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Moderating Effects of Networking Capabilities on Marketing Capabilities and Performance of Small Firms in Kenya

Tallam, Sylvia C.[1] Maru, Loice C.[2*] Lagat, Charles K.[3]

1. Scholar in the School of Business and Economics, Moi University, Nairobi Campus, P.O. Box 63056, 0200, NAIROBI, Kenya.
2. Department of Management Science, School of Business and Economics, Moi University, Nairobi Campus, P.O. Box 63056, 0200, NAIROBI, Kenya,
3. Department of Marketing, School of Business and Economics, Moi University, P.O. Box 3900, 30100, ELDORET, Kenya.

Abstract

Marketing and Networking have separately occupied research for a long time. Yet the two compliment and or supplement each other especially in small firms in driving superior firm performance. Hence, this study focused on the two concepts and sought to determine the moderating effect of networking capabilities the relationship between marketing capabilities and performance of small firms. The resource-based view and social capital theories were used as bases for this study. The results from an explanatory survey of a sample of 384 small firms in Nairobi, Kenya are discussed. Data was collected by use of self-administered questionnaires. Multiple Regression analysis results showed that both marketing and networking capabilities positively influence small firm performance but networking capability does not significantly moderate the relationship between marketing capabilities and small firm performance. The study recommends to managers and advisory service providers that small firms can improve performance by developing both marketing and networking capabilities because each of the capabilities has exclusive influence performance.

Key words: Marketing capability, network capability, small firm performance.

1. Introduction

Capabilities are integrative processes by which knowledge based resources and tangible resources come together to create valuable outputs (Gant, 1996). Capabilities are defined as ‘complex bundles of skills and accumulated knowledge that enable firms to coordinate activities and make use of their assets’ (Day, 1994). These capabilities come about through integration of knowledge and skills of employees. As the employees of the firm repeatedly undertake various tasks, complex patterns of coordination between people and other resources occur (Gant, 1996).Various capabilities which firms can use to obtain a competitive advantage and hence superior performance have been identified. However, this study examines only marketing capability and networking capability.

Marketing capabilities are organizational strengths that play very important roles in the success of marketing programs. They are the integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market related needs of the business, enabling the business to add value to its goods and services and meet competitive demands. Marketing capabilities are firm-specific and provide superior market sensing, customer linking, and channel bonding and consequently are critical for developing networks. Marketing capability represents a firm’s ability to understand and forecast customer needs better than its competitors and effectively link it’s offering to customers market sensing and customer linking capabilities (Day, 1994).

Studies in marketing have shown that a number of marketing models are also applicable in the case of small businesses. For instance, networking has been recognized as a distinctive ability in supporting marketing activities while overcoming internal constraints in small businesses (Gilmore *et al.,* 2006). Also, the role of marketing capabilities in driving superior firm performance has long been of interest to marketing scholars (Vorhies, 2005). The relative importance of marketing capability in driving performance has also been expressed in the light of its role in building firm value (Srivastava *et al.,* 1998). According to Hills, (2008), small business marketing has been recognized in entrepreneurial theoretical context and prescribes entrepreneurs as risk takers who do not plan or strategize and rely on their own special competencies.

The term 'network' is defined as groups of three or more legally autonomous organizations that work together to achieve not only their own goals but also a collective goal. Such networks may be self-initiated, by network members themselves, or may be mandated or contracted, as is often the case in the public sector (Walter et *al.,* 2006). Networks comprise autonomous organizations and, thus, are essentially cooperative endeavours. Network capability is the ability of a firm to initiate, maintain and utilize relationships among various external partners. It is the ability to develop and utilize inter-organizational relationships to gain access to various resources held by other actors (Walter *et al.,* 2006). Network capability enables a firm to connect its own resources to those of other firms by building relationships. On the customer side, relationships are important means of learning and establishing customer needs in order to develop marketable offerings to them.

Although a vast majority of small firms in developing countries do not expand beyond a few employees, some of them experience rapid and substantial growth (Nichter, 2009). There is limited reliable evidence of the factors that account for performance differentials in small firms. However, in generally, factors such as adverse economic conditions, poorly thought out business plans, resource adversity, limited managerial experience, skills and personal qualities are often cited as the main reasons for failure and stagnating growth of these firms (Graeme, 1994). These factors affect Small firms more and hence they become more vulnerable to mistakes and variations in economic performance than large firms.

