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# **Impact of Covid -19 on the Informal Businesses and their present condition – A Longitudinal Study of Hyderabad District in Telengana, India**

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## **Abstract:**

One event that has rocked every country in the world compared to any other event after the great depression of the 1930s was none other than the COVID-19 pandemic. The pandemic has caused a global multidimensional crisis, one of its impacts being the crisis on the informal economy. This study focuses on evaluating the repercussions of COVID-19 on marginalized workers in the Hyderabad district of Telangana state, particularly examining the loss of

employment, income, and business opportunities. It was conducted in two phases; the first phase occurred in June 2022, following the third wave of COVID-19, while the second phase spanned from October to December 2023. The initial study underscored the severe repercussions faced by vulnerable segments of society, prompting the subsequent investigation to assess their recovery status. The study's findings reveal a total loss of income among all the surveyed respondents. Maximum income loss was felt by Grocery shop (grocery stores) merchants. More than 63.83% of the respondents have lost their employment in their selected occupations, and those of the respondents, 36.17% who are continuing have no possibility of a revival in their continuation as the market has become competitive. The study suggests that the government should provide easy access to loans, especially for women who cannot continue their profession. In light of these findings, the study advocates for proactive governmental intervention. Specifically, it recommends ensuring equitable access to loans, mainly targeting women lacking avenues to sustain their livelihoods. By facilitating financial support, policymakers can empower marginalized workers and mitigate the adverse effects of the COVID-19 crisis on the informal economy.

## I. INTRODUCTION:

In 2019, nearly 92.4% of India's total labor and 85% of the rural workforce were engaged in the informal sector (Survey, 2011-2012). However, some studies found that the cash-dependent informal sector was severely affected when the Government of India took the demonetization initiative in November 2016. Income inequality worsened among the informal workers in the unorganized sector. The Goods and Services Tax (GST) also resulted in considerable losses to the unorganized sector, where close to 45% of the informal workers lost their jobs (Harris-White, 2020).

With the outbreak of COVID-19 in 2020, the informal sector in India was in a pathetic condition. The economic crisis was the reason for the turmoil in the industry. Travel restrictions, curfews, lockdowns, and closure of several organizations and institutions caused havoc in the industry, disrupting economic activities. According to the National Survey of Informal Workers conducted by ActionAid Association in May 2020, 78 % of the informal workforce in India had lost their livelihoods due to the lockdown, with 90 % urban unemployment and 72 % rural unemployment. (Impact of COVID-19 on Indian Informal Economy, 2021)



There was a decrease in the consumption and demand for goods and services among people. The employment scenario was vulnerable with minimum health and social security in the informal sector. The goods and services that were not listed in the essentials category were not in demand at all. People only bought items that they found essential. The informal sector was the most brutal hit, which led to job loss and reduced household incomes. The pandemic proved fatal to the informal workers in many ways. They lost jobs, household income decreased, health and social security were not covered, etc., leaving the workers in a cash-strapped scenario. From dhobis to daily workers, coolies, street vendors, sweepers, housemaids, and barbers to small-time workers, all faced huge setbacks. They were forced to stay home with meager resources to fulfill necessities like food, clothing, and shelter. They were left with just a "hand-to-mouth" existence. Few workers left their line of jobs in which they were skilled and were ready to take up any job/ task offered in return for wages to fill their hunger. As predicted by ILO, 400 million daily wage workers would be pushed into poverty because of the pandemic, but the number seemed more. According to a few sources, more than 300 million workers starved to death during the pandemic.

Though there were many studies conducted earlier to understand the challenges informal workers faced and the impact of the pandemic, the present study aimed at understanding the vulnerabilities the informal workers faced during the

pandemic and analyze the worker's profile (age, gender, income, and industry) and effect of the pandemic on employment and income and to study their present position.

## OBJECTIVES

The Objective of our research is to study and investigate the impact of COVID-19 on the livelihood of marginal workers, who solely depend on daily employment and income in Hyderabad urban centres.

Specific Objectives are:

1. To examine the current scenario of the selected, informal businesses in the twin cities of Hyderabad and Secunderabad of Telengana state of India.
2. To investigate their employment, daily income, and consumption patterns before and after Covid 19.
3. To explore their present position.

## II. LITERATURE REVIEW:

The term "Informal Workers" encompasses a broad spectrum of definitions. In the Indian context, they are often called unorganized workers, denoting a lack of direct government control and monitoring. According to the International Labour Organization (ILO), employment in the informal economy encompasses both employment in the informal sector and informal employment outside of it, such as informal employment in formal sectors and households (ILO, Women and Men in the Informal Economy: A Statistical Picture, 2018). These workers operate without social or institutional regulation and are typically categorized into self-employed and wage-employed individuals (ILO, 2019).

There are two types of informal economy: one comprising street vendors, domestic workers, and casual workers who are on daily wages, and the second category includes small businesses and unregistered manufacturing and also gig economy (Narula, 2020). On a global scale, informal workers are classified in various ways, including non-standard workers, participants in alternative work arrangements, contingent workers, and gig workers. However, the ILO identifies four primary types of non-standard employment: temporary waged employment, part-time waged employment with fewer than 35 weekly working hours, temporary agency work and other multi-party employment forms, and disguised



employment relationships and dependent self-employment (ILO, Women and Men in the Informal Economy: A Statistical Picture, 2018). Despite enjoying workplace flexibility and independence, informal workers encounter numerous challenges. These include job insecurity, safety concerns, low productivity, limited innovation capacity, restricted access to capital, and inadequate maintenance of environmental standards (Jeremy de Beer, 2013).

Moreover, they face income instability amid industry uncertainties. Kumar and Tejal Kanitkar (2021) utilized the Input-Output framework to analyze the economic ramifications. The study estimated India's GDP growth rate to be between -4.3% and -15%, attributing this decline to pre-pandemic economic slowdown, escalating unemployment, and poverty rates. Jonas (2023) highlights the catastrophic potential of pandemics, noting their staggering economic costs and their exacerbating effects on poverty, particularly in developing nations. Using a mixed-method approach, Sharanya Napier-Raman et al. (2021) examined the impact of COVID-19 on vulnerable young people in New Delhi, revealing many adverse effects on social, psychological, and health dimensions. Financial strain emerged as a prominent consequence, primarily affecting girls and women.

### III. RESEARCH METHODOLOGY:

Based on the literature review, this study utilizes primary survey data from a questionnaire. While the literature predominantly employed secondary methodologies, the present research focuses on primary data collection, targeting people who own businesses in the informal sector residing in the twin cities of Hyderabad and Secunderabad in the Telangana State of India, for over 15 years.

The survey was conducted in two phases one was immediately after second wave to know the immediate impact and second was in 2024 to know the final impact and also to know the current status.

In the first phase, a survey was conducted through a self-administered questionnaire between May 11, 2021, and June 24, 2021, from 401 informal sector workers across India who responded out of 450 contacted. A convenience sampling technique was used, and responses were collected directly from the workers. Anonymity was ensured, and the research objectives for the study were explained to the respondents well beforehand. The sample size was 450 respondents, out of which only 401 responded. Fifteen questions were posed to the respondents.

In the second phase, we conducted in-depth interviews with the informal workers to learn about their present positions and how they are managed. Each interview took around 20 to 40 minutes; the responses were written down since they did not give consent for recording, and the authors generated later themes.

#### IV. RESULTS AND FINDINGS:

##### IVa. The first phase of the research

###### a) Profile of the Informal Workers:

The profile of the workers was analyzed using descriptive statistics given in Table I. The most significant number of respondents belonged to the manufacturing sector, with 26.25%, followed by grocery and retail store formats, which accounted for 18.75% each. The other industries the respondents were part of were services, entertainment, agriculture, food, and other sectors.



Table 1: Profile of Informal Workers

S . N o	Industry Type	No. of Wor kers	% of wor kers	Ave rage Inco me
1.	Agriculture	4	0.75	
2.	Entertainment	48	12	
3.	Food Sector	7	1.75	
4.	Grocery Stores	75	18.75	
5.	Manufacturing	105	26.25	



6.	Retail	75	18. 75
7.	Services	78	19. 5
8.	Others	9	2.2 5
Total		401	100 .00

Among the 401 workers questioned, about 75% belonged to the income range not exceeding INR 15,000. Moreover, 22% belonged to the income range of INR 15,000 to INR 30,000.

b) Effect on Income:

During the pandemic, informal workers faced a loss of income, and many studies revealed the same consequence. In this study, the effect of income was



also studied during COVID-19 times and post-COVID times. The effect was divided into five categories, as presented in Table 3.

Table 3: Effect on Income of workers during and post COVID-19

S. No	Effect	During COVID	Post-COVID
1.	Severely affected	152	113
2.	Moderately affected	142	163
3.	No change	67	70
4.	Improved	29	40
5.	Highly improved	10	14
	Total	401	401



A T-test for paired two sample means was conducted using Microsoft Excel. The results of the t-test are displayed below in Table 4.

Table 4: T-test Results – Effect of Income during COVID-19 and post COVID

	152	113
Mean	62	71.75
Variance	3406	4224.25
Observations	4	4
Pearson Correlation	0.99671561	
Hypothesized Mean Difference	0	
Df	3	

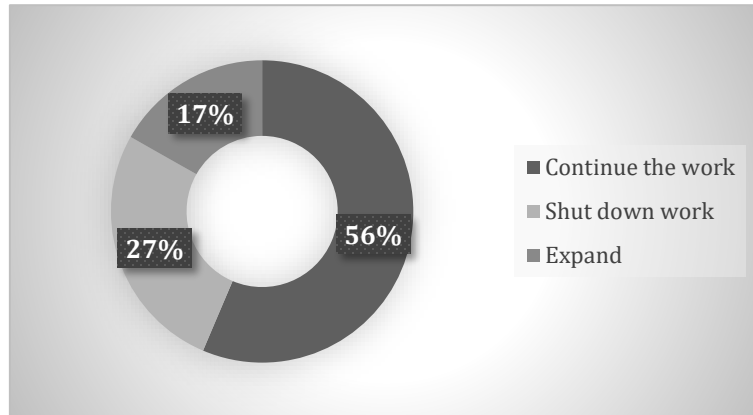
	-
t Stat	2.348943008
P(T<=t) one- tail	0.050201067
t Critical one-tail	2.353363435
P(T<=t) two- tail	0.100402134
t Critical two-tail	3.182446305

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c) Future Plans:

Despite the setbacks the workers faced during the health crises, it was found that 225 out of 401 workers agreed that they wanted to continue their work in the same profession, while 107 said they wanted to close it, and 67 said they wanted to expand their services into other areas. Refer to Figure II.

Figure II: Plans of workers



### Results from In-depth Interviews in the second phase

Respondents in this study consisted of 92 informal workers, with a predominance of 25- 65-year-olds. The dominant average incomes are less than INR 25000 monthly (63.4%). Most respondents also have incomes with an uncertain pattern since normal conditions (69.4 %).



We conducted a paired sample t-test for the respondents' income before and now. All the respondents reported decreased income (M=-10467, SD= 12,372). The results are summarized below.

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Paired Samples Statistics

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	Mean	Std. Deviation	Sig
Income	17527.1		
Now	7	15439.6	
Income	27994.5	19380.4	
pre-covid	7	4	
Paired			
Differenc	-	12371.9	
e	10467.4	4	
			-
			8.11
t-statistic			0.0
			5
			0

Correlation		0.0
n	0.77	0

---

The mean income now is 10,467 INR less on average for the entire sample. The T- statistic is -8.11, and the p-value is highly significant. Nearly three years are over since the nationwide lockdown, but still, the income levels of the marginalized sections have yet to reach the pre-Covid level. With the rising prices of essential goods, these people are occasionally in crisis.

From the interviews, we have generated some themes, which are summarized below:

**Loss of Employment:** Regarding the sustainability of livelihood, more than 47.83% of the respondents have lost their employment in the selected occupations, and those of the respondents, 32.61%, who are continuing, have no possibility of a revival in their continuation as the market has become competitive. This results in 19.56 percent of the respondents continuing their present employment.

Respondents have expressed their concerns about the competition.

"In front of their houses, the same locality households have opened temporary shops during peak hours, also seasons like festivals, ceremonies the in locality households, supplying the local people with the seasonal items thereby competing with the local traders who have established their trading activity for more than two to three decades, as expressed by the traders we have to meet shop maintenance expenses and other regular expenses like transport, rent, electricity bills and other expenses all these additional costs causing us to operate with losses."

The locals who have their temporary shops in front of their houses are the people who lost their regular jobs during the COVID-19 pandemic, and they are running a makeshift small business for their survival and are giving tough competition to the established traders in the area. Those people whose children are having regular jobs in the formal economy have advised them to leave the business as it is financially challenging to recover losses. (The same exists even today as observed). Except for the food items, 19.56% of Tiffin Centers (term used for small shops selling cooked south Indian food for breakfast) and the rest of the professions have substantially declined their economic activities, as indicated in the table. Before the pandemic, one of the Tiffin center owners used to run their services in three centers in Hyderabad city; in each center, the turnover was INR Rs. 60,000 per month. Now, he is on the roads because he



cannot continue paying rent and has to vacate. He has small businesses on the roads and often has to close them due to police pressure.

