
**TRUST AND GOODWILL AS DRIVERS OF SMALL ENTERPRISE SUCCESS:
EVIDENCE FROM KENYAN SERVICE SECTOR INTELLECTUAL CAPITAL
PERSPECTIVE**

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ABSTRACT: *Entrepreneurial trust and goodwill play an important role in the success of Small and Micro enterprises. Wicks and Berman (2004) emphasized the important idea that trust is a costly governance mechanism, to be deployed only when necessary. They suggest that the greater the degree of interdependence between the parties to the exchange, the greater will be the need for trust. According to Yusuf (1995) the most critical factors contributing to business success consist of good management skills, access to financing, personal qualities, and satisfactory government support. Goodwill cannot be felt if it is an intangible asset which can be earned through a name or reputation of the organization (Claessens et al., 2000). Most entrepreneurial effective group and organization are those with the highest level of trust and norms. Goodwill from various stake holders like family, friends and other people contribute to entrepreneurial success. The main objective of the study was to examine Trust and goodwill as drivers of small enterprise success. The study utilized exploratory survey design. Specific objectives were: To assess the influence of trust on enterprise success and to examine the relationship of good will on enterprise success. Small and Micro business owners in the service industry were divided using simple random technique to obtain a sample size of 240 SMEs in the service sector drawn from a target population of 600 registered SMEs in the service sector, Eldoret Town, Uasin Gishu County. The study was guided by Relational Theory of Social Networks. The study employed both qualitative and quantitative methods of data collection. Data was sorted coded and analyzed using inferential statistics namely, Pearson's product moment correlation, Chi-Square methods and Analysis of variance (ANOVA) and multiple regressions. The study found out that, there was a strong positive relationship between trust [$r=.907$], and good will [$r=.833$] on entrepreneurial success. This indicated that an increase in trust and goodwill will lead to greater entrepreneurial success. The study findings will contribute great to the academic debate.*

KEYWORDS: Business Networking, Micro business, Service Industry, Small Business, Trust and goodwill

INTRODUCTION

Trust in Small and Micro enterprises increases relationship investments, communication and performance and reduce costs and opportunistic behaviors (Selnes & Sallis, 2003). In the absence of trust, conflict between collaborating firms may prevent future investments or even lead to the withdrawal of existing investments (Inkpen & Beamish, 1997). Mutual trust functions as a safeguarding and controlling mechanism that promotes information sharing and reduces

collaborating firms' incentives and propensity to engage in opportunistic behaviors (Lane *et al.*, 1998). The individual 'boundary spanner' at a single firm establishes relationships with both individuals and groups of individuals belonging to the partner organization. Hence, if the origin of the relationship is always an individual, the counterpart may vary. This insight is very useful in avoiding the cross-level fallacy (Russeau, 1985). The effect of goodwill is highly concentrated on ownership structure, family controlled firms and government controlled firm. Goodwill is something that cannot be bought but has to be earned; there is no way to earn it overnight. It will take considerable time and effort to develop goodwill in for a business. Some of the factors listed aids in developing goodwill in business. (Claessens *et al.*, 2000).therefore the objectives of this study are twofold: in achieving it success:

- i. To assess the influence of trust on enterprise success.
- ii. To examine the relationship of good will on enterprise success.

LITERATURE REVIEW

Concept of Entrepreneurial Success

The dependent variable of this study is entrepreneurial success as measured in terms of growth in the sales turn over, profits, firm reputation number of employees and volume in sales indicated by level of earnings the business unit gets annually. Success is defined as the having different forms, survival, profit and return in investment, number of employees, happiness and reputation (Foley & Green, 1989). In the past two decades the rate of growth of networks across all sectors has been dramatic (Doyle, 2000).

Trust and entrepreneurial success

Trust is defined as the expectation that an actor can be relied on to fulfill obligations, will behave in a predictable manner, and will act and negotiate fairly when the possibility for opportunism is present (Zaheer& Harris,2006). Trust has been examined in a variety of social science contexts and defined in a number of different ways (Misztal, 1996). A dictionary definition of trust is a firm belief in the reliability, truth or strength of a person: a confident expectation and a reliance on the truth of a statement without examination.Wicks and Berman (2004) emphasized the important idea that trust is a costly governance mechanism, to be deployed only when necessary. They suggest that the greater the degree of interdependence between the parties to the exchange, the greater will be the need for trust. Importantly, the authors point to the notion that, the extent of trust in inter-organizational relationships is a choice made by firms. They go on to suggest that trust in these relationships is supported by institutional, socio-cultural, and industry norms, and these 'trust support mechanisms' moderate the relationship between the choice firms make about how much to invest in trust and performance outcomes.

According to Cohen and Prusek (2001) there are many benefits in terms of profits and sales turnovers with organizations with high level of reputation and trust.In accordance with this approach, trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. Infact, other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust (Zaheer and Harris, 2006). Trust should be enhanced by network members in response to three main

constraints which discourage small firms from establishing long-term collaboration agreements: (a) the risk of opportunism among the entrepreneurs, (b) low commitment from counterparts and (c) the culture of the actors joining an alliance. In the network context between upstream and downstream, a close relation between customers and suppliers can decrease uncertainty and thus generate better inventory control and lower inventory cost (Chung *et al.*, 2000).