Most of the challenges that Small firms face are more often than not associated with their informal structure, low level of skills of owners and their employees and low technological utilization. Some of the challenges include inadequate financial capital (Boer, 1992), management skills (Graeme,1994), d weak marketing frameworks and severe constraints on marketing resources (Donnell *et al.* (2001) in Hakimpoor (2011). More specifically, in large cities such as Nairobi in Kenya, SMEs face the following challenges; competition among themselves, from large firms and from cheap imports,, limited access to credit, insecurity and poor debt management (KCA, 2009).

Small firms have however found a unique way of overcoming their size and age related challenges. According to Gomes and Casseres (1999), small firms use network relationships and marketing capabilities to curb the challenges (Dubini and Aldriuch, 1991; Coviello and McAuley, 1999 Johannisson and Monstead, 1997). As a results, their marketing capabilities lead to a competitive advantage while networks help them to access resources they need..

The need to develop marketing frameworks suitable for smaller firms has been widely acknowledged, while networking is one of the useful ways for SME owner/managers to expand marketing knowledge and expertise (Hakimpoor, 2011). Extant literature suggest that small firms need to uphold network capabilities alongside marketing capabilities for superior performance. Hence the focus of this paper is to establish the moderating effect of networking capabilities on the relationship between marketing capabilities and small firm performance.

2. Literature Review

Although several theories have been used to examine marketing capabilities and network capabilities and related constructs, this research utilizes the resource-based view and the social capital theories to underpin the concepts. The resource-based view of the firm (Barney, 1991); Wernerfelt, 1984; Penrose, 1959) has been used to develop an understanding of capabilities that enable firms to grow and prosper. Resource-based view regards the firm as a bundle of resources and suggests that their attributes significantly affect the firm's competitive advantage and by implication, its performance (Barney, 1991); Wernerfelt, 1984). Most conspicuous among these resources are those that are valuable, scarce, imperfectly tradable, and hard to imitate (Barney, 1991).

The social capital theory suggests that a firm's external networks form a major contributor to its performance. Social capital has been conceptualized as a set of social resources embedded in relationships (Burt, 1992). Social capital is a means of enforcing norms of behaviour among individual or corporate actors and thus acts as a constraint, as well as a resource (Walter, Kogut and Shan, 1997). Successful cooperation may not be achieved in inter-organizational relationships without constraints on the partners to perform according to each other's expectations. The network serves an important function in the development of social constraint directing information flows in the building and maintaining of social capital. Organizations transact with suppliers and other partners in order to acquire external resources to produce products/services at competitive prices, adjusted for quality such that they can attract and retain customers (Uzzi, 1996). Their ability to mobilize external resources, attract customers, and identify entrepreneurial opportunities is conditional on external networks, since social relations mediate economic transactions and confer organizational legitimacy (Granovetter, 1985). Social capital theory implies that firms should pursue strategies focusing on the development of valuable networks in order to succeed.

The two perspectives have divergent concerns with the roots of value creation (Lee *et al.,* 2001). The resource-based view stresses internally accumulated resources or capabilities, while the social capital theory underscores its relational characteristics with external entities. A synthesis of these two perspectives can be useful in understanding of the marketing capabilities and networking capabilities in small firm performance. Small firms involve an accumulation of resources and at the same time rely on external networks for additional resources to supplement their scarce resource.

2.1 Small Firm Performance

A considerable number of small firms fail at their infancy stage and others within a few years of inception (Watson and Everett, 1996; Ladzani and Van Vuuren, 2002). Literature has attributed this to "resource poverty" (Welsh and White, 1981) such as limited financial capital (Boer, 1992) and management skills (Graeme, 1994) among others. When resources are abundant, firms survive easily, grow more rapidly and are more profitable. In the context of small firms, capabilities are not enough for the firm to enjoy a superior performance, since they are very likely to be deficient. In order for new ventures to fully maximize value from their internal capabilities, they should have external networks through which they can mobilize complementary resources and identify more rewarding opportunities. Firms may leverage their internal capabilities to extract more value from their social capital and thus enhance their performance.