**Income Loss:** During and after most workers experienced a decline in incomes, after analyzing the interview transcripts, the study's findings reveal the direct pandemic effect of COVID-19 and its impact on all the surveyed respondents. Maximum income loss was felt by Grocery merchants (10.87) followed by small traders (6.52), as expressed by them.

“We are now on the verge of closing our trading as our sales have not improved for more than a year. Rarely is a small rise in our business, which is negligible.”

All the respondents expressed that the future of their economic activity is zero, and some are already searching for new avenues, anxiously looking for the government's helping hand. Among all the small traders, all have moved into alternative temporary activities; in this group, all are women.

"Hopes are bleak."

One of the Chat Bhandar owners/Salespeople expressed that he has had a reasonably good business for more than 17 years and is now at Cross Roads.

"We could not pay the shops' high rent, and after we vacated, I am not finding any suitable place. (Already he moved into three Places on the roadside) I was

on the footpath for a few days, and I managed to leave, but again, I was asked to leave the place as the traffic police created objections from the Greater Hyderabad Municipal Corporation (GHMC). My status is reduced to Mobile business. Unless I get sufficient finances, my plight is the same. It is uncertain."

The rest of the respondents have observed a similar trend with minor variations. The table below presents the extent of loss of income. Except for the Tiffin center, which females run, income is lost in all other activities. They stated that they supplied to bachelors regularly, even during the Covid lockdown.

#### Average Incomes Before and After covid 19 Across Varied Occupations Professions

	Before	After	Difference
	(in thousands)	(in thousands)	(After-Before)
1. Tiffin (Small vendors selling cooked South Indian breakfast) Centre			



Male	38	18	-20
Female	47.5	60	-12.5

## 2. Kirana (term used for Grocery shops) Merchant

Male	53.33	20	-33.33
Female	40	15	-25,000

## 3, Tailor

Male	26.66	10.33	-16.33
Female	18.75	13.25	-5.5

## 4. Cobbler

Male	22.66	9.6	-17.06
Female	16.66	6.08	- 10.58




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### 5. Flower Vendor

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Male	21	7.5	-13.5
Female	16	6	-10

---

### 6. Ironing

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Male	15	-5.25	9.75
Female	13.33	-6	7.33

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### 7. Small Traders

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Female (All are Females)	14.33	5.33	-9
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Competition from Online & Big Businesses: More than half of the selected respondents (52.17) have expressed concern for survival, except for Tiffin Center and Florist (36%). The rest of the small businesses face competition because online businesses offer attractive packages, discount sales, home delivery, buy-back policies, and other attractive market-capturing incentives to make customers switch to such business houses as Dmart, Amazon, Flipkart, and others.

One shop owner expresses this: Under the given circumstances, despite our good investment, we cannot stand the competition from these big business houses (Big fish eating small fish) and waste our investment, so our chances of survival are zero. As they expressed, we are the last generation, and none of our youngsters are interested in this uncertain situation. Online E-Commerce business has shattered our lives. Due to online trading, a retailer, a dealer, and a distributor are all affected. (Three to Four people lost their jobs, and our chain is disconnected.)

Vulnerability is more apparent in tiny vendors: All the small vendors carrying petty trading have been reduced to nothing. After analysis of the study, we found that COVID-19 has an intensive effect on various marginalized, vulnerable groups of people and makes human life challenging to survive. During the COVID-19 period, daily wagers or those without permanent jobs

faced many difficulties in livelihood. On these grounds, COVID-19 has made the lives of vulnerable people even more vulnerable. The details of the above explanation are presented in the following table.

**The plight of Women:** In this study, an attempt is made to know the plight of women as 59% of the respondents are women in all activities; in addition, most of the women are indirectly associated with managing and taking care of the business. The COVID-19 pandemic hit hard the sensitive women workers. 6.52% of the women who are solely engaged in small trading activities due to COVID-19 are wholly closed as they could not take any other alternative activity due to their illiteracy, age, and financial dependence. As observed in the interviews, after COVID-19, one of the women started selling fish during weekends, and the rest were now domestic workers.

Out of the total respondents, 54(58.69) are women and 38((41.30) are men. In all the activities, the presence of women is either direct or indirect in shouldering the family business responsibilities. 6.52% of the women workers have left their present occupation and started searching for other temporary work on piece wages, such as construction activities and domestic work, working temporarily on the roadside. Similar to Grocery shop owners, the loss of income for women was more than 18,000, as expressed by them:





"We cannot fit into everybody's shoes as we have learned the skills of trading for more than three decades, earning petty income regularly, but COVID has made our lives TopsyTurvy since this is also deteriorating daily. There is no hope as technological advancements are driving us from the market. Though transformation sounds good, we cannot acquire these skills at this age now."

Some of them were severely disturbed as no financial help was assured. Our status is reduced to almost begging.

Digital Divide and social insecurity have a severe psychological effect. :

COVID-19 as a pandemic was pan-global. It brought fear and uncertainty to all, and women became the worst prey of it. Particularly in India, people in general and women in particular were heavily affected by the impact of the pandemic. As a precautionary measure to arrest the spread of the virus, the government introduced lockdowns of varying severity and durations during the pandemic. As per the survey by Dalberg in October and November 2020, 28 percent of women out of a working population of 24 percent lost their jobs, and 43 percent needed help to recover their paid work by November 2020.

One of the domestic helpers who had lived in the Nizamabad remote area shifted to Hyderabad in 2015; for the past four years before COVID-19, her two sons, aged eight years, 5 yrs suddenly had to leave Hyderabad as all her village people were leaving as they could not meet an amount of Rs.2000 to 4000 as house

rent, others from the same village were also accompanied them. One woman stated “Maa lanti beeda Bratukulu galilo budagalu” which means “poor souls like us are bubbles in the air”. This shows the deep sorrows inside her. Though city life was good for her, alone with small children she preferred to take trouble than to face the situation as there was no hope.

Similarly, another woman also expressed the same feeling, stating, "Now our lives are from "Frying Pan to Fire," stating that being out of the house and earning petty money was giving us a good relief, staying at home without work our domestic violence increased. This result was also highlighted by many studies by Dr. Barsha Biswal and Dr. Navaneeta Rath; this highlights the time to realize the need to create digital space for women.

Limitations of the study: This research has some limitations. First, the data was not obtained from a probability-based survey design, so the results can only be generalized to some vulnerable groups. However, these results provide at least a preliminary overview of how the COVID-19 pandemic affected marginal workers in Hyderabad.

Second, there is non-availability of Sufficient Data; only one district ‘Hyderabad Urban’ is selected due to the paucity of official information. Further, the informal workers' strategies for surviving the crisis still need to be explored using more detailed survey methods.

**Conclusion & Recommendation:** The pandemic has drawn economic inequality into sharp focus. Some groups are disproportionately affected by job loss, giving rise to absolute poverty, increasing the number of those in extreme poverty by more significant numbers, especially this was noticed among women. Marginal workers are more vulnerable groups that need more attention. Many are doubtful or unable to return from the crisis with increasingly irregular and uncertain income sources.

As is observed from the study, the effects of the lockdown have been particularly severe on marginal workers. The crisis exposed the painful conditions under which marginal workers live and work, their lack of access to social protection programs, and the paucity of official information on their numbers. The ideal solution to the problem of informal workers, specifically marginal workers, is a balanced approach, which is crucial in addressing the informal economy in general and, in particular, severely affected marginal workers and developing a road map for a policy framework for including internal marginal workers in each district.

The government has to invest in sustainable infrastructural programs as these investments effectively boost economic activities and create employment avenues.

However, reaching the ideal stage would require an economically inclusive transition period and socially protective and institutional support for every worker participating in the economy. Such a scenario is only possible if general informal workers, particularly the vulnerable groups, are given due recognition. Integrating the informal economy with the formal in the long run and evolutionary pattern is also necessary; since startups first begin in the informal sector, government and policymakers must recognize this sector. Policymakers must recognize this sector also because it employs most of the population. If this sector does not survive, millions and billions of people will be unemployed.

A program like MGNREGA, which is in rural areas, should also be extended to urban areas. The government has developed programs like Skill India to upskill youth startups, but the question is whether the benefits reach the marginalized sections of society.



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# Social Capital And Entrepreneurial Success: A Conceptual And Empirical Review

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## Abstract

Social capital refers to worth of individual social networks which can be pooled together for all individual employees in and organization for form organizational

or corporate social capital to promote organizational performance. Therefore, organizations could gain competitive advantage by deploying social capital. Social capital is latent in individual entrepreneurs and needs to be activated, developed and deployed positively for entrepreneurial success. This is important at this period of global inflation with negative effect on small and medium enterprises. This has resulted into business failure and the rate is alarming. Enterprises can increase their competitive advantage for entrepreneurial success through gaining corporate social capital. This paper provides a comprehensive review of the concept of social capital and its three dimension namely relational social capital, cognitive social capital and structural social capital for better understanding of the concepts. It also undertakes a comprehensive empirical review of social capital and its three dimensions as they affects entrepreneurial success with success factors as profitability, sales growth, customer satisfaction and competitiveness. It is recommended that researchers in the area of entrepreneurship should devote more efforts to research in this area for better understanding of social capital and how it could be harnessed to enhance entrepreneurial success.

## 1.0 Introduction

Social capital can be viewed as free capital available to entrepreneurs to use with no worries for principal and cost of fund payment. However, the entrepreneurs must have a clear understanding of the concept of social capital and how to harness it to ensure entrepreneurial success.

In the social capital model, social capital comprises individual's informal and formal relationship and interactions with other members of society to attain a perceived reward from the market. It has been defined as the benefit or capital attained because of societal social relationships (Gannon & Roberts, 2020). Conscious and unconscious investments in human relationships result in social capital, which requires time and resources (Claridge, 2018). In addition, access to information, reduction in transactional costs, and combine decision making facilitation become easier because of social capital (Motkuri, 2018). Similarly, social capital is identical to physical capital, which can be appreciated or depreciated with use hence the need to make a conscious plan for sustainable use of social capital in enterprise development.

The strength and weakness of the relationships of an organization with other organization(s) is a significant factor that relates to social capital (Machalek & Martin, 2015). Both strong and weak internal ties in a community are significant

to assure social capital self-efficacy (Sulistiyani et al, 2022). Closeness in social capital will be attained if there are strong internal ties in the community, while weak internal ties lead to gaps in social capital.

The historical background of research works in social capital can be traced back to the works of Adam Smith and John Stuart Mill (economists) and Max Weber (sociologist) who used cultural approach to explain economic issues (Bhandari & Yasunobu, 2009). It is not until early 1980s however, when social capital research came to spotlight and became a topical issue attracting great research interest. Social capital concept has become a growing area of research interest to explain social and economic outcomes in the cycle of social scientists including economists, political scientists, psychologists, sociologists and anthropologists and of late entrepreneurial researchers.

Social capital creation such as trust could be regarded as something that came up happily by chance through some uncontrolled experiences of individuals or through which individuals did not plan. In essence, we should not think that social capital is some kind of byproduct resulting from the activities of the firm but rather we should think of corporate social capital as a valuable resource to be managed and harnessed effectively. Firms' investment in social capital is worthwhile because it will eventually create values for the firm (Kochadai, 2018).

The basic idea in social capital research is to explain issues of development using social and cultural factors. Policy makers, development experts and academic researchers including researchers in the area of entrepreneurship studies are now conducting empirical researches in different areas of social capital. Empirical and scientific studies on social capital concept and theories are new in relative terms, but today, literature is enormous in this field of research interest. Despite the volume of availability of literature materials on this subject matter, researchers and other stakeholders are yet to agree on a single definition for social capital (Farr, 2014; Caliskan & Ezilmez, 2021). Also, measures of social capital are yet to be standardized and systematized though numerous recent studies are trying to fine tune the concept to develop standard measurement technique (Bhandari & Yasunobu, 2009). Researchers are beginning to agree on the conceptualization and dimensions of social capital as applicable to different groups. Social capital is not a tangible phenomenon but abstract in nature with its theories deeply rooted on the idea of informal networks, trusts and norms with assumption or believe that social relations is a resource and is valuable.

Firms can increase their competitive advantage through gaining corporate social capital. Study has shown the role played by a supply network hub in facilitating effective information and raw materials flow which in turn lead to creation of high corporate social capital through the creation of inter organizational supply

networks (Ha & Nguyen, 2019). Being central in a network has obvious advantage in social capital creation. Researchers have observed that it is possible to be in a vantage central position in any work at any stage of the network. Firstly, an individual could be the object of many relations and this makes the individual central in the network. Secondly, an individual can also be in the middle of the network that connects others that are performing the linkage role yet still central in the network. Thirdly, an individual could have immediate access to others who are connected in a network (Muler & Peres, 2019).

### 1.1 What is Social Capital?

In a broad sense, social capital can be defined as a phenomenon with multiple dimensions or entities consisting of beliefs and values; trusts and social norms; friends and obligations; relationships and networks; memberships and civic engagement; information flows and network of institutions promoting cooperation and joint actions for inclusive gains towards socioeconomic development. These dimensions or entities have social structure and this structure assists to facilitate individuals' actions within the structure (Farr, 2014). The structure is a productive resource in form of social relations between and among actors that makes achievement of certain goals possible which may be impossible without the structure. Social capital can also be described as a complex concept with multiple dimensions consisting of reservoir

of systems of cultural and social values.