Goodwill and entrepreneurial success

Enterprise goodwill is the value of earnings or cash flow directly attributable to attributes of the enterprise that results in earnings from consumers that return because of the enterprise relationship. According to International Glossary of Business Valuation, goodwill is that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified. According to Yusuf (1995) the most critical factors contributing to business success consist of good management skills, access to financing, personal qualities, and satisfactory government support. Goodwill cannot be felt it is an intangible asset which can be earned through a name or reputation of the organization (Claessens *et al.*, 2000).

METHODOLOGY

The study was carried out in North Rift Region, Uasin-Gishu County, and Eldoret town. Exploratory research design was used and which leads the researcher to gaining great depth of understanding into how entrepreneurs through exploitation of trust and goodwill drive the success of small and micro businesses in Eldoret town. Simple random sampling technique was utilized to constitute a sample size of 240 using Yamane (1967) formulae where 1200 registered SMEs business owners of small and micro enterprises in Eldoret Town of which 600 were used as a target population structured and unstructured questionnaires and interview schedules was used in the study and Cronbach's Alpha for success of SMEs reported scale reliability of trust 0.725 and goodwill 0.877 respectively showing reliability of the research instrument as shown in table 3.1. The study used inferential statistics such as multiple regression and analysis of Variance (ANOVA) to establish the relationship between business owners' network resource use in relation to the enterprise success.

Table 3.1 Cronbach's Alpha reliability test

Variables	No. of items	Cronbach's alpha
Trust	5	0.725
Goodwill	7	0.877

RESULTS

Entrepreneurial success

Relationship between trust and Entrepreneurial Success

The Spearman rank-correlation was used to determine whether there is a significant relationship between two variables. The influence between independent variables (trust) and dependent

variable (entrepreneurial Success) investigated using Spearman rank-correlation coefficient. As shown in table 4.1.

Table 4.1: Relationship between Social Trust and Entrepreneurial Success

Spearman's rho		Profits to sales ratio	Sales revenue	Sales growth	Firms reputation	Employee	Expenses	Trust
Profits to sales ratio	Correlation Coefficient Sig. (2-tailed)	1.000 .						
Sales revenue	Correlation Coefficient Sig. (2-tailed)	.668** .000	1.000 .					
Sales growth	Correlation Coefficient Sig. (2-tailed)	.613** .000	.720** .000	1.000 .				
Firms reputation	Correlation Coefficient Sig. (2-tailed)	.570** .000	.631** .000	.655* .000	1.000 .			
Employee	Correlation Coefficient Sig. (2-tailed)	.299** .000	.321** .000	.404* .000	.544** .000	1.000 .		
Expenses	Correlation Coefficient Sig. (2-tailed)	.214** .003	.328** .000	.296* .000	.340** .000	.448** .000	1.000 .	
Trust	Correlation Coefficient Sig. (2-tailed)	-.121 .094	-.139 .054	-.219* .002	-.049 .496	.063 .386	-.103 .153	1.000 .

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

b. Listwise N = 194

Source: Researcher's Survey Data, 2014

The Spearman rank-correlation was used to establish the influence of trust and overall enterprise success. There was a positive relationship between the social trust and enterprise success [$r = .907$, $n = 174$, $p < .05$], (Table 4.14), indicating a positive correlation between social trust and enterprise success. The more the social trust among entrepreneurs the higher enterprise success.

Table 4.2: Overall Influence of Trust on Enterprise Success

Variable	Spearman's rho	Success	Network
Success	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
Trust	Correlation Coefficient	.907**	1.000
	Sig. (2-tailed)	.000	.

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

b. Listwise N = 194

Source: Researcher's Survey Data, 2014

Table 4.3 Entrepreneurial Goodwill

Good will	Disagree		Neutral		Agree		Mea n	Std. Dev.
	Freq	%	Freq	%	Freq	%		
Group interactions have contributed to business success.	11	5.7	7	3.6	176	90.7	5.47	1.12
My profits coincide with my level of interactions.	45	23.2	23	11.9	126	64.9	4.87	1.47
My business performance is in line with my future expectations	26	13.4	13	6.7	155	79.9	5.19	1.44
I have had other social interactions since I started my business.	27	13.9	11	5.7	156	80.4	5.17	1.38

Source: Researcher's Survey Data 2014

From the study the mean of goodwill statement was all above 4.9, with the highest being 5.5 on group interactions having contributed to business success. The Spearman rank-correlation was used to determine whether there is a significant influence between two variables. The relationship between independent variables (goodwill) and dependent variable (entrepreneurial Success) were investigated using Spearman rank-correlation coefficient.