2.2 Marketing Capabilities

The marketing capability of a firm is a multi-faceted phenomenon. It is a complex combination of the human resources or assets, market assets, and organizational assets of a firm (Kristian, 1987). Day (1994) defines marketing capability as integrative process designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands. Day further points out that although it is not possible to list all company capabilities, because every firm develops its own configuration rooted in the realities of its competitive market, past commitments and anticipated requirements. However, some capabilities can be recognized in all businesses, corresponding to the core processes for creating economic value. In this sense, Day (1994) identifies three types of marketing capabilities: outside-in; inside-out; and spanning capabilities. In addition to Day's (1994) three sets of marketing capabilities, Hooley *et al.* (2002) added the networking capabilities as a marketing capability.

Vorhies (1998) defines marketing capabilities as "the integrative processes designed to apply the collective knowledge, skills and resources of the firm to market-related to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats". Within the small firms, networks have been noted to play an important role. Networking is considered a useful way to expand marketing expertise and knowledge. Small firms manage networks in order to overcome their congenital constraints, and allow them to increase their resource availability and by so doing enhance their likelihood of success.

In explicating the overall marketing capability of the firm it is important to identify the relevant marketing capabilities contributing to superior performance. Atuahene-Gima's (1993) conceptualization of marketing capability outlines several processes used by firms in their efforts to reach target customers. Upon synthesizing insights from fieldwork interviews with the literature also identified eight distinct marketing capabilities that were viewed as contributing to business performance (Vorhies, 2005).

Marketing capability enables firms to better understand their customers' current and future needs, to better serve these needs and to reach new customers as well as to effectively analyze competitors and competition (Fowler *et al.,* 2000). Therefore, marketing-related capability is considered an important driver for superior performance (Day, 1994). The four key capabilities of marketing include product development, pricing, channel management and marketing communications. Other notable marketing capabilities are selling, market information management, marketing planning and marketing implementation, as important in marketing performance.

Marketing capabilities are deployed with varying degrees by different firms in their efforts to reach respective target markets. The marketing capability perspective is concerned with the position and role of marketing in the organization of the firm, as well as establishing relationships with other organizations. Superior market performance refers to the position of a firm in its market. This is indicated by such variables as market share, number and quality of key customer relationships, position in the marketing channels, and physical facilities established for carrying out marketing activities. This paper proposes that marketing capabilities enhance performance through increased awareness leading to enlarged customer base and thus hypothesizes that:

Ho_1: Marketing capability has a significant positive effect on Small firm performance.

2.3 Network Capabilities

Networking capability is the ability to create mutual trust and commitment between partners, as well as sharing expertise and more tangible assets. Kale *et al.* (2002) distinguished four dimensions of network capability; Coordination, Relational skills, Market knowledge and Internal communication. These four components support each other in that a high degree of partner knowledge and internal communication enables good coordination between partners and high level of coordination and relational skills allow an increase in partner knowledge. Internal coordination enables collection of information for better partner knowledge.

Business network ties are referred to as linkages among parties involved in a business transaction, for example, suppliers and buyers, in formal or informal ways (Daphne, 2007). On the other hand, institutional network ties refer to linkages with various domestic institutions such as government officials and agencies, banks and financial institutions, universities, and trade associations (Daphne, 2007).

Networking reflects recognition that firm performances are less and less the outcome of an individual firm's isolated efforts. Inter-organizational marketing collaborations play an important role in today's global marketplace and thus have been identified as a key component of marketing strategy. One such collaboration is the formation of networks. Examples include joint research and product development arrangements, manufacturer-distributor partnerships and joint promotion agreements. External contacts perform a very important role in the procurement of those assets and the identification of entrepreneurial opportunities, since economic actions are embedded within larger inter-organizational networks (Burt, 1992; Granovetter, 1985).

Network coordination has been widely recognized by both scholars and practitioners as an important form of multi-organizational governance. The advantages of network coordination in both public and private sectors are considerable including enhanced learning, more efficient use of resources, increased capacity to plan for and address complex problems, greater competitiveness, and better services for clients and customers. Since networks are not legal entities the legal imperative for governance is simply not present as it is for organizations. For goal-directed organizational networks with a distinct identity, however, some form of governance is necessary to ensure that participants engage in collective and mutually supportive action that conflict is addressed and that network resources are acquired and utilized efficiently and effectively. Although all networks comprise a range of interactions among participants, a focus on governance involves the use of institutions and structures of authority and collaboration to allocate resources and to coordinate and control joint action across the network as a whole.