Connections among individual's social networks, norms of mutual exchange and trustworthiness arising from them have been described as social capital (Alhajj & Rokne, 2018). The value of social networks is associated with the number of social contacts of an individual in the network with implications for individual and group productivity. Civic virtue is also closely related to social capital. The number of civic associations and the extent by which individuals engage or participate in those associations determine the worth of social capital in the society. Networks of civic engagements, social connections and voluntary participation in organizations facilitate mutual exchange and trust; societal cooperation and coordination; communication and reputations building which allow speedy resolution of dilemmas by collective actions.

Kofi (2014) identified the weak-tie and the structural holes approaches as the two major approaches for creation of social capital for firms. In weak-tie approach, social tie is important; this approach relies of social tie's strength. We have social tie with many types of relationships involving friends, co workers, supervisors, adviser which are emotional intense as well as being frequent. There is also a social tie characterized by limited type of relationships, emotionally non-intense and not frequent. Despite this, such social tie provides a bridge between social cliques which are densely interconnected providing new

information and resources (Grootaert & van Bastelaer, 2015). Therefore, diverse, weak tie support venture's social capital creation. In structural holes social capital creation approach, the focus is on the patterns of the relationships/ties rather the characteristics of the relationships/ties (Hampton et al, 2019). A structural hole is created whenever the actors in networks are not connected to one another. Networks can be viewed as polymer string which breaks and connects depending on conditions for connections and disconnections. The actors in the organizations control the connections and the disconnections processes (Khoi et al, 2018). Most research on entrepreneurs and entrepreneurs' networks found in literature are mainly about the personal networks of the entrepreneurs and these in most cases cover acquisition of resources via the networks. Entrepreneurs are responsible for creation of social capital via their networking activities and they take charge and responsibility for networking process and activities (Ali & Yousuf, 2019).

Lin (2018) argued that organizations draw their social capital from employees. This is because social capital is personal to individual employee. It is therefore, the aggregation of social capital of individual employees that form the corporate social capital. Thus, to a large extent, the corporate or the organization's social capital is tied up to the social capital of the individuals employed by the firm. It is therefore, easy for any organization to create or destroy social capital using the human resources management practices. McKeever (2014) measured the



impact of reward system put in place for individual employees of some firms who contribute high social capital to the overall corporate capital. Researchers have studied practices in employment as a major mechanism to foster or discourage internal social capital within organizations (J. Nahapiet & S. Goshal, 2018).

Zhang et al (2019) noted that the ability to create and exploit social capital is a function of the differences between firms as well as differences in performance. There are three resource challenge facing new firms namely, availability of resource, access to resource and resource uncertainty. The major issue in resource availability is that of how to locate the sources of the resource and the issue of costs and difficulties. Entrepreneurs can tap resource which are external to his firm i.e. resource outside his control through a process of networking (Abbas et al, 2019).

Vonneilich (2022) observed that social capital conveys information advantages; to access and disseminate information, the vehicle needed becomes social relations. This costs less but efficient than formal information dissemination vehicles, tacit information for instance, is disseminated via networks in efficient way (Juarez-Ramirez et al, 2013).

Innovation performance of a firm could be aided by social capital of the firms.

Study on whether social capital has role to play in digital firms' innovation performance found that social capital remains significantly associated with innovation performance and that digital firms who are high in social capital are could generate innovation performance at high level even under harsh operating environment (Lyu et al, 2022).

Haron (2020) opined that relatively new firms tend to benefit more from having prominence alliance partners because the effect of the alliance benefits was found to decrease with the age of the firms. A study has shown that young firms with prominent alliance partners were able to acquire more prominent partners thus giving the firms competitive advantage and a good ranking on the list of firms with prominent associates. However, Gamage et al (2020) noted that access to resources could be pretty difficult for new firm due to uncertainty. Older firms with abundance of such resources sometimes are not willing to do resource exchange with new firms with future uncertainties. Good reputation or social credit should be built by entrepreneurs to facilitate easy access to information or resources that are needed in the future (MShang-Chun & Kaplanidou, 2021).

## 1.2 Social Capital-levels, types and interconnectivities

Social capital has different complex levels (Conroy & Deller, 2020). The first is the social or macro level, at which the potential advantages or benefits attained from an organization or individual society are focused, such as enhanced and upgraded level of income (Lyu & Ji, 2020). The second level is the individual or micro level, at which the potential advantages or benefits from the network relationships or linkages of an individual are focused, such as the success of the firm (Ozgun & Zaim, 2022). The final level is the organization or meso level, at which the potential advantages or benefits from the network relationships or linkages of an organization are focused, such as higher and greater efficiency and effectiveness (Sanchez-Arrieta et al, 2021). At all three levels, the advantages and benefits are attained from bridging and bonding social capital (Kopren & Westund, 2012).

Three main dimensions of social capital are found in literature namely cognitive social capital, relational social capital and structural social capital. Cognitive social capital is derived from a psychological process that results in ideas and thoughts, reinforced by ideology and culture, generate shared values and norms, trust, belief, and attitude. Thus, the cognitive capital has both integral and subjective characters that contribute to cooperative behavior and conduct, and encourages collective actions. Relational capital concerns with the characteristics and qualities of personal relationships of which trust, obligations, respect and friendship are

very important. However, structural social capital is linked with social networks, policies, and procedures that contribute to a combined action toward the attainment of joint benefits and social contribution. Structural social capital is a comparatively impartial and superficially noticeable concept.

Previous research has stated that, conceptually, in entrepreneurship, a vital role is played by social capital (Strobl et al, 2022). Furthermore, in previous research, the term entrepreneurial capital at times gave the impression of signifying one or more types of capital, such as human or physical capital (Hu et al, 2022). The definition of entrepreneurship capital is usually taken in its broader sense. Social capital is included in the definition of entrepreneurship, even though entrepreneurship and social capital are dissimilar concepts.

Entrepreneur and the firm is the central actor in the social network. Some researchers have reported on the established relationship between entrepreneurial network and the venture (Korsching & Allen, 2014). Family members and friends have been leveraged upon by some emerging firms to get resources that are required to establish feasibility (Krueger & Brazeal, 2014). Of particular note is that at emergence situation, the entrepreneur's social network becomes synonymous with the network of the firm because, initially, network ties are found to exist at level that is interpersonal. By procedures and routines, ties that are interpersonal in nature can be formalized into inter

organizational ties and by opinion of researchers, networks evolution of emerging firms could make firms to adapt easily to challenges of resources (Krueger & Carsrud, 2018).

The enormous resource needed for growth may not be something that embedded network ties of a firm can provide, hence, firms may have to look for network ties like the arm-length ties and the structural holes ties meet their resources demand. The network of a firm shifts from being cohesive at the emergence stage to the one that bridges structural holes at early growth stage. Business and professional associates in their top five networks were found to be more successful in a longitudinal study conducted on entrepreneurs and networks (Krueger et al, 2018; Kwon & Adler, 2018).

In the words of Putnam (2020), social capital is both firm specific and path dependent, while the structure of a firm's social network is industry specific. It is an emergent outcome generated by rules that guide the firm's cooperative decisions in a specific competitive market is guided by an emergent outcome generated the firm's rules. The location of an actor in a social network is captured by a dimension of social capital, i.e. structural social capital (Rauch & Hulsink, 2015). By implication, individuals with more contacts in an environment tend to have more structural social capital.

In accordance to structural holes approach, a network configuration with many contacts that are spread thinly in diverse forms are needed to create maximum structural corporate capital. Sparse networks with not many contacts that are redundant has the ability to supply more information diversity, hence, the corporate social capital will be more (Roxas & Azmat, 2014). Mixed model network have been found to be positively related to survival of organizational (Shook et al, 2014). Benefits like complex adaptation and collective problem solving; trust and reduced bargaining as well as reduced cost of monitoring are provided by dense ties while the firms are provided with novel information beyond their immediate ties with arms-length contacts (Singer et al, 2019).

The direct advantages are found in the creation and maintenance of social relations that facilitate easy access to resources and new technologies rather than creation of a large bundle of ties. More successful entrepreneurs have been found to be the one more dense and small networks; this suggests that entrepreneurs should be more selective in their networks, spending less time in building large network but increase efficiency in circulating information (Thornton, 2019). Firm should build their network in a way that it will deliver high social capital for them as much as possible with focus on long term.

The stability and sustainability of the social structure is major deciding factor for the value of all forms of social capital and high level of mutual inter dependence

of this structure results in high levels of social capital (Shin,2022). Dense and integrated networks; small size and with low differentiation are structural conditions that favor high levels of social capital (Yli-Renko et al, 2017). Structural basis needed for effective cooperation and collaboration at Silicon Valley was provided through trade associations and regional governments (Trunina, 2021). In contradiction to what is obtainable in classic market govern by competitive rule of exchange, firms having small networks are involved in information sharing, establishment of long term relationships and support for one another in a functional network (Dar & Ishra, 2020).

Cognitive, relational and structural dimensions of social capital have been reported to be interwoven and interdependent with one influencing the other. For example, a two-way relationship has been observed for structural and relational dimensions with structural dimension being found to affect the relational dimension in a large organization (Claridge, 2021). Actors participating in an organization's network with central roles, have high tendencies to consider one another trustworthy with shared vision, a manifestation of cognitive capital have positive influence on trust and trustworthiness while relational capital was reported as breeding structural capital (Claridge, 2018). New linkages are easier to be created between a trustworthy unit and other related units that are strategically linked. The main reason is because with trust, cooperation is assured between related units. Other



researchers have also observed close relationship between structural capital and relational capital with suggestion that in the interaction of actors in a network, trusting tends to become concrete with time while the parties involved will have more likelihood to consider and perceive one another as trustworthy (Hassan et al, 2022). A link between cognitive capital and relational capital has been reported with researchers positing trusting relationship can be developed through common values and a shared vision (Pangidoan & Nawangsari, 2022).

Networking has been argued to be a good source of non routine but timely informal data (Vonneilich, 2022) while social networks' importance in recognition of opportunity has been examined (Ibrahim et al, 2021). Network entrepreneurs tend to have more access to new business opportunities than non network entrepreneurs. Studies have shown that individuals who identified opportunities from network entrepreneurs can be distinguished easily compared to those that used personal networks. Research results have shown clear differences between entrepreneurs who acquired business opportunities from the network entrepreneurs' social networks than that acquired them through other means (Fukuyama, 2012).

One of the clear advantages of social relationships is that it allows the employees in an organization to learn from each other through social interactions. Learning brings about growth and new opportunities are



recognized through learning to develop entrepreneurs and enhance organizational performance (George, 2016; Seung-hyun et al, 2022).

### 3.1 Social Capital and Entrepreneurial Success

Ha (2021) conducted a study to establish possible relationship between social capital dimensions and operational performance with knowledge sharing as mediator. Construction industry sector was the focus of research. Data were collected from 346 SMEs in Ho Chi Minh City. Convenience sampling technique was used. Online questionnaire were distributed to respondents using Googleforms. Study sample was obtained from two main sources i.e. Yellow pages showing the list of registered business entities in Vietnam and registered members of Youth Business Association in the city of Ho Chi Minh. Data analysis was carried out by structural model assessment through IBM SPSS AMOS Version 24. Results indicate that only cognitive social capital dimension has direct positive relationship with operational performance. Both relational and cognitive dimensions of social capital have direct positive relationships with explicit knowledge sharing but structural dimension of social capital do not. Explicit and tactic knowledge sharing have positive influence on the firm's operational performance.

Yusuff et al (2018) investigated social capital as a mediator in a research to

determine the influence of financial capital on business performance of 184 women micro entrepreneurs who are under Amanah Ikhtiar Malaysia (AIM). Simple random sampling technique was used to select the participants while multiple regression analysis was used to analyze the data. Microcredit and financial collaterals were used as dimensions of financial capital while groups, norm, trusts, networking, economic equality and volunteerism were used as social capital dimensions. The result shows that financial capital (microcredit) has positive effect on business performance of the women entrepreneurs when mediated by social capital (volunteerism).

Menike (2020) in a research conducted to examine the effect of social capital on performance of firm, network size, network density and network strength were the measures of structural social capital while credibility and benevolence were the measures of relational social capital. Share vision, share knowledge, shared language, shared resources and shared opportunities were used to measure cognitive social capital. Cross sectional research design approach was adopted and survey design to administer 200 questionnaires to selected SMEs for the study. Data analysis was carried out using PLS structural equation modeling. The findings revealed that structural social capital and cognitive social capital have a positive significant effect on small enterprises performance in Sri Lanka while relational social capital has negative significant effect on firm's performance.

Yani et al (2020) reported that entrepreneurial competence played a mediator role in a study designed to investigate the influence of social capital on SMEs business performance in Bekasi City, West Java. Data were collected from 315 participants using questionnaire. The focus of the research is on individual micro entrepreneur who sell food in food stall on the streets Bekasi City. Data collected were analyzed using SEM modeling approach by SmartPLS software. The results show that social capital has significant effect on entrepreneurial competence. Entrepreneurial competence shows significant effect on business performance. Therefore, through entrepreneurial competence as mediator, social capital was found to have significant effect on performance of SMEs business.

