actions that go beyond job requirements or the demand of the situation.	0.55	0.93	
I have credibility to absorb, analyse and understand complex situations.	0.52	0.93	
I have the mental ability to coordinate all the organisations interests	0.53	0.93	
I take reasonable job-related risks in my business.	0.54	0.93	
I monitor progress toward objectives in risky actions	0.51	0.93	
I apply ideas I get from my business to different contexts.	0.55	0.93	
I make decisions concerning my business very fast	0.53	0.94	
Organising competency			
I delegate duties to my employees.	0.57	0.93	
I keep the records of my business.	0.56	0.93	
I plan the operations of my business.	0.56	0.93	
I always ensure my business runs smoothly. Commitment competency (Eigen value = 2.228)	0.86	0.93	
I dedicate all my efforts to make my business work	0.52	0.93	
I refuse to let my business fail under any circumstance	0.57	0.93	
I commit to long-term business goals.	0.60	0.93	
I possess an extremely strong internal drive.	0.54	0.93	
I go out of my way to learn new ideas about my business.	0.65	0.93	
I apply learned skills and knowledge into practice.	0.52	0.93	
I always maintain a positive attitude in my business.	0.53	0.93	
Relationship competency			
I develop long-term trusting relationships with others	0.58	0.93	
I negotiate with others.	0.51	0.93	
I interact with others with similar business as mine	0.60	0.93	
I always maintain a personal network of work contacts.	0.61	0.93	
I utilize business network to grow my business.	0.53	0.93	
I understand what others mean by their words/Actions.	0.92	0.93	

Note: *p<0.05.

4. DATA ANALYSIS AND RESULTS

4.1. SME Characteristics

This section discusses the SMEs characterises of the sample respondents in the study area. Table 2 show that the respondents were distributed across various age ranges of firms, with a significant portion representing firms aged 4-6 years (28.8%, n=89), ensuring a diverse representation of firm ages; concerning firm size, the majority of respondents came from firms with 6-20 employees (35.3%, n=109), closely followed by firms with fewer than 5 employees (32.7%, n=101), while larger firms with 21-50 employees constituted the third-largest group (18.4%, n=57), and the smallest groups were firms with 51-100 employees and those with over 100 employees, accounting for 10.7% (n=33) and 2.9% (n=9) of respondents, respectively. In terms of subsector industry type, the retail and wholesale sectors had the highest representation (43.4%, n=134), followed by the service sector (33.6%, n=104), with the production/manufacturing/agro-based sector having the fewest respondents (23.0%, n=71).

Table 2. SME characteristics.

Demographic factor		Number of respondents	Percentage number of respondents
Firm age	Below 3 years	79	25.6
	4-6 years	89	28.8
	7-10 years	67	21.7
	Above 10 years	74	23.9
	Total	309	100
Firm size	Fewer than 5	101	32.7
	6-20	109	35.3
	21-50	57	18.4
	51-100	33	10.7
	More than 100	9	2.9
	Total	309	100
Subsector type	Retail and wholesale	134	43.4
•	Service	104	33.6
	Production /Manufacture/Agro based	71	23.0
	Total	309	100

4.2. Descriptive and Correlation Analysis

Table 3 presents Pearson correlation coefficients (r)and its significance. The correlation results indicated that all the variables were positively correlated with firm performance. A higher correlation was evident between firm performance (FP) and entrepreneurial competencies (EC) with r=.705, ρ <.01 .this was followed by networking capabilities with r=0.687, ρ <.01.

Table 3. Pearson correlation coefficients.

	Mean	Std. dev.	Skewness	Kurtosis	Firm performance	Networking capabilities
Firm performance	3.71	1.187	-0.69	-0.277	1	
Networking capabilities	3.75	1.18	-0.81	-0.08	0.687**	1
Entrepreneurial	3.62	1.15	-0.63	-0.35	0.705**	0.566**
competencies						

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

4.3. Test of Hypotheses (Hayes Model 4)

Table 4 presents the mediation results that was analysed using Hayes (2018) Process Macro version 3.5 (Model 4). All the three covariates were found to be insignificant with firm size (p=.411), firm age (p=.572) and firm location (p=.390).

Findings showed that networking capabilities had a significant direct effect on firm performance with coeff=.465, p=.000). Thus, hypothesis 1 was accepted. This implies that the ability of a firm to effectively utilize networking capabilities is indeed associated with improved firm performance.

In addition, results showed that networking capabilities had a significant direct effect on entrepreneurial competencies with an increased coeff=.559, p=.000 and an improved R2 .328 with a significant F (36.492), p=.000. The model therefore explains 32% of the variance in entrepreneurial competencies. The result of the covariates revealed insignificant effect (firm size; p=.402), firm age; p=.387 and firm location (p=.911) on firm performance. Further, the study showed that entrepreneurial competencies had a positive and significant effect on SME performance with coeff=.465, p=.000, R2 .621 with a significant F=97.775, p=.000. The model therefore explains 62% of the variance in firm performance. Therefore based on Baron and Kenny (1986) the mediation condition three was confirmed. Using bootstrap analysis at 95% confidence level (CL) and 5000 bootstrap samples,

there was a positive and significant as both Confidence Interval (CI) was none zero (Lower limit of the confidence interval (LLCI) = .194, Upper limit of the confidence interval (ULCI)=.334). The significance of path `ab` indicates mediation effect. In this study, the coefficient is .260 which is the coefficient product of path a*b (.559*.465). The model explains 47.6% which is significant with F (67.85) and p=.000. The results from the control variable were statistically insignificant with p > .05 for all the three covariates. The study concluded that since the confidence intervals for the indirect effect is non -zero, then mediation exists. The study therefore concludes that H2 is accepted and stated that entrepreneurial competencies mediate the relationship between networking capabilities and firm performance.