Uzzi (1996) argues that organizational networks operate in an embedded logic of exchange that promotes economic performance through inter-firm resource pooling, cooperation and coordinated adaptation but that can also derail performance by sealing off firms in the network from new information or opportunities that exist outside the network. An organization's network position, network structure, and distribution of embedded exchange relationships shape performance such that performance reaches a threshold as embedded in a network increase. After that point, the positive embedded effect reverses itself. 'Embedded' ties with partners, which can be defined as 'ties that are reinforced by mutual feelings of attachment, reciprocity, and trust' (Uzzi, 1996), can enhance support for a start-up by the commitment of their resources.

Burt (1992) presents an alternative to the social capital argument while Burt (1992) assumes that partner selection, more than social capital determines effective cooperation between firms. Structural whole theory therefore raises the problem of free-riding on the public good of social capital. Over time, firms will seek to exploit the holes between the islands of social capital in which relationships are embedded. As a result, the social capital available to an entrepreneur should decrease as the firm forms new relationships.

Social capital theory, suggests that two specific aspects of organizational context may be influential in understanding the flexibility of relationships between organizations; trust and dependence (Young-Ybrara and Wiersema, 1999). First, the trust between the organizations will have a positive impact on the desire and ability of the partners to adjust to changing environmental demands through modification or termination of the agreement (Lorenz 1988, Mody, 1993). Second, the dependence of the partner on the network may also be an important factor that influences the flexibility in using a network. Trust has been viewed as an aspect of organizational context and as an antecedent of cooperation and that it alleviates the fear that an exchange partner will act opportunistically (Bradach and Eccles, 1989). Once trust is established, firms learn that joint efforts will lead to outcomes that exceed what the firm would achieve had they acted solely in their own best interests. This paper hypothesizes that: *Ho_2: Networking capability has a significant positive effect on small firm performance.*

2.4 Moderating Role of Networking Capabilities

Daphne (2007) states that institutional networks are the resources that firms depend on to operate in a market. Advantages of these networks include faster market penetration, sharing of financial risk, increased production efficiencies, enhancements of innovation capability, and access to competitively valuable knowledge. Networks can also help an entrepreneurial venture to establish legitimacy and develop a desirable reputation in the marketplace. Most entrepreneurial ventures, especially in the start-up phase, rely on effective networks for survival. For entrepreneurial ventures, especially emerging ones, networks are linked both with survival and wealth creation (Ireland *et al., 2006a).*

The extent of marketing in each firm is related to the level of networking, whereby SME owner managers who proactively network and utilize their marketing network processes display a sophisticated level of marketing (Hakimpoor, 2011). Networking is used by managers to make sense of what happens in complicated markets and provides understanding of inter-organizational relationships in business-to-business markets Olkonnen, *et al.* (2000) in (Hakimpoor, 2011). This implies that both networking and marketing capabilities enhances the survival and performance of small firms. This paper therefore hypothesizes that: *Ho_2: Networking capability has a significant moderating effect on the relationship between marketing capability and small firm performance.*

The model used in this study aimed at first, establishing the nature of relationship between marketing capabilities and small firm performance. Secondly the relationship between networking capabilities and small firm performance and thirdly the moderating effect of the networking capabilities on the relationship between marketing capabilities and small firm performance. The control variables, firm size and age were used to distinguish the effect of the differences among the small firms (Figure 1).