Akintimehin et al (2019) collected primary data from a survey of 650 owners of business in the informal sector of Ikeja Local Government Area, Lagos State, Nigeria to determine the influence of social capital on performance of business. Cross sectional research design approach was adopted. Samples were selected with simple random sampling technique and data were collected from the samples by self administered questionnaire. Composite reliability, Cronbach Alpha value provided the means to test the reliability of the research tool. SPSS version 23 was used for descriptive statistical analysis and the hypotheses were tested by SEM using PLS Version 3.2. Measures of social capital are internal and external social capital. The result concludes that social capital has significant effect on business performance without firm age as the controlling

variable. Internal social capital has a significant effect on non financial performance; but it shows no significant effect on financial performance. External social capital shows no significant effect on both financial and non financial performance.

Rababah et al (2022) investigated the role of internal and external social capital as determinants of financial and non-financial performance in manufacturing sector in India using 417 manufacturing companies that provided data for the study. Structured questionnaire was used to gather the data. Confirmatory factor analysis and structural equation modeling was carried out with the aid of SPSS and AMOS. Internal social capital has significant effect on both financial and non- financial performance of the firm. External social capital has significant effect on financial performance but show no significant effect on non-financial performance of the firm.

Xie et al (2012) studied social capital from the view to classifying social capital as bonding and bridging social capital as well as to investigate the effects of both types of social capital on creative performance of agricultural entrepreneurs with opportunity recognition and operational efficiency as moderators. 180 SMEs were involved in the study and data were collected from them using questionnaire. The data reliability was determined by internal consistency reliability analysis. Cronbach Alpha values range from 0.74 0.82 indicating that

the questionnaire was reliable. Data analysis was carried out with the aid of SPSS and AMOS software. From the results, bonding and bridging social capital has significant effect on the performance of agricultural entrepreneurship. However, operational efficiency plays a positive role in the relationship while opportunity recognition plays a negative role.

Christy et al (2022) studied some entrepreneurs in Indonesia on how social capital influences their business success using quantitative research approach. A purposive sampling technique was adopted. The study led to the conclusions that: successful entrepreneurs possess social relationship that help to facilitate their interpersonal relationship with the public; successful entrepreneurs are proactive in developing and maintaining social relationship relevant people; successful entrepreneurs usually experience magnificent social involvements and lastly, successful entrepreneurs are more concerned with benefits to their immediate community/environment as well as the general public.

A research was conducted on industrial chemical manufacturers at Banten Province, Indonesia to investigate how their social capital can influence organizational performance with competitive advantage as a mediator variable. The study focused on the industrial chemical manufacturing industry at Banten Province, Indonesia. Ninety seven respondents were involved in the study. SEM-PLS provided means for data analysis. The results show that social capital

has direct relationship with the performance of organizational; competitive advantage mediates this relationship (Nuryanto et al, 2020).

Using panel data, researchers have investigated the effect of organizational social capital and organizational structure on organizational performance. 100 organizations between 2002 and 2005 were selected for the study. Statistical results of analyzed data showed that cognitive and relational dimensions of social capital have positive relationship with organizational performance. The results show that structural dimension of social capital has no relationship with organizational outcomes. Organizational structure has complex and contradictory effects on the impact of the three dimensions of social capital (Rhys, 2010).

### 3.2 Social Capital and Firm Profitability

Many empirical studies have established effect of social capital on firm profitability. For instance, Orekhova and V.S. Zarutskaya (2021) studied the amount of social capital a network-based organization possesses and how it affects its effectiveness. Strategic management and a number of neo-institutional theories form the foundation of the study. The most significant theories are those that deal with networks, social capital, and transaction costs. Synthesis, typology, and content analysis are some of the research techniques used in the theoretical section of the paper. The study's data source is a survey and statistical

reporting of 101 travel agencies in the Russian Sverdlovsk region for the years 2017 to 2020. They define the impact of social capital components on the growth rates of revenue and profitability of sales in Russian tourism for the two (2017-2019) and three (2017-2020) years. They also identify the structural, relational, and cognitive components of social capital within an organization. The findings shows that behavioural practices (relational and cognitive components) and social structure (structural component of social capital) ensure the survival and expansion of the business.

Rahman et al (2019) examined the function of social capital in the growth of small and medium-sized enterprises in the Peshawar Valley with profitability and future viability as measures of firm performance. A cross-sectional, descriptive, and analytical research design is used with a sample of 169 manufacturing weavers as a representative sample. Using a self-administered questionnaire, data is gathered. The findings show there is a significant and favourable link between relational capital and firm performance specifically firm profitability.

The impact of social capital on an entrepreneur's ability to withstand localized shocks was examined (Dimitriadis, 2021). In this study, various types of relationships and how they affect an entrepreneur's performance was investigated using a distinctive longitudinal survey of business owners



conducted in Togo during a spike in violent protests in 2017 and 2018. According to the findings, businesses' profits decreased by 20% when they were close to violent protests. Entrepreneurs' connections to their local communities and their non-located advice relationships, which were ties to advisers who were located far away, however, helped to offset this decline. Collocated advisers, or those who were close by spatially, on the other hand, were detrimental to their performance.

Through the use of social capital, some researchers investigated how innovativeness can be accomplished by entrepreneurial network capability and social capital relationship (Sarwar et al, 2021). The study based its presumptions on the dynamic capability theory and gathered feedback from 199 entrepreneurial SMEs operating in Pakistan through a questionnaire. The study used the partial least square structural equation modeling technique to analyze the feedback after confirming its validity and reliability. The study's findings add to our understanding by demonstrating how network capability significantly enhances innovation capability thereby enhancing profitability.

Sani et al (2019) conducted a study using 139 SMEs as samples in two States of North West Nigeria (Sokoto and Zamfara) to examine the effect of social capital on small businesses performance. The data gathered was analyzed using Ordinary Least Square. The study establishes significant positive influence of



networking, technological innovation and number of employees with performance of SMEs. The study however, observes insignificant inverse relationship between social ties and performance of SMEs.

Study on the impact of social capital on firm performance in the context of Taiwan's semiconductor industry was conducted (Hsu & Yah, 2019). The authors used a sample of 156 firms, and the data was collected through a questionnaire survey. The study finds a positive relationship between social capital and profitability.

Obeitoh (2018) investigated the impact of social capital on the financial performance of small and medium-sized enterprises (SMEs) in Nigeria. The study used a sample of 250 SMEs, and the data was collected through a questionnaire survey. The authors employed regression analysis to analyze the data, and the results show that social capital has a significant positive impact on the financial performance of SMEs.

The relationship between social capital and firm performance in the Pakistani context has been investigated (Rahman & Khan, 2019). The study used a sample of 300 firms, and the data was collected through a questionnaire survey. The authors used regression analysis to analyze the data, and the results shows that social capital has a significant positive impact on firm performance.

Nguyen and Ha (2020) in their study examined the relationship between social capital and firm performance in Vietnam. The study used a sample of 153 firms with 104 from service industry and 49 from northern Vietnam and 33 firms in central Vietnam and data collected through a questionnaire survey. The authors used regression analysis to analyze the data. The results show that all the dimensions of social capital have significant positive impact on firm performance.

The mediating role of dynamic capabilities and the moderating role of entrepreneurial orientation in the relationship between social capital and firm performance have been examined (Hongyun et al, 2019). The analysis of primary data from 787 small and medium-sized enterprises (SMEs) operating in Ghana using SmartPLS software 3.2.8 yielded findings that social capital is positively and directly correlated with firm performance in Ghana. According to the research, entrepreneurial orientation acts as a moderator in the relationship between social capital and firm performance.

### 3.3 Social Capital and Sales Growth

Griffin et al (2021) examined the role of CEO social capital as an important driver of the widespread practice of real earnings management (REM). Using the number of social connections to outside executives and directors to measure

CEO social capital, they find that well-connected CEOs associate with higher levels and volatilities of REM. The positive relation between REM and CEO network size is stronger when the CEO connects with more informed and influential persons, and when a more severe misalignment of interests can occur. Equally, they find a contagion of REM among well-connected CEOs in an industry. Lastly, the level of REM induced by a large CEO social network associated negatively with future operating performance.

Kanini et al (2022) investigated the effect of social capital on performance of SMEs in Kenya. The sample size was 384 licensed manufacturing businesses operating in the City County of Nairobi. Primary data collected was analyzed using descriptive and inferential statistics. The results show that both relational capital and cognitive social capital have significant and positive effects on sales growth dimension of the performance of the SMEs. Structural capital has no significant effect on sales growth dimension.

Similarly, a study that explored the relationship between social capital and sales growth in the text of new ventures in China has been reported (Lyu & Ji, 2020). The study used a survey to collect data from 248 new ventures and found that social capital positively influenced sales growth. The study also used regression analysis to examine the data and controlled for other factors such as the venture's age and industry. Zhang et al (2019) conducted a study using survey

data from 348 firms in China found that social capital positively impacts sales growth, and that the effect is stronger for firms with weaker market-oriented cultures.

In a similar vein, findings of empirical study using survey data from 330 SMEs in Pakistan finds a significant positive relationship between social capital and sales growth (Ali et al, 2018). Setini et al (2021) used panel data from 192 firms in China and found that social capital positively influences sales growth through the mediation of innovation capability. An empirical study using data from 384 ventures out of 61,931 ventures operating within Nairobi City, Kenya found that social capital has a significant positive effect on sales growth and business performance generally (Kaberia et al, 2022). Moreover, a study using data from 316 firms in China found that social capital positively influences sales growth through the mediation of knowledge sharing (Lyu et al, 2020). A qualitative description of a multi-case analysis of effects of social capital on performance of immigrant Chinese businesses in some regions of Phoenix and Los Angeles has been reported. The results demonstrated the importance of social capital with local Chinese community in the areas under study. The report also demonstrated that social capital promote sales growth of Chinese businesses (Kwoh, 2021).

In summary, empirical studies suggest that social capital is an important factor in sales growth in various business contexts. The studies used different

methodologies such as surveys and regression analysis to explore the relationship between social capital and sales growth while controlling for other factors that could influence sales growth. The findings of these studies have important implications for firms seeking to enhance their sales growth and improve their overall performance.

### 3.4 Social Capital and Customer Satisfaction

Jääskeläinen et al (2022) analyzed in a study how social capital and supplier development support achieving supplier satisfaction and preferred customer status. The resulting model is compared between manufacturing and service suppliers. A survey of 482 supplier responses from manufacturing and service suppliers was utilized and analyzed using partial least squares (PLS) path modeling and multi-group comparison tests. Findings show that the new explanations for preferred customer status through empirical evidence of relationships between supplier development, social capital, supplier satisfaction, and preferred customer status have changed. The results also show that cognitive and relational capital directly support achieving preferred customer status. Also, the role of supplier satisfaction in achieving preferred customer status is lower for manufacturing suppliers.

The moderating effect of family social capital on the relationship between

community social capital and life satisfaction among rural community-dwelling older adults in Northeast China has been examined (Zhang & Lu, 2022). Data were based on a social survey in the rural communities of Northeast China in late 2019. The analytic model included 455 respondents who completed the survey successfully. They used multiple-group analysis to test the proposed hypotheses. The results show that family social capital played a significant moderating role in the relationship between community social capital and life satisfaction. In other words, both cognitive social capital and social participation were significantly associated with life satisfaction in the higher family social capital group, whereas these associations were not significant among those with relatively lower levels of family social capital.

Huang and Suo (2021) investigated the impact of social capital on customer satisfaction in online communities. The researchers used Snowballing sampling technique to collect data from members of online communities with 548 valid data. Three measures of social capital namely social interaction, shared language and trust have positive effects on peer intrinsic motivation and peer extrinsic motivation with additional findings that peer motivation has positive impact on consumer. The findings of the study indicate that social capital positively influences customer satisfaction in online communities.

Muhammad et al (2017) conducted a study on the effects of social capital



measured with three dimensions of social capital namely relational social capital, structural social capital and cognitive social capital on relationship satisfaction using 478 clients of Pakistani banking industry. The data was analyzed using variance base partial least squares structural equation modeling. The results show that all the three dimensions of social capital have significant positive impact on relationship satisfaction thereby enhancing customer re patronage intention. Kim (2020) evaluated the effect of social capital on customer satisfaction in the hospitality industry. The researchers used a survey method to collect data from 388 participants. The findings of the study indicate that social capital has a positive impact on customer satisfaction in the hospitality industry.

The path and mechanism of the influence of social capital on customer citizenship behavior in virtual community environment has been investigated (Liu, 2020). The results of the findings show that social capital impact on customer citizenship in multi path rather than single path by acting on customer citizenship behavior through customer satisfaction which in essence shows that social capital has significant positive effect on customer satisfaction.

Overall, these studies suggest that social capital has a positive impact on customer satisfaction. The studies also suggest that trust and social media can mediate the relationship between social capital and customer satisfaction.



### 3.5 Social Capital and Competitiveness

Studies have explored the essence of the concept of "soft skills" as an integral part of the development of social capital among employees to ensure the efficiency of enterprises as well as their impact on the competitiveness of enterprises in Ukraine (Grishnova & Zhuk, 2021). The analysis confirmed the importance of "soft skills" in the formation of social capital and the competitiveness of the enterprise, as well as helped identify trends in "soft skills" in today's world. The results showed that the most necessary "soft skill" for an employee in the company in light of today's challenges is the ability to take responsibility. Communication skills, organization, attentiveness, resilience, and self-control also play an important role. It is established that these skills form the individual social capital of employees, help to find the first job, and successfully develop it.