Table 4. Hayes model 4 resultrs.

Path 'a'			Path 'b' and 'c'			Indirect effect of EC	
					(a * b))	
	β	р		β	P	Bootstraps	
Constant	-0.185	0.287	Constant	-0.119	0.362	Effect	0.260
NC	0.559	0.000	NC	0.418	0.000	BootLLCI	0.194
			EC	0.465	0.000	BootULCI	0.334
						BootSE	0.035
\mathbb{R}^2	0.328		\mathbb{R}^2	0.621			
F	36.492		F	97.775			

Note: Path "a' present effect of NC on SME performance, path "b" present effect of NC on EC, path "c" present NC on SME performance.

5. DISCUSSION

Results showed that networking capability had positive significant effect on firm performance. The study alludes that networking capabilities is about creation and sustaining of network relationship with a view of allowing exchange of strategic resources and capabilities to the firm's advantage. The findings of the study agree with the study done by Bengesi and Le Roux (2014) whor refereed networking capabilities refers to the ability of the firm to initiate, maintain and utilize the firm's relationship with various partners to the firm's advantage. The network capabilities have also been referred to social capital, external links and personal networks. The positive influence in the study suggests that firms with strong partners knowledge, relational skills, and internal communication are likely to share and harness strategic resources to its competitive advantage. The positive influence of networking capabilities suggests that sharing of strategic information and resources within the firms instil learning new capabilities that would foster improved performance. The significant effect of networking capabilities on firm performance can be alluded to the fact that firms use resources to partner relationship. Further, firms conduct regular discussions with partners on how to support each other and advance talks with partners about building up relationships that help improve performance. This study backs up the findings of Seck and Mazzarol (2006) who discovered that network intensity predicts firm performance.

The study also revealed a complimentary mediation of entrepreneurial characteristics on relationship between networking capability and SME performance. The results can be supported by the findings of Sarwoko et al. (2013) which showed that entrepreneurial competencies mediate the relationship between entrepreneurial characteristics and performance among SME firms in Indonesia. To further the argument of Sarwoko et al. (2013) firms that portray networking capabilities have a significant positive correlation when intervened by entrepreneurial competencies. As postulated by Mitchelmore and Rowley (2010) entrepreneurial competencies contribute significantly to any firm's performance and growth. SMEs must continuously improve their entrepreneurial competencies to survive and thrive in today's competitive and rapidly changing environment (Song & Kee, 2013). The current study findings build on the work of Pulka et al. (2021), which looked at entrepreneurial competency as

an indirect predictor of firm performance in the context of the relationship between network capability and SME performance. The results agree with the prior study that confirms, entrepreneurial competency acts as a bridge between networking capability and entrepreneurial performance.

6. CONCLUSION

This study extended the research on the association between networking capabilities and SME performance by developing a mediation model. This research examined whether entrepreneurial competencies mediate this association. The findings of the study confirm that networking capabilities and entrepreneurial competencies have a positive and significant direct effect on SME performance. Further, networking capabilities positively and significantly affects entrepreneurial competencies. The study revealed a complimentary mediation and confirm that entrepreneurial competencies mediate the relationship between networking capabilities and SME performance.

7. IMPLICATIONS OF THE STUDY

7.1. Implications for Theory

The findings of the study have contributed to existing body of literature by using evidence from Kenya, developing nation. It is clear that SME in developing economies is failing in the first five years of establishment. The study findings contribute to an understanding of how to improve SME performance. Furthermore, the study findings are consistent with other scholars who have established that networking capabilities, entrepreneurial competencies and have a significant direct effect on firm performance. New knowledge has been added to existing literature where entrepreneurial competencies. The study further provides theoretical contribution to the existing scholarly literature where entrepreneurial competencies acts as a mediator and an enhanced predictive power established by mediation analysis. The effect was enhanced as opposed to testing the effect on the outcome variables as direct and mediating alone. The findings further concur with resource-based view that competency and networking add value to the organisation. Moreover, the findings allude the contribution of competency-based theory which state that SMEs have a responsibility to recognize what core competences are necessary to exploit a particular opportunity to innovate in their achievement and to sustain them.

7.2. Practical/Managerial Implications of the Study

The findings emphasise the importance of networking capabilities and competencies of the entrepreneurs as a predictor to improved firm performance. SMEs should consider developing policies, allocate resources and come up with strategies that will enhance their networking capabilities. Firms should strive to engage in trainings and capacity building that will promote competencies and built capability of the firm owners to have a strong belief and confidence during their entrepreneurial engagements which will ultimately improve their performance. Entrepreneurs should ensure that their employees are involved in the decision-making process and have the capacity and confidence to implement and deliver on strategy.

8. LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDIES

Despite the significant contribution of this study, it had some limitations. The current study was narrowed to three out of 47 counties in Kenya namely counties within North Rift Kenya. These meant that the results were limited based on geographical scope and target population. Future studies should be replicated in other areas with a wider scope and target population of SMEs such Nairobi, Mombasa and Nakuru and see if the results will be the same. Furthermore, the study used quantitative data; future studies should consider using mixed method as this may

bring out other factors that may influence firm performance since the market environment is always dynamic. Finally, the study used networking dimensions adopted from Bengesi and Le Roux (2014) and Walter et al. (2006) namely internal communication resources, relational skills, partners knowledge and coordination activities and its effect on firm performance. Future studies should consider other networking elements which have been conceptualized such as aspects of network intensity, range, structure and network dynamics with already local scholarly findings documented (Korir, 2018; Maina et al., 2016) to ascertain how they can influence SME performance.

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