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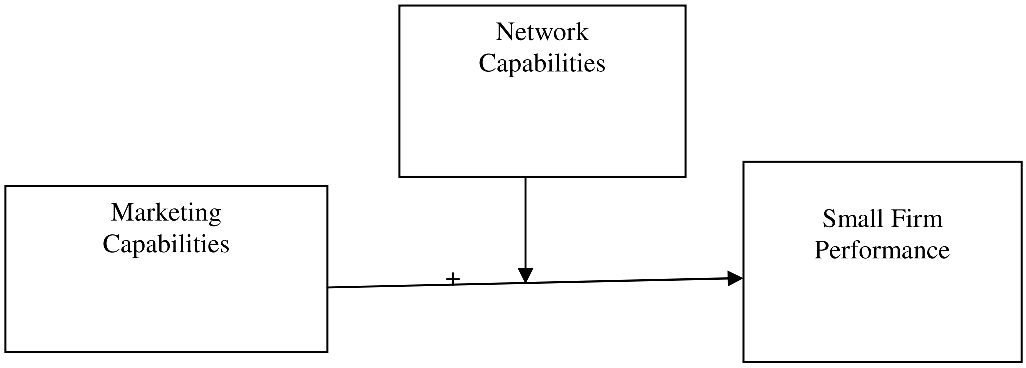

Figure 1: Conceptual model of the moderating effects of Network Capabilities on the Relationship between Marketing Capabilities and Performance of Small Firms.

Source: Researchers (2013)

3. Research Methodology

The study was carried out in Nairobi city which is the largest city in Kenya with a high concentration of small firms in all sectors of the economy. Data was collected during three months between January and March 2013. Self-administered questionnaires were used for data collection with the help of trained research assistants.

The study research design was explanatory survey owing to the causal nature of the conceptualization. It adopted qualitative as well as quantitative approaches because it aims at establishing the relationships between marketing capabilities, networking capabilities and small firm performances. Capabilities differ from assets in that they cannot be given a monetary value as can tangible plant and equipment (Day, 1994) hence justification for use of qualitative approach. The target population were small firms registered in Nairobi City Council. From a population of 110,737 small firms stratified random sampling technique was used to select 384 respondents. The population was segregated into several mutually exclusive subpopulations of business categories as shown in Table 1.

Table 1: Target Population and Sample

Business category	Total count	% as compared to total population/proportion of strata to total population	Sample size
100	79, 451	71.7	275
200	566	0.5	2
300	6119	5.5	21
400	2794	2.5	10
500	8444	7.6	29
600	7970	7.2	28
700	2340	2.1	8
800	3053	2.8	11
Total	110,337	99.9	384

Source: Nairobi City Council, Licensing Department 2013

The owner/manager or available employee who was capable to respond in the selected firms was approached and issued with a self-administered questionnaire. To ensure relevant information the respondent needed to have been in the firm for the period not less than 3 months and thereby be able to provide the needed information of the firm. Ethical considerations were observed with the respondents being assured of confidentiality of their responses.

3.1 Measurement of Variables

To measure the variable measures from previous researchers were adopted and modified. The sub-constructs of marketing capabilities include product development, pricing, marketing communication, channel management, marketing information, selling, marketing planning and marketing implementation (Vorhies, 2005). The sub-constructs of networking capability include coordination, relational skills, partner knowledge and internal communication (adopted from Kale *et al,* 2005). The performance of the firm was measured by the level of customer satisfaction, market effectiveness and profitability (Adopted from Vorhies and Morgan, 2005). The response scale was 1 = strongly disagree to 5 = strongly agree. Firm characteristics such as size and age had been shown in prior entrepreneurship research to influence firm performance (Watson, 2007, Hakimpoor, 2011). The response scale was 1 = much worse to 5 = much better. The control Variables were the firm size (number of employees) and age (number of years in operation).

The analysis models for determining the nature of the relationships was specified as follows;

Model 1: $Y=\alpha+\beta_1MC+ \beta_2NC +\mu$ ……………………To test Ho_1 and Ho_2

Model 2: $Y=\alpha+\beta_1MC+\beta_2NC+\beta_3MC*NC+\mu$ ……….. To test Ho_3

Where Y=Small Firm Performance, MC=Marketing Capabilities, NC=Networking Capabilities, Interaction = (MC*NC).

4. Results

A total of 384 questionnaires were issued and 350 were returned but 54 questionnaires were incompletely filled. Therefore 296 questionnaires were useable for the analysis giving a response rate of 77.083%. All the sub-groups were represented in the results with varying durations in business operation. Coding was then done followed by data entry and editing to check for consistency, accuracy and homogeneity of the research results.