Mishchuk et al (2022) reported the findings of a study with objective to determine the factors of social capital of enterprises that can have a significant impact on achieving sustainable competitiveness. In this regard, the study tested the SEM-analysis method for evaluating hypotheses. The obtained results and modeled relationships of factors confirmed the significant influence of factors of social capital of enterprises on competitiveness. At the same time, the results reveal the most essential influence of efforts to develop strategic partnerships



with suppliers (as part of structural SC), efforts to form a positive image of the enterprise and satisfaction with horizontal relationships (as part of relational social capital), general satisfaction with the psychological climate in the team, the establishment

Qamariah and Muchtar (2019) investigated the effect of human capital and social capital on competitive advantage, and the role of competitive advantage as the mediator of the relationship between human capital and social capital on business performance. The result shows only human capital significantly affects the competitive advantage of SMEs, while social capital does not affect the competitive advantage of SMEs. Both social capital and competitive advantage significantly affect the business advantage of SMEs, meanwhile human capital does not affect the business advantage of SMEs. Moreover, competitive advantage does not mediate the relationship between human capital and social capital to business performance.

Overall, the evidence suggests that social capital can have a positive impact on competitiveness, but the strength and nature of the relationship may depend on a variety of contextual factors, such as the level of human capital and the specific measures of social capital used in the analysis.

#### 4.1 Conclusion

Social capital is a popular concept with the sociologists and psychologists. But of recent entrepreneurial researchers have started applying the concept to explain entrepreneurial actions and outcomes as well as to deploy it to influence entrepreneurial success. This paper provides a comprehensive review of the concept of social capital and its three main dimensions. The three dimensions reviewed in this paper are: relational social capital, cognitive social capital and structural social capital.

Conceptual review was carried out for better understanding of the concepts and to identify areas of applications to entrepreneurship studies. Empirical review was also carried out to know the extent by which researchers have worked on social capital and the three dimension and their effects – individually and collectively on entrepreneurial success.

It is recommended that researchers should give more attention to research on social capital and how it could be deployed to ensure entrepreneurial success. This is particularly important to reduce the rate of business failure amongst the small and medium enterprises occasioned by the global inflation.



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# **A Comparative Study of Success Factors and Challenges for Reward-Based Crowdfunding Campaigns In The UK and China**

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## Abstract

Crowdfunding represents an alternative funding mechanism for entrepreneurs to obtain funds from the public and raise awareness of a new project. The reward-based model allows founders to supply rewards which are digital or physical rather than financial. This paper analyses success factors and barriers for reward-based crowdfunding campaigns focusing on the similarities and differences between campaigns in the UK and China. Eight successful project founders were interviewed – four from each country. Factors investigated included the campaign pitch, the choice of platform, length of campaign,

marketing of the campaign including use of social media, and in addition, challenges such as intellectual property issues and time and money spent on the campaign. Whilst many aspects of campaigns in the two countries was similar, Chinese campaigns differed in that allowing investors to pre-order at a discount of 30-40% was found to be most effective, where there was a reasonable certainty of a product forthcoming. The price offered also was expected to be in line with the expectations of the demographics of backers visiting the platform. Chinese founders also paid agents to click through to their projects, so raising the project to the top of the crowdfunding platforms page for increased visibility, and that “lucky” colours were used liberally on the funding page.

## 1. Introduction

Crowdfunding has its origins in the concept of crowdsourcing, which allows fundraisers to mobilise the ‘crowd’ to collect ideas, solutions, and feedback (Poetz and Schreier, 2012; Kleemann et al., 2008). Crowdfunding represents an alternative way to raise funds for entrepreneurs or start-ups where traditional funding might be unachievable. According to the definition provided by Schwienbacher and Larralde, (2010), crowdfunding allows fund raisers to receive funds from the ‘crowd’ through an open call to generate financial



resources for particular purposes. It takes the form of donation or exchange for monetary or non-monetary reward. Crowdfunding projects are posted either on a personal webpage or more likely dedicated websites, known as crowdfunding platforms and successful crowdfunding projects are deemed to be those that meet or exceeded the funding goal set by founders within a short fixed period.

Unlike traditional sources of funding, crowdfunding raises money directly from a large pool of amateur investors, with each individual providing a relatively small amount of money to support the project (Belleflamme et al., 2014). This allows fundraisers to access a large amount of people in a short time with several different models for investor rewards, either financial or material (Hemer, 2011). Crowdfunding has emerged as an alternative funding form, providing a quicker and less complex way for entrepreneurs to implement innovative ideas. They simply post their projects using text, videos and pictures, reducing the complexity of the financing process, and online crowdfunding helps overcome the geographical limitations, reduces communication costs (e.g. through use of social media) and allows access to global funding (Bechter et al., 2011; Agrawal et al., 2011; Agrawal et al., 2014; Agrawal et al., 2015; Kraus et al. 2016) with widespread accessibility of the internet. For individual investors, due to the relatively small sums of money involved, investors generally perform little due diligence and therefore access to funding for founders can be considerably quicker than conventional means.

Crowdfunding especially opens up more funding options for artists and small and medium businesses who have problems obtaining external funding at their early stage (Cosh et al., 2009) compounded by a lack of historical information when these new businesses apply for funding, and information asymmetries for investors make it risky for institutional investors (Jia and Phillips, 2014). Since the late 1990s, crowdfunding has emerged and developed within the online community firstly by funding artists or creative industries such as music, independent writers, and film makers, then extending to further sectors (Hemer, 2011) and until 2006, was still rather anarchic with little regulation. Since 2010, crowdfunding has been studied and explored intensively in theory and practice (Moritz and Block, 2016). Scholars and participants believe crowdfunding is a useful and applicable funding method for innovative start-ups and entrepreneurs with several approaches taken to studies. For instance, drivers of successful campaign (Mollick and Kuppuswamy, 2014, Belleflamme et al., 2013; Mollick, 2014), motivations of creators and crowd funders (Bretschneider and Leimeister, 2017; Gerber and Hui, 2013; Harms, 2007), geographical distance between funders and project (Agrawal et al., 2014, 2015) and behaviour of funders (Kuppuswamy and Bayus, 2018).

Start-ups and entrepreneurs have access to several types of crowdfunding to gain funds for their business. They vary in the nature of investment and the expectations of potential backers. Hemer (2011) identified five types of



crowdfunding: donations, equity, lending, pre-selling, and sponsoring. An attractive form of reward is the key incentive to encourage backers to contribute to a campaign. Reward crowdfunding offers supporters a non-financial reward in return for their financial support. Normally, this type of model provides the possibility to pre-order products that companies are making (Belleflamme et al., 2014). Alternatively, the reward crowdfunding approach considers backers as their early customers, which allow them receive products at an early stage with better price and additional benefits (Mollick and Kuppuswamy, 2014). Also, this pre-selling model allows firms to conduct market research and gain understanding about customer preference at the early stages of product development. Gaming companies, for example, can offer digital rewards such as making the investor a character in a game. Companies that develop riskier products with high investment costs or demand uncertainty such as technology products more often adopt reward-based models (Chemla and Tinn, 2020). This type of crowdfunding enables creators to reduce their early capital cost by ‘selling’ products that might be hard to trade in traditional markets (Agrawal, et al., 2011). Belleflamme et al. (2014) mentioned when the required initial funding is relatively small, entrepreneurs would like to use a pre-ordering model, whilst when they require a large amount of capital, entrepreneurs prefer a profit-sharing model. However, investors tend to provide a higher amount of capital when they receive products first together with a reward (Gerber and Hui

2013). Most reward crowdfunding platforms follow the ‘all-or-nothing’ rule, which means that only if the project reaches or exceeds its capital-raising goal by the deadline, entrepreneurs receive the pledged amount of money (Herrero et al., 2020), a method which also helps the founders to show confidence in their product (Cumming et al., 2019).

In terms of motivations for entrepreneurs and backers engaging in crowdfunding, Kleemann et al. (2008) mentioned that participants are driven either by intrinsic or extrinsic factors when participating in certain projects. Project initiators have a variety of motivations to launch a crowdfunding project such as raising money, gaining public awareness, and receiving feedback from backers (Mollick, 2014; Mollick and Kuppuswamy, 2014). Gerber and Hui (2013) have identified five different motivations: financial purpose, establish relationships, obtain legitimacy, replicate successful experiences and increase public awareness through social media. Belleflamme et al. (2014) mentioned crowdfunding can be regarded as a promotional tool to support user-based innovation or as a means to generate a better understanding of their consumer preferences. Unlike professional investors, supporters’ motivation may not show clear financial objectives behind their investment. Thus, investors are primarily focused on what they can obtain for their contribution (Herrero et al., 2020). Apart from the extrinsic factors (financial benefits), some studies state intrinsic factors for backers include: curiosity, participation, entertainment, interest,

whether projects are enjoyable, the need for helping others and supporting a social cause (Chan et al., 2019; Zhao et al., 2017; Kuppuswamy and Bayus, 2018).

Issues for those involved in crowdfunding include investors' concerns about the performance and quality of products and information asymmetry (Zhao et al., 2017). Mollick (2014) points out that the majority of projects fail to deliver rewards on time. It has also been found that while frauds are quite rare on well-known crowdfunding platforms, the biggest risks of failure are associated with weak social media presence, less engagement in prior activities and confusing campaign pitches. A lack of early investment also hinders campaigns (Colombo et al., 2015). For entrepreneurs, concerns relate to intellectual property issues and protection of copyrights (Röthler and Wenzlaff, 2011). Some crowdfunding platforms have specific rules to address the potential risk of information asymmetry and fraud, and crowdfunding platforms often assist entrepreneurs facilitate the communication and interaction between capital seekers and the crowd (Belleflamme et al., 2014). The platforms themselves perform some due diligence to safeguard investors, even so, backers still have difficulty in finding out whether they are supporting legitimate fundraisers (Moysidou and Hausberg, 2020). Crowdfunding however is associated with increased administrative and accounting issues, as fulfilling backers' contributions, and delivering rewards can be time-consuming (Valanciene and Jegeleviciute, 2013; Lin and Phillips,

2017). The importance of interaction between fundraisers and backers affects investment decisions with crowd needing regular updates (Islam and Phillips, 2020; Wang et al., 2018). However, Kitchens and Torrence (2012) highlight that when a large number of unsophisticated backers are involved in the project, entrepreneurs face both administration and communication challenges. Furthermore, entrepreneurs also face the challenge of the idea being stolen by strong competitors, with some of the entrepreneurs lacking the awareness to protect their intellectual property or lack of resources to fight with businesses who copy their ideas (Valanciene and Jegeleviciute, 2013).

In terms of what makes a successful campaign, an innovative, appealing product with an empathetic backstory is needed as a basis for any campaign. Since people tend to form overall feelings towards the website page based on their first impression, including visual aesthetics (Lindgaard et al., 2006), initiators use suitable project descriptions such as text, images, and videos to increase the project success rate (Koch and Siering, 2015) and Mollick (2014) describes the video is the most significant element of the project appeal to the potential supporters, and tell the story of the project. Research has examined that higher fundraising goals are hard to achieve (Mollick, 2014). Forbes and Schaefer (2017) suggest initiators should set a lower fundraising goal for their project because the crowd are attracted to campaigns with a higher proportion funded rather than a higher amount but lower proportion already funded. Some research

has suggested that a longer funding period implies that entrepreneurs are less confident about whether their project can reach the goals in time (Koch and Siering, 2015; Koch and Cheng, 2016). Mollick (2014) and Kuppuswamy and Bayus (2018) found that capital seekers' social network is the primary source of important funding for the majority of projects and the size of the social network is a key factor that determine the project success. Initiators should set up the "right" community for the crowd based on their financing and operating needs to ensure a practicable crowdfunding campaign before embarking on the campaign (Belleflamme et al., 2014). Setting up the campaign near to likely investors has also been found to be a useful strategy as much investment comes from local sources (Olufolaji and Phillips, 2015), although Qiu (2013) also suggests that being placed on the front page of the crowdfunding platform is often the best advertising for bringing in investors.