Table 4.4: Goodwill and Entrepreneurial Success

	Spearman's Rho	Profits to sales ratio	Sales revenue	Sales growth	Firms reputation	Employee	Expenses	Goodwill
Profits to sales ratio	Correlation Coefficient	1.000						
	Sig. (2-	.						

Sales revenues	tailed) Correlation Coefficient	.668**	1.000						
	Sig. (2-tailed)	.000	.						
Sales growth	tailed) Correlation Coefficient	.613**	.720**	1.000					
	Sig. (2-tailed)	.000	.000	.					
Firms reputation	tailed) Correlation Coefficient	.570**	.631**	.655**	1.000				
	Sig. (2-tailed)	.000	.000	.000	.				
Employee	tailed) Correlation Coefficient	.299**	.321**	.404**	.544**	1.000			
	Sig. (2-tailed)	.000	.000	.000	.000	.			
Expenses	tailed) Correlation Coefficient	.214**	.328**	.296**	.340**	.448**	1.000		
	Sig. (2-tailed)	.003	.000	.000	.000	.000	.		
Goodwill	tailed) Correlation Coefficient	.148*	.102	-.036	.101	.218**	-.089	1.000	
	Sig. (2-tailed)	.039	.159	.618	.160	.002	.217	.	

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

* . Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N = 194

Source: Researcher's Survey Data, 2014

The findings of the influence of Goodwill on enterprise success shows that there was a positive relationship between the goodwill and enterprise success [$r = .833$, $n = 174$, $p < .05$], (Table 4.17), indicating a positive correlation between goodwill and enterprise success. The more the entrepreneur's goodwill is in the business the higher the small enterprise success.

Table 4.5 Overall Influence of Goodwill on Enterprise Success

Variable	Spearman's rho	Success	Network
Success	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
Goodwill	Correlation Coefficient	.833**	1.000
	Sig. (2-tailed)	.000	.

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

b. Listwise N = 194

Source: Researcher's Survey Data, 2014

The findings agree with Haman and Jubb, (2008) that the U.S., U.K., Australia and the European countries provide evidence that managers have the tendency to recognize goodwill impairment loss while they were experiencing a decline in profitability.

Table 4.6

Entrepreneurial trust and goodwill on Entrepreneurial Success Indicators

Variables	Spearman's rho	Profits to sales ratio	Sales revenues	Sales growth	Firms reputation	Employee	Experiences	Trust	Goodwill
Trust	Correlation Coefficient	-.121	-.139	-.049	.063	-.103	1.000		
	Sig. (2-tailed)	.094	.054	.002	.496	.386	.153		
Goodwill	Correlation Coefficient	.148	.102	-.036	.101	.218**	-.089	.619**	1.000

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

*. Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N = 194

Source: Researcher's Survey Data, 2014

Table 4.7 regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta (β)			Tolerance	VIF
1	(Constant)	200	.096		2.091	.038		
	Trust	.387	.013	.547	30.554	.000	.516	1.939
	Goodwill	.396	.016	.415	25.305	.000	.613	1.632
	Networking	.201	.020	.200	10.193	.000	.427	2.340
	Ties	.026	.022	.021	1.162	.247	.499	2.006

a. Dependent Variable: Success

Source: Researcher's Survey Data, 2014

To test whether there was Co linearity; tests were carried out using tolerance and Variance Inflation Factor (VIF) statistics Table 4.23. For this model, VIF values are all below 10 and

tolerance statistics are all well above 0.2 and we can conclude that there is no Co linearity within our data (Bowerman & O'Connell, 1990).

The findings showed that trust, goodwill and networking had a positive relationship with enterprise success.

Trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. In fact, other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust (Luo, 2002 and Harris, 2005). Trust should be enhanced by network members in response to three main constraints which discourage small firms from establishing long-term collaboration agreements: (a) the risk of opportunism among the entrepreneurs, (b) low commitment from counterparts and (c) the culture of the actors joining an alliance. As anticipated, trust challenges the above-mentioned constraints by laying the foundation for a common ground, where entrepreneurs can successfully meet their expectations (Zaheer and Harris, 2006).

IMPLICATIONS AND PRACTICAL CONTRIBUTION

In terms of practical contribution the findings of this study can be used by Small and Micro business owners on the utilization of small firm trust and goodwill for the improvement and the success of Small and Micro enterprises. The study findings shall improve their business skills in order to achieve the desired success. (Fukuyama, 1995) argued the most entrepreneurial effective group and organization are those with the highest level of trust and norms. Goodwill from various stake holders like family, friends and other people contribute to entrepreneurial success. entrepreneurial success have been done in developed economies, little has been done in a developing economy such as Kenya and more so in service industry in Eldoret Municipality. The findings shall also assist upcoming scholars to further expand the pie of trust and goodwill as an asset of enterprise success and build other theoretical and model development in order to contribute to other areas of academic debate.

RECOMMENDATIONS FOR FURTHER RESEARCH

Researchers should investigate the awareness of the network's contribution to the Small and Micro enterprises and entrepreneurs in general. Future research should investigate whether awareness of network contribution leads to the success of enterprise.

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