4.1 Descriptive Statistics

Characteristics of the Small Firms

As illustrated in the table 2 below, the small firms studied are involved with different types of businesses; General trade, wholesale, retail stores were 106 (35.8%), Transport, storage and communication were 34 (11.5%), Agriculture, forestry and natural resources were 12 (4.1%), Accommodation and catering were 26 (8.8%), Professional and technical services were 85 (28.7%). Private education, health and entertainment 23 (7.8%), Industrial plants, factories and workshops were 10 (3.4%).

The firms had different years of operation in business as follows; below 5years were 124 (41.9%), 5years to 10years were 90 (30.4%), Above 10yrs were 82 (27.7%).The firms were of different sizes as measured by the number of employees in the firms; those below 5employees were 99 (33.4%), 6 to 10 employees were 77 (26.0%), 11 to 50 years were 54 (18.2%), Above 50 employees were 66 (22.3%). The Sources of capital for the chosen firms were; own savings 133 (44.9%), Bank loan 97 (32.8%), Government support 30 (10.1%) and Family 36 (12.2%). The small firm managers who filled the questionnaires were in the different roles in the business as follows; the owners 117(39.5%), Managers were 61(20.6%), and Employees were118 (39.9%).

The ages of the respondents were: below 18years 6(2.0%), 18 years to 25years 90(30.4%), 26 years to 32years 103(34.8%), those above 33years were 97(32.8%).The highest education levels of the respondents were; Secondary school; 24(8.1%), Tertiary institution 75(25.3%), University 197(66.6%) the respondents who have been trained were 193(65.2%) while those not trained were 103(34.8%).

Table 2: Characteristics of the Small Firms

The nature of the business	Frequency	Percent
General trade, wholesale, retail stores	106	35.8
Transport, storage and communication	34	11.5

Agriculture, forestry and natural resources	12	4.1
Accommodation and catering	26	8.8
Professional and technical services	85	28.7
Private education, health and entertainment	23	7.8
Industrial plants, factories and workshops	10	3.4
The number of years in operation		
Below 5years	124	41.9
5 to 10	90	30.4
Above 10yrs	82	27.7
The number of employees		
Below 5	99	33.4
6 to 10	77	26.0
11 to 50	54	18.2
Above 50	66	22.3
Source of capital		
Own savings	133	44.9
Bank loan	97	32.8
Government support	30	10.1
Family	36	12.2

Source: Survey Data (2013)

4.2 Descriptive Analysis of the Study Variables

Composite reliability and convergent validity were estimated using Cronbach's *Alpha* and coefficient values above 0.70 were considered adequate (Cronbach, 1971). The mean, variance and standard deviation results are presented in Table 3. The high mean values and low deviations indicate that the small firm managers undertake the marketing and networking practices.

Table 3: Reliability Analysis

Variable	Mean	Variance	Std. Deviation	Cronbach's Alpha	No. of Items
Product development	18.37	18.824	4.339	.805	5
Pricing	14.88	9.384	3.063	*0.735*	4
Communication	33.56	57.461	7.580	.909	9
Channel management	19.13	19.979	4.470	*0.890*	5
Marketing Capability				**.943**	
Coordination skills	23.93	24.916	4.992	.876	6
Relational skills	15.32	12.852	3.585	.868	4
Internal communication	14.97	12.609	3.551	.805	5
Networking Capability				**0.944**	
Business Performance	23.85	21.422	4.628	*0.871*	6
Profitability	15.19	10.904	3.302	*0.853*	4
Business Performance				**0.728**	

Source: Survey Data (2013)

4.3 Correlation Analysis

The correlation results of the study indicate that Marketing Capabilities, Network Capabilities and Small Firm Performance are correlated at r=0.751, r=0.680, and r =0.699, p value=0.01) respectively. Networking is however a way of marketing and so much of marketing is achieved through Networking. Networking is a marketing ``competence" and as such can be developed as a way of doing marketing for SMEs, that is, marketing by networking (Gilmore *et al*, 2001). The correlation results on Table 4 shows that networking, marketing and small firm performance variables are not highly correlated as would have been expected. The small firm managers perform the marketing and networking practices at a low level and hence their firm performance is moderate.