There are a limited number of funding options and initiatives for early-stage entrepreneurs in China (Chen and Phillips, 2016), but the rapid growth of the internet accompanying the widespread use of smartphones has promoted the growth of crowdfunding in China, with reward-based crowdfunding a popular model (Huang et al. 2018, Statista, 2020). A large proportion of Chinese investors who participate in crowdfunding activities do not have a college

degree or financial knowledge or skills. These amateur investors are likely to follow the suggestions of commentators or invest more out of instinct (Hu and Yang, 2014). There are over 200 online reward crowdfunding platforms in China which involve different industries such as film, agriculture, and technology (Chen and Wang, 2018). Equity crowdfunding also has been active in China, however the lack of protection of investors' rights has limited its development (Zhu and Zhou, 2016, Lin 2017). Funk and Funk (2019) suggest that China has adapted Western models of crowdfunding to suit legal and social aspects of Chinese culture. In China crowdfunding is closely connected with e-commerce, with the major crowdfunding online platforms owned by large Chinese technology companies such as Alibaba, Tencent and Jingdong, which provide multi-functional platforms for online retail services. Therefore, marketing campaigns are often driven by crowdfunding platforms to promote products (where an investor pre-orders a product at a greatly discounted price), which is quite different from the ideal crowdfunding encouraged by Kickstarter or Indiegogo where rewards can be very varied. (Funk and Funk, 2019; Huang et al., 2018). Studies (Zheng et al. 2014) have found social networks important both in China and the US, with the predictive power of the three dimensions of social capital and obligation having a greater impact in China. In fact, China represents an ideal opportunity for reward-based crowdfunding, as Chinese people have embraced online shopping and culturally enjoy the latest fashions,

which suits the model whereby an investor gets an early version of a product using reward-based crowdfunding and fits with the relatively risk-averse nature of investors (Hou and Phillips, 2022) and a relatively high entrepreneurial fear of failure but an improving entrepreneurial culture (Chapman and Phillips, 2022). The Chinese generally seem to find the offer of a tangible product more appealing than the riskier equity model of crowdfunding. This research attempts to identify similarities and differences between successful campaigns in the UK and China, considering differences in crowdfunding environment, culture and regulation. The results of this comparative study will help researchers and entrepreneurs to generate deeper understanding of reward crowdfunding campaign in the UK and China. Also, entrepreneurs and start-ups who are looking to launch their reward-based crowdfunding projects can further understand what are required for a success crowdfunding campaign in these two countries and what the potential barriers are they might to face, particularly for a foreign project initiator aiming to tap into the Chinese market.

## 2. Method

A qualitative approach was selected for this study, with eight semi-structured interviews carried out with project creators who had successfully completed a crowdfunding campaign. This approach allowed interviews to have both a certain degree of predetermined and standardized order but still ensured



flexibility for participants to address issues in more detail or issues related to, but outside the immediate questions, to be investigated. Four UK founders were interviewed who had successful projects on the Kickstarter platform whilst four Chinese founders were interviewed, three of which who had successful projects on the Taobao platform and the fourth on Jingdong.

Kickstarter is a US-based crowdfunding platform and has been open to projects located in the UK since 2012. It quickly became the biggest reward-based crowdfunding platform in the world. UK-based founders represent 10.7 percent of the total number of non-US projects (Barbi and Bigelli, 2017) so this seemed a suitable choice of platform to recruit projects from to participate in the study. The Taobao crowdfunding platform was founded in 2013 and is one of the most popular and mature reward crowdfunding platforms in China and most of their projects belong to the pre-sale category (Yang and Zhang, 2016). Jingdong launched its crowdfunding platform in 2014 leveraging its existing strong brand and e-commerce experience to attract projects and investors.

All the interviews were conducted online. Since most of the Chinese participants spoke limited English the four interviews with Chinese founders were conducted in Chinese and translated into English. For consistency, the projects were of the design & technology category and all the projects exceeded their funding goals within their funding periods. The projects are summarized in Table 1. Projects



U1 to U4 are the UK crowdfunding projects whilst C1 to C4 are Chinese crowdfunding projects. Six out of eight project creators had prior experience of launching a reward crowdfunding campaign whilst for project U3 and C4, this was their first crowdfunding project.

Table 1: Details of the successful reward crowdfunding projects and campaigns interviewed.

	U 1	U 2	U 3	U 4	C 1	C 2	C 3	C 4
P r o d u c t t y p e	B a t t e r y -	G u t t e r s l	T i m e - t e l l	C a m p a i n q	A u t o m a t i c	A i r p u r s u e	I n t e l l i g e n t	T o i l e t s t



y	s	i	l	u	c	y	e	e
p	a	d	i	i	s	i	n	r
e	f	e	n	p	t	n	t	i
	e	p	g	m	e	g	v	l
	o	e	a	e	r	<b>B</b>	a	i
	v	d	p	n	i	l	c	z
	e	a	p	t	l	u	u	e
	r	l	d	f	i	e	u	r
	n		e	o	z	t	m	
	i		s	r	e	o	c	
	g		i	<b>G</b>	d	o	o	
	h		g	o	e	t	f	
	t		n	<b>P</b>	l	h	f	
	c		e	r	e	h	e	
	h		d	o	c	e	e	
	a		f		t	a	b	
	r		o		r	d	e	
	g		r		i	s	a	
	i		s		c	e	n	
			m		t	t	s	
			a		o		s	



	n g		r t w a t c h a n d p h o n e		o t h b r u s h		t o r a g e c u p	
C o u n t	U K	U K	U K	U K	C h i	C h i	C h i	C h i



r y					n a	n a	n a	n a
P l a t f o r m	K i c k s t a r t e r	K i c k s t a r t e r	K i c k s t a r t e r	K i c k s t a r t e r	T a b l e o f c o n t e n t s	J o u r n a l o f A s i a E n t r e p r e n e u r s h i p a n d S u s t a i n a b i l i t y	T a b l e o f c o n t e n t s	T a b l e o f c o n t e n t s



					n g	n g	n g	n g
N u m b e r o f b a c k e r s	2 6 5	5 4	2 2 3	9 5	2 7 2 2	3 4 7	4 9 1 3	7 0
A m	£ 1	£ 2	£ 2	£ 1	£ 3	£ 1	£ 3	£ 1



o u n t n e e d e d	,	,	,	0	,	1	,	,
	0	0	5	,	3	,	3	1
	0	0	0	0	0	0	0	4
	0	0	0	0	6	2	6	9
				0		3		
A m o u n t r a i s	£	£	£	£	£	£	£	£
	5	1	2	1	3	1	6	1
	,	0	,	2	4	1	9	,
	7	,	5	,	,	,	,	1
	9	8	2	6	9	0	0	7
	8	8	7	5	5	9	5	7
		1		6	3	2	0	



e d								
D u r a t i o n	2 2 d a y s	3 0 d a y s	3 1 d a y s	2 5 d a y s	3 0 d a y s	3 0 d a y s	3 0 d a y s	3 0 d a y s

### 3. Results and Discussion

The qualitative data collected was split into themed sections pertaining to the product, marketing, the pitch presentation, funding period, choice of platform and challenges faced. Quotes from project founders were used to identify

similarities and differences between the UK and China, and a summary table (Table 2) constructed.

### 3.1 The Product

For crowdfunding projects, a sense of novelty of the product clearly plays a key role in the crowdfunding campaigns for both countries, driving the curiosity and interest of backers. Unsurprisingly, all agreed the product needed to be novel as has been found in many other studies, with the founders saying;

“One of the most important factors of a successful crowdfunding project is the product itself. The product must be attractive” – C1

“A compelling product that is new or novel” – U3

“First, product is the heart of your crowdfunding campaign. It must have its own differentiation, uniqueness, and innovation, which means your product can’t be widely seen by customers. Otherwise, people won’t wait 30 days or 50 days for your product to arrive” – C3



“The product must be innovative and also you need have the ability to clearly introduce and explain your product innovation” – C4

### 3.2. Marketing

Marketing to a wide a pool of people is also key to a successful crowdfunding campaign. In terms of the marketing done themselves, founders both in the UK and China extensively used social media, but differed slightly on the platforms – the UK used Instagram, Facebook, sending products to Youtubers in the hope they would discuss it in a video, and they also used PR as well as contacting existing backers in their network. In China, founders used WeChat, WeMedia short videos and in fact often independently used WeChat to promote their pitch without necessarily using a Crowdfunding platform and live streaming. Because of easy access and limited budgets, all the participants used personal social media accounts to advertise and promote their project. Since Parker (2005) discovered that 31% of start-ups raise funds from family and friends compared with unrelated fund providers, (due to family and friends having less information asymmetry, as well as more of a perceived obligation to help), the social media reach of the founder is clearly important. The founders said:

“I generally run very small Facebook/Instagram marketing campaigns as well as messaging past backers and customers. For previous campaigns I have also tried sending demo units to Youtubers” – U1

“Instagram and Facebook. I joined a lot of groups on Facebook where people on those groups would be the sort of people that would buy that product. So, I joined a lot of these groups before I launched it” – U2

“Regular updates to my personal Instagram and twitter accounts, alongside cross-promotion by research partners social media accounts. Additional exposure was obtained through a self-initiated PR release campaign to numerous technology, design, and culture platforms.....Additionally, ‘social validation’ by recognized media platforms and individuals helps to authenticate a project” – U3

“Mainly Instagram and Facebook. Sometimes I’ve been published in some blog or online magazines and that helped too, of course. My biggest experience is in strategy. I’ve understood that, nowadays, the beauty of a campaign is worth it only if you can expose it to a range of people wide enough. So, the key factors for me are definitely to make sure your product gets exposed as much as possible, and also make sure you’re showing it to the right niche of people” – U4

This is in agreement with Funk and Funk (2019) who suggest that Chinese participants do not always rely on the crowdfunding pitch on the crowdfunding platform, but often carry out their crowdfunding project independently through their personal WeChat account as WeChat has many of the features that classic crowdfunding platforms have, but without needing to pay any commission. For example;

“We used social media like WeChat, short video platform, little red book (little red book is kind of the Chinese counterparts of Instagram). However, the most effective way to promote your campaign and product is to use WeChat groups to engage seed users” – C1

“We have limited budget; the cost of promotion is also relatively high. We do not have money to find agencies to help us. We mainly used WeChat to promote our product” – C4

The Chinese participants focussed on pre-orders offering a large discount for pre-order sales to backers to increase the probability of project success. Limited rewards offered at a discount (“early bird offer”) is strongly encouraged by the

Chinese crowdfunding platforms (Adam et al., 2019). This discount is a key marketing message and needs to be clear and visible to backers.

“We set the lowest price in order to attract potential backers” – C4

“The reward price we set is lower than the real price. The price we offered to backers were 30% to 40% off. You can see our reward prices are 398RMB and 498RMB. It is 100RMB lower than the original price” – C3

Two Chinese interviewees pointed out that on the Taobao crowdfunding page, the more acceptable price for technology products is under 500 RMB (£57). Also, backers’ spending power on different crowdfunding platforms can be different;

“For a single technology product, prices under 300 RMB (34 pounds) are more acceptable by the public but it depends on what type of product and product innovation” – C1

“Usually, we offer big discount to our backers. Compared with other types of products, the price of electronic products is relatively high. The price we set usually is under 500 RMB. To be honest, for some customers, 500 RMB is still

relatively high. In my opinion, for Taobao crowdfunding platform, price should under 299 or 399. Jindong crowdfunding platform, reward price can be raised by 100 RMB because Jindong's customer has stronger spending power" – C2

The Chinese backers prefer the preorder model and founders should offer a significant discount – although the price needs to match the audience on the platform used – with more money asked for when pitching on the Jindong platform. This gives founders less room to set their own prices. It was accepted there was a “norm” for pricing and the level of discount depending on the platform used and the platforms demographic audience.

### 3.3 Promotion of project by the crowdfunding platform

When asked about the how much the crowdfunding platform helped to advertise their campaign, the UK project creators have different opinions. Two of the UK participants received significant help from Kickstarter, whilst one participant received little help. Mixed views have been reported in other studies as to how much marketing was done by the platform (e.g. Olufolaji and Phillips, 2015), how many funders come from close contacts and how many from those simply browsing the crowdfunding platform. It seems being highlighted by the platform though is a big benefit desired by the founders, giving more backers confidence to invest. The Chinese founders mentioned they could get extra help from the

funding platform if their project seemed popular, but to do this they needed to generate clicks and sales and used click farmers to bridge this initial gap to give the impression their project was of interest to many people and had achieved early stage “seed investors.” This led then to “real” backers then from outside the founder’s network investing in the project. Participant C2 also mentioned that Taobao live streaming shopping was a popular shopping tool to improve sales performance in China (Sun et al., 2019).

“I generally rely on the Kickstarter user base as opposed to my own marketing which has a very limited budget. I find that the majority of my pledges come directly from people browsing Kickstarter” – U1

“They did help a little bit. I saw my breakdown. It attracted 20 percent of the funding from people. 20% of my total funding was via the Kickstarter page” – U2

“In my first campaign they put my campaign in the “Kickstarter Staff Pick” section and that was definitely a big push. But other than that, I’ve never got any help in the advertisement of the campaigns” – U4

“Kickstarter featured the project as a ‘favourite’ on their website and also highlighted it in their email marketing on one occasion which generated a spike in backers” – U3

The Chinese founders suggested using click farmers to generate interest as a way to help their project stand out from numerous technology projects and attract unrelated potential backers by raising their pitch up the rankings making it more visible.

“In general, for product promotion and advertisement, apart from using WeChat - another way is to rely on crowdfunding platform or Taobao live streaming” – C2

“In order to raise enough money, you need to hire click farmers or find an agency. If your crowdfunding project does not hit a certain amount of your goal within one day, two days or one week, Taobao crowdfunding would not increase your project exposure. For example, your project cannot be seen at the home page or featured as ‘favourite.’ For us, this is a problem, but click farming can help you to solve this problem. If my funding goal is 50,000 RMB. I will let click farmers to click the links and make fake sales figures to reach the 50,000RMB goal first. After Taobao crowdfunding offer you the exposure

opportunity, then the real unfamiliar potential backers will see your project. You will have you real turnover” – C3

“During the crowdfunding period, in order to get our project on the first page of Taobao crowdfunding, we also find click farmers to help us. This way, more potential backers can see our project” – C1

### 3.4 The Pitch Presentation and Design

The presentation of the crowdfunding page and page content has been identified by many as key factors to the success of crowdfunding campaign. A well-presented crowdfunding page gives backers good first impressions and help supporters to have a clear understanding of the product and its benefits.