Table 4 Correlation Results

Variable	Networking Capability (r values)	Marketing Capability (r values)	Firm Performance (r values)
Networking Capability	1		
Marketing Capability	.611**	1	
Firm Performance	.592**	.655**	1

Notes: Pearson Correlation

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

Source: Survey Data (2013)

4.4 Regression Analysis

A moderated regression model was ran to test the proposed three hypotheses. To mitigate the potential threat of multicollinearity, each scale used to measure the constructs were standardized including the interaction terms (Aiken and West 1991). The hypotheses were stated using a two-stage hierarchical regression analysis stages. The regression analysis results (Table 5) in model 1, indicate that when marketing capability with Adjusted R^2 of 0.402 explains 40.2% of the variations in small firm performance. Hypothesis 1 is therefore, accepted.

Stage two of the analysis tested for moderation by introducing network capability and an interaction term. The effect of a moderating variable is characterized as an interaction meaning a qualitative variable that affects the direction and strength of the relationship between marketing capabilities and small firm performance variables. The results revealed that the adjusted R^2 increased to .447 implying that the full model explains 44.7% of the variations in firm performance. However, a decrease in F change from 165.184 to 15.813 (Durbin Watson 1.8196) indicates that the interaction term was not significant while both market capability and network capability significant significantly affect firm performance. Therefore hypothesis 2 is accepted and hypothesis 3 is rejected. Meaning that both marketing and networking capabilities influence small firm performance but networking capability does not moderate the relationship between marketing capability and sales performance.

Table 5: Regression Results

Variable	Model 1		Model 2	
	Beta	**T**	**Beta**	**T**
Marketing Capability	.636**	12.852	.423**	6.723
Networking Capability			.324**	5.568
MC*NC			-.008	-.166
R^2	.402		.462	
ΔR^2			.447**	

Source: Survey Data (2013)

Adopting both marketing and networking will enhance and improve with the advent of experience; this is often manifested by owner/managers using their networking abilities (Gilmore *et al.*, 2001). The study results show that Marketing Capabilities and Networking Capabilities have positive effect on Small Firm Performance. Further, Networking Capabilities does not moderate the relationship between Marketing Capabilities and Small Firm Performance.

5. Conclusion

The study has revealed the demographic characteristics of the small firms operating in Nairobi City in Kenya. The SMEs engage in a wide range of businesses and have been in operation for varying durations with the majority for less than 5 years. Most of them have less than 10 employees. This group of enterprises require support in order to develop strategies to achieve sustainable growth of their businesses. Most of the business owners are young and have attained at least secondary school education. This implies that the small firm managers are better able to develop appropriate management plans and strategies for their businesses.

Furthermore, the results of this study are consistent with previous findings that marketing capability enhances firm performance (Day, 2004). The study also confirms that networking capability enhances firm performance (Walter, Kogut and Shan, 1997). According to Uzzi (1996) organizational networks operate in an embedded logic of exchange that promotes economic performance through inter-firm resource pooling, cooperation and coordinated adaptation. Other studies established that networking as a way of marketing; (Ireland *et al 2001).* Networking also help an entrepreneurial venture to establish legitimacy and develop a desirable reputation in the marketplace. According to Olkonnen, *et al* (2000), Networking is used by managers to make sense of what happens in complicated markets and provides understanding of inter-organizational relationships in business-to-business markets. Further Hooley *et al.* (2002) established that the networking capabilities is a marketing capability. Hence, networking capabilities being an antecedent of marketing capabilities has no significant power to play a moderating role in in marketing capabilities-performance relationships in SMEs. In essence, the study has shown that 61% of marketing capabilities is networking.

6. Recommendations

6.1 Managerial Implications

Based on the results of the study, Networking and Marketing have been identified as capabilities which small firms can use to obtain a competitive advantage hence superior performance. Small firms should therefore develop marketing and networking capabilities and use them in improving their small firm performance in Nairobi Kenya. Small firms should pursue strategies focusing on the development of valuable networks in order to succeed. Policies that encourage adoption of marketing capabilities as well as networking capabilities should be considered in providing assistance to small firms. Government and development assistance providers should facilitate the small firms to develop linkages with large firms and multinational corporations in developing countries.

6.2 Implications for Future Research

This study included a wide range of small firms from different industries but the data was collected on a one time period. The implications of this study should therefore be considered in light of the sample selected and use of self-reporting in designing future research. It is possible that unique characteristics of the study sampling frame from one country may varying results, and therefore further comparative studies maybe undertaken in a wider context.

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