Preparing the pitch reportedly took around one month to fully prepare. The UK projects focussed on images of the product and less text, presented succinctly and professionally whilst the Chinese additionally suggested choice of colours was important, perhaps as colours have historic meanings in Chinese society.

“I generally try to keep the page as simple as possible with plenty of images of the actual product” – U1





“I think if you look at the people who have very successful campaigns, they always have a very sleek video. My video isn't sleek but it wasn't rubbish either. I might make more money if I had done that. Part of that is it looking professional. It looks like when you make the thing you will do a very good job of it because you are dealing automatically with people trusting you” – U2

“Very visually orientated so lots of images rather than text. I read that including a video for the project gives it a much better chance of success” – U3

“Don't get lost in details while building your campaign because you will just waste tons of time” – U4

“It is necessary to have an attractive video and nice pictures. We also pay attention to the simplicity of the page design and colour collocation” – C1

“Our product is relatively new in the market, we need make sure the information we put into the video is concise, clear, and accurate. Importantly, not try to fit too much text into your page” – C4

They all agreed the pitch message should focus on the unique offering and problem it will solve for customers, and one Chinese founder reiterated the need

to clearly state the discount offered for early investors as it has previously been identified as a critical aspect for Chinese investors;

“I generally try to convey a very honest description of how the product will benefit the potential backer and how this is achieved by the product. Other details I like to include are detailed specifications for the product” – U1

“A clear representation of the benefits of backing the project both in terms of the individual rewards but also the features and functions of the project. Prototypes and screen designs of the product, alongside deeper theory of the implications and applications of the project” – U3

“I’d emphasize the actual problem that is solved thanks to your product, or the added value that each product gives to you. It isn’t always clear for the customer what it is the main reason he should buy your product” – U4

“According to our target audience, we highlighted the core features of our product and the conveniences it can bring to users in their daily life” – C1

“There are two main points. First, it’s a brand-new product. So, we said there is no such product in the market. The second leading point is to explain product function and application of the product” – C3

“Compared with normal sales, the main difference is to underscore the discount they can have, the priority of using our product and then the after-sale service” – C4

### 3.5 Funding Period

Whilst fundraisers are generally free to set their project duration, Kickstarter suggests that campaigns with longer duration are rarely successful and the recommended campaign length is about 30 days or less (Kickstarter.com, 2020), which is supported by many other’s research. For both countries, 30 days was the standard funding period, although one Chinese founder used a 60-day period to test the market, and one UK founder did a shorter campaign to encourage immediacy from backers – with the rationale being that it encourages a now-or-never attitude amongst potential investors.

“For this campaign I was trying to fit the manufacturing of the rewards around the time off I receive from work over Christmas. I would generally select the

standard Kickstarter campaign duration of 30 days; however, I had left things a little late this time” – U1

“When researching crowdfunding duration, it (30 days) was statistically the best duration for the campaign” – U2

“I think I read Kickstarter advise on this duration as the most likely to be successful. I also didn’t want to have to manage a campaign of a longer duration” – U3

“30 days is regarded as the most suitable time period for reward-based crowdfunding” – C2

“I wanted to make it shorter than the typical 30 days to create a bit of hurry and urgency in the backers who landed on my Kickstarter page” – U4

However, Participant C3 mentioned that he set 60 days for his first project with the aim of testing marketability of the product.

“Our first crowdfunding project is 60 days; the second project is 30 days. For our first project, we mainly want to have a chance to test marketability. So, I

want to give myself more time. Therefore, the first campaign lasted longer” –  
C3

### 3.6 The Choice of Crowdfunding Platform

The choice of platform also plays a role in the success of the project, with the most mentioned factor by two countries’ fundraisers being the platforms’ popularity and reach. Popularity and reputation are the main reasons that all the UK fundraisers chose Kickstarter. Well-known crowdfunding platforms allow fundraisers access to more people who are interested in backing crowdfunding project, to bring more browsers giving a realistic chance of significant funding outside of just friends, family and the founders networks. A well-known reputable platform can give confidence to investors that projects are genuine and the chance of scams considerably reduced. Both UK and China wanted exposure, UK founders chose a well-known site with a good reputation in Crowdfunding - Kickstarter had a reputation for being creative as well as being known worldwide and the Chinese founders chose a well-known site with high visitor traffic for generating pre-orders. The Chinese platforms owned by e-commerce giants used a variant of the reward model focussing on pre-orders at a discount, with a good discount attractive to backers, reflecting a more risk averse culture- where it is clear what investors will get for their money and a reasonable certainty that it will be forthcoming.

“For the initial project I launched I chose Kickstarter as it is one of the longest running and well-known crowd funding platforms and has a good reputation with users for well moderated and reputable campaigns I believe” – U1

“Mainly because it's very well-known. It's almost synonymous with crowdfunding” – U2

“I felt that Kickstarter reflected the values of a more creative and critically orientated project rather than ‘crowd funded capital’ bias represented by other platforms. I also felt that Kickstarter had a greater brand awareness in the UK and USA which were my primary target markets” – U3

“Numbers show that Kickstarter is the most well-known in the world as a crowdfunding platform, and that is the main reason for my choice” – U4

Chinese project creators also put value on whether crowdfunding platforms have the ability to expose the project to sizeable potential audience;

“The crowdfunding platform you choose have to be high traffic websites, without large number of visitors, no matter how good your product is, you still cannot sell it” – C2

“Crowdfunding platforms need have the ability to promote projects and high market exposure rate. Raising money is one aspect, another main goal is to promote and advertise our product” – C3

“Our main purpose is to promote our product and to reach early-stage audience. Based on backers’ feedback, we can improve our product and make large-scale production. Hence, we need to choose a well-known crowdfunding platform. Besides, in China, there are just a few famous reward crowdfunding platforms” – C4

### 3.7. Challenges

In addition to optimising the campaign as described above, both UK and Chinese founders experienced additional problems or challenges while carrying out their fund-raising campaigns in terms of workload and intellectual property concerns. The UK based founders suggested that personal challenges and the unexpected time spent on the campaign and rewards was a particular problem whilst the Chinese projects found promotion restrictions on Chinese social media sites and potential IP theft an additional challenge.

“You have the huge pressure of the time ticking, and the feeling you’re not doing enough is very vivid sometimes, especially if you are doing your first campaign” – U4

“The real work is now after the Kickstarter finished. Actually making the projects. This is where the real work is” – U2

In China, fundraisers also faced the issues of not being able to post crowdfunding links on some of the Chinese social media platforms or short video platforms due to rules about financial risks for investors.

“Crowdfunding is a certain type of fund-raising; the financial risks definitely exist - so the crowdfunding project promotion is restricted on many social platforms like TikTok, Kuaishou (short video platform) and Weibo (Weibo is kind of the Chinese counterpart of Facebook). If you really want to promote your project, you have to send out the links, so everyone will know where to reach your project. But many platforms don’t allow you to upload the crowdfunding page link. That’s the biggest problem” – C2



“Besides, there are some social medias that restrict us putting crowdfunding link on our social media pages” – C4

### 3.8 The cost of rewards and time spent on the campaign

All the participants used the money for funding their projects without paying themselves and often underestimated the time required by the founders to progress the project. Participants pointed out the time and money spend on their crowdfunding projects was more than they expected. Some mentioned that positive benefits other than the finance such as brand awareness which was gained from the campaign.

“I re-launched at a better time and with a reduced target which allowed me to reach the original target of £5,000 anyway. The campaign lost a bit of money as I had to provide an incentive for backers of the first campaign to transfer their pledge to the new campaign. Both the campaigns I have run have fully covered their costs, although this excludes my time spent on them” – U1

“People are writing comments all the time, you receive scam emails on an hourly basis of people, companies, and websites who promise you to invest in

them in order to gain thousands of backers and millions of sterling. It's all well-orchestrated and it's very tempting" – U4

"In financial terms, if I don't pay myself anything yes but I put much time into this. So, it doesn't really make much sense financially, at this stage, but if this forms the basis of this project being in the market from now on, then probably in the medium term, it will make financial sense. Right now, it doesn't" – U2

"The money raised from backers covered the cost of production. By launching the project on a crowdfunding platform, my brand awareness increased. Some Korean and Japanese companies found our page and wanted to cooperate with us. Therefore, we can sell our product to foreign countries" – C3

"I wouldn't have been able to create the App for public release on Apple or Google platforms without the Kickstarter funding so yes it was worth it in that terms. But I made little to no personal profit from the campaign as the goal amount went to the developer" – U3

“Because our product was copied by large corporation so we cannot make enough profit. But for my future product, I will still choose crowdfunding to launch my product” – C4

### 3.9 Intellectual Property Issues

All the participants had considered this issue before they launched their campaign and they were aware of the risk of disclosure of ideas and designs. Despite some having bad experiences of being copied, they believe that it is a calculated risk that need to be taken if you need funding. The Chinese founders were more actively considering applying for patents, although they accepted it was weak protection and there was still a chance that others would copy. The way suggested to avoid copying by others, even if they have a patent, they believed was to increase customer loyalty by building a strong brand with high quality product. Getting the product out quickly and being the first to market was seen as the better option compared to applying for a patent for many, especially the UK founders. All founders were aware of the risks of IP theft, and needed to weigh up the transparency of their pitch with preventing IP theft as also found by others (Islam and Phillips, 2020).

“It is always a concern and I have considered applying for patents previously. If someone wanted to copy it, they still probably would” – U1

“Not really. It’s always a risk factor when putting your work into public channels that you have to take” – U3

“You should embrace it. Even patenting everything properly, if your product is a hit, there is always a very big chance that you’ll find your product copied on other sites soon. That's why you should find other ways to keep your customers loyal to you, such as building a strong brand, using high quality materials and delivering your product as smoothly as possible to your customer” – U4

“Before we launched our project, our patent has been granted so we are not very worried” – C3

However, for one Chinese founder, even with a patent, their product was still copied by other companies.

“After our crowdfunding campaign finished, we found out our product was copied. Before we launched our project, there were no such product in the market. Especially, our product was copied by another company. This company made its product just slightly different from us and set the price really low, about half our price. So, it had a great impact on our product. We did apply for a



patent and the patent being issued but China’s patent protection is not strong enough” – C4

The similarities and differences between campaigns in the UK and China are summarised in Table 2.

Table 2: Summary of the similarities and differences between crowdfunding campaigns of UK and Chinese founders

Factor	United Kingdom Founders	Chinese Founders
The Product Characteristics	Novelty had a key role to drive the curiosity and interest of backers.	Novelty had a key role to drive the curiosity and interest of backers.
Marketing of campaign	Considered of vital importance. Used social media such as	Considered of vital importance. Chinese founders used WeChat for



	<p>Instagram and Twitter and mentioned the importance of the platforms' support in highlighting their projects due to limited personal marketing budgets, ideally being highlighted on the front page of the Crowdfunder's site.</p>	<p>friends and family "lead investors" also mentioned the importance of the platforms' support in highlighting their projects due to limited personal marketing budgets Chinese also used live stream shopping channels and click farmers to draw attention to their project.</p>
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<p>Promotion by the Crowdfunding site</p>	<p>Two of the UK participants received huge benefit from Kickstarter’s marketing, whilst one participant received little help. Being highlighted on the front page of the Crowdfunder’s site brought a considerable number of additional backers.</p>	<p>The Chinese founders could get help from the funding platform if their project seemed popular, so used click farmers to give the impression their project was of interest to many people. Also mentioned that Taobao live streaming shopping was a popular shopping tool to improve sales.</p>
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<p>Pitch Presentation Design</p>	<p>The UK projects focussed on images of the product and less text, presented professionally.</p> <p>Highlighted core benefits the product would provide and an honest description of what it can do for customers.</p>	<p>As UK, but also suggested choice of colours important, perhaps as colours have historic meanings in Chinese society.</p> <p>Important to offer a big discount on pre-orders for a risk averse crowd – and a price in line with “norms” on certain platforms.</p>
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Funding Period	30 days was the standard funding period (recommended by Kickstarter), although one UK founder did a shorter campaign to encourage immediacy from backers.	30 days was the standard funding period, although one Chinese founder used a 60-day period to test the market for their product.
Choice of Crowdfunding Platform	Exposure is key, a well-known site with a good reputation for generating successful campaigns and a	Exposure is key, a well-known site with high traffic likely to generate pre-orders for the



	<p>creative brand image to fit with the founder's ideals.</p>	<p>products from online shoppers.</p>
<p>Challenges (General)</p>	<p>UK based founders suggested that the unexpected extra time spent on the campaign and rewards, with no campaign money going towards the founder's salary</p>	<p>Chinese projects found time and work needed for the campaign and producing rewards but also promotion restrictions on Chinese social media sites due to regulations meaning they are unable to advertise for investors. Potential IP theft</p>



		challenges were also raised as a problem.
Cost and Time for campaign	All the participants used the money for funding their projects without paying themselves and often underestimated the time required by the founders to progress the project.	All the participants used the money for funding their projects without paying themselves and often underestimated the time required by the founders to progress the project.
Intellectual Property Issues	Accepted the risk of IP being stolen, but was	Tried to patent where possible, but accepted



	<p>outweighed by the need for funding – focus on building brand and completing project as planned to build loyalty to stay ahead of competition.</p>	<p>protection wasn't always enough - in one case were copied anyway. Balanced need for funding with the possibility of being copied when providing information on the crowdfunding site.</p>
<p>Investor Rewards</p>	<p>Investors offered could be early prototypes of the product</p>	<p>Chinese founders offered considerably discounted price (30-40%) for the product offered which was more</p>



		tangible to the audience, a much clearer indication of what was being offered and when
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#### 4. Discussion

The findings showed that whilst there are several similarities between successful UK and Chinese campaigns, there are also some interesting differences. As expected, both UK and Chinese founders said that the product would be expected to be novel, and needed a well-presented crowdfunding page with clear explanation of benefits, focussing on pictures and video over text was essential. This is in agreement with other studies such as Koch and Siering (2015) and

Mollick (2014) that depth of project description and provision of video material has a positive impact on the success of funding, and that for a technology project, both countries project creators pointed out the significance of showing what problems your product can help customers to solve and what benefits your product can provide to backers in agreement with Zhang and Chen, (2018). Additionally, Chinese founders suggested choice of colours was a consideration, as colours have historical meanings in Chinese culture and Chinese fundraisers believe that showing a big pre-order discount (30-40% discount compared to the future sales price was suggested as optimal) was very important to gain the interest of potential investors.

The reward-based model used by Chinese founders was essentially a pre-order model often utilising the crowdfunding sites created by China's largest e-commerce companies. This seemed to appeal to the Chinese online shopping market who are comfortable buying online but can be risk averse, where they prefer to be very clear what they are getting and at what price. Also, due to Chinese customer purchasing power and expectations of pricing on different platforms, there were "norms" in terms of pricing ranges that could be set, depending on the platform used and their typical customer base.



For marketing, in general the findings showed that personal social media enabled fundraisers to directly reach people at an early stage and find seed users. This finding is in agreement with Agrawal et al. (2015) and others such as Islam and Phillips (2020) who found the social network of the fundraiser is the initial source of funding for many projects, where funds come from family and friends. Whilst there is no cost to promoting on the founder's personal social media, and this is an attractive way to promote due to limited budgets, time spent on this activity can be extensive. Attracting seed users seemed particularly important for the Chinese founders who were then given a raised profile by the crowdfunding platform should they be seen as popular, increasing exposure, and gaining more unrelated backers. The social media platforms used by UK and Chinese founders for publicity however were different. The UK participants relied on Facebook and Instagram, but as these two social platforms are banned in China, the Chinese fundraisers mainly relied on WeChat, with Chinese founders suggesting that WeChat is the most effective social media to launch and update project information. For founders in China, one particular negative issue emerged - that some of the social media channels in China do not allow fundraisers to put their crowdfunding project link on their personal pages due to financial regulations. This limits the way in which fundraisers can advertise their project, and make it hard for people to find a specific project amongst so many on the crowdfunding platform. The Chinese participants found a way around this

by employing click farmers to boost the click-through rate to ensure their project would then be placed on the first page of the crowdfunding platform in order to gain more exposure and subsequently more “real” investors. This was a key issue in bridging the gap between just friends and family investing to unrelated backers.

As well as personal social media reach, promotion, and publicity from the crowdfunding platforms themselves was extremely desirable. The UK and Chinese platforms both promoted featured projects by labelling them as a “favourite” or “featured” project, which had a big effect on fundraising from funders outside the founders’ social circle. In order to facilitate being chosen by the platform as a “favourite” the Chinese founders were prepared to hire click farmers to boost popularity to facilitate being chosen as a “top pick” as mentioned above. Both countries participants agreed that the crowdfunding platform must be well-known by the public – in the case of the UK founders, a platform with a well-known and trusted brand, where it is expected that the platform will filter out any fraudulent projects with appropriate due diligence. The Chinese founders favoured those with high online traffic. This agrees with Funk and Funk (2019) and Huang et al. (2018) that marketing driven by crowdfunding platforms is an important consideration. All suggested marketing capability is the top success factor after the product uniqueness. Marketing by any means is critical to success for both countries’ founders. For the funding



period, 30 days is considered as the most suitable finding period by the founders as recommended by the platforms. This seems to be a balance between exposure and confidence, as Koch and Siering (2015) and Koch and Cheng (2016) suggest that a longer funding period has a negative impact on the project, as it seems to indicate to the crowd that fundraisers are less confident about their project. Although, one Chinese founder mentioned that he set a longer funding period (60 days) for his project, which offered a chance to test marketability.

According to the findings, both countries founders were aware that the idea might be stolen by competitors. The UK founders accepted that copying was possible and weighed this against the need for funding (which requires a comprehensive and transparent pitch which could aid others copying). This agrees with Islam and Phillips (2020) where founders hoped that being first to market and their skillset was enough to keep ahead of competition. Getting the product out there and developing a strong brand has been suggested as the best protection. The Chinese founders were more inclined to patent, even though they agreed it was weak protection in China, although one Chinese participant's product was copied by a large company anyway. Others have suggested that a lack of enthusiasm for patenting may be due to lack of resources to fight a claim in court if challenged by a big corporation (Valanciene and Jegeleviciute, 2013). For the UK founders, other barriers were more related to unexpected extra costs and underestimating the time required to work on the campaign and creating

rewards. Hui et al., (2012) also suggested that project creators normally underestimate the potential financial and time commitment, and find themselves overwhelmed by the work required. None of the participants payed themselves from the campaign and the money raised simply covered the cost of production.

## 5. Conclusion

To conclude, due to the increasing popularity of crowdfunding amongst the general public around the world, more and more individuals as well as small and medium-sized business are choosing crowdfunding to obtain external funds in order to launch their projects. The UK and China have slightly different crowdfunding environments and rules, but in both countries, it is a viable option for forwarding their projects. All the founders interviewed said they would choose to use crowdfunding again to help them increase product awareness and help them bring project to life with funding. Due to this study being a relatively small sample, future work could include comparing the different models in the UK and China other than reward model to identify similarities and differences and to look at a wider variety of projects in different industries. This might also be especially useful for students who often have novel ideas for start-up businesses but lack the funds and credibility to obtain money from traditional sources (Phillips, 2023; Phillips, 2010). Crowdfunding can also be used for technology ideas such as biotech in conjunction with other support that reduces

the amount of funding required such as incubators (Wu et al., 2022). Since China represents a huge market of experienced and comfortable online shoppers, with customers interested in being the first to have a new product, including those from overseas, there is great potential also for foreign start-ups to leverage this source of investment when considering their campaigns. Therefore, this work may help foreign founders access the Chinese market for funding and market testing and feedback for innovative products.

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## **The Effects of Performance Related Pay on Teachers' Performance in Tanzania: Experience from selected Secondary Schools in Bukombe District**

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## Abstract

This paper examined the effects of performance related pay on teachers' performance as well as the challenges that a government institution can face in an endeavor to implement the scheme in Secondary Schools in Tanzania. Pay for performance schemes are increasingly being implemented in low-income countries to improve service coverage and quality. This paper used both qualitative and quantitative approaches, case study design and data were collected through in-depth interviews undertaken with health and education workers and regional, district and facility managers and documentary review. Sample size was 50 respondents selected through purposive sampling. It used both qualitative and quantitative approaches, case study design and data were collected through interview and documentary review. Thematic data analysis and descriptive statistics were used in data analysis. The study findings indicate that PRP led to improved teachers' performance and students' academic performance. Nevertheless, PRP was hindered by inadequacy of school infrastructures, teaching and leaning materials in Secondary schools in Bukombe

district in Geita Region, Tanzania. Based on the study findings, it is recommended that the government should ensure adequate school infrastructures and learning and teaching materials in public secondary schools. This will make them discharge their teaching duties well and ultimately lead to improved academic performance in public secondary schools in Bukombe District. PRP should also be properly administered particularly proper supervision so as to overcome the challenges of free rider problem in team performance and multi-tasks which are difficult to measure.

## 1.0 Introduction

Performance related pay (PRP) is a system of compensation in which a portion of an employee's pay is tied to their performance on the job [1]. It is a financial reward for employees on the pre-agreed objectives terms. It motivates employees to increase their productivity and achieve specific goals or targets. PRP can take various forms, such as bonuses, commission-based pay, or pay raises based on individual or team performance. In this study, performance related pay refers to the bonuses paid to teachers after the realization of good academic performance of secondary school students.

Governments across the globe have introduced various forms of PRP since the 1980s [1;2]. Organization for Economic Cooperation and Development (OECD) reports estimate that two-thirds of civil servants in the developed world are covered by some form of PRP [2]. Performance related pay began to make inroads into public sector pay structures over the 1970s and 1980s. However, a level of disappointment then set in with the results achieved through such schemes during the 1990s and toward the end of the decade [2]. PRP has been introduced to address the weaknesses of traditional system of pay in the governmental sectors whereby there has been a payment system of grades and seniority. Civil service sector pay has been graduated in the sense that different positions are assigned different grades or levels or some other designation that differentiates base pay based on the perceived value or difficulty involved in fulfilling the demands of that position. For instance, a clerk/typist or a janitor position, would generally have a lower grade assigned to it than would the position of a senior administrator.

Thus, once installed in a position in government service a worker would then be compensated in terms of seniority [2]. This system of compensation, the use of service incremental salary scales, more or less guaranteed government workers wage increases at specified times during their tenure in their position. Often such raises were annual, and were automatic based on seniority. Furthermore, workers in the public sector in many countries were (and remain) hard to

terminate from a position regardless of performance. This has led to “public perceptions of civil servants as under-worked and overpaid.” [3].

There are debate on advantages and disadvantages to the service incremental salary scale model of civil service compensation. Linking pay increases to length of service helps keep workers on the job and reduces turnover. This can lead to savings in training costs for new hires and allows the staff time to learn and become expert at what they do [3]. A major disadvantage is that there is often no link at all between pay and performance, allowing incompetent or lazy civil servants to get the same salary as productive and energetic workers. Since the notion of equity is often seen as an important element in employee motivation, this can easily lead to a perception of inequity of treatment and a decline in overall morale and motivation within agencies that use such a compensation model in public sectors.

Certainly, the idea that government service guarantees a life tenure in a position has made civil servants appear to be unresponsive to the needs of the taxpayers who ultimately pay their salaries [4]. It often seems that public sector employees are paid merely for showing up at their work places. [4] has for almost three decades recognized the problems caused by the traditional model of civil service pay structures, which it sees as central to what it terms “bureaucratic dysfunction”. This suggests another disadvantage to the traditional

service incremental model of compensation. Such a model leads to managerial inflexibility, or at least lack of flexibility. Managers are unable to reward strong performers more than weak performers if raises are automatic based on length of service. The only way to reward top performers is through promotion in grade, which generally means they are transferred to another set of tasks. Therefore, those who are doing a strong job at an important set of tasks can only be rewarded by removing them from those tasks and, therefore, assigning someone new to those tasks, which is not necessarily the intent of the manager.

The typical service incremental wage structure contributes, in the view of the Bank, to “endemic overstaffing and unsustainable wage bills” for governments [4]. Spearheading an effort to reform civil service in developing countries, the World Bank began tying bureaucratic performance into its reviews of fiscal performance by developing countries in assessing governments as borrowers. In other words, the message being sent by the World Bank starting in the early 1980s was that unlike developed countries, developing countries could not afford a non-cost-effective civil service.

During the same period, however, many developed countries were arriving at the same conclusion without pressure from the World Bank [5]. As the OECD points out, starting in the 1980s Canada, Denmark, the Netherlands, Spain, the U. K. and the U.S. began instituting pay-for-performance salary plans in at least



some parts of the government sectors, with other developed countries following by the 1990s.

Pay-for-performance, therefore, has become seen as an alternative to the traditional structure of salaries within the governmental sector. It is an alternative that has become perceived as a method of improving performance and ending bureaucratic dysfunction within government agencies and as a means to gain relief for taxpayers from the burden of supporting non-performing governmental services while still providing those services [5]. It is important, therefore, to understand exactly what pay-for-performance is, what benefits it offers, what challenges it might include when Tanzanian Manager uses it in an organization especially in public sector, and how it is performing where it has been implemented around the world, in developing as well as developed countries.

Some studies such as [5] indicate that Performance-based pay is a popular technique in public management, but its international prevalence remains poorly evidenced. [5] study was based on asking to what extent countries are using performance-based pay and how local contexts matter to its adoption status. Focusing on the education sector, we report on the varying degrees to which teacher appraisals have been used and linked with monetary rewards across countries as of 2012. We found that performance-based pay tended to be used



more in less liberal economies, in cultures with a lower degree of uncertainty avoidance and a higher degree of individualism, in those with more decentralized educational systems, and surprisingly, in places where teachers exert greater influence.

The attempt to answer the question of how to increase productivity in the public sector, many countries turned to the private sector in search of a model. One possibility, which seemed in many ways intuitive, was to fundamentally alter the ways in which the pay for government workers was disbursed. Specifically, many governments instituted some form of pay-for-performance scheme for government workers. Also called merit pay or performance-based pay, such schemes tie an employee's base pay or bonuses to their productivity on the job. Such schemes are widely used in the private sector and were seen by many as a route to improving the cost effectiveness of the delivery of government services.

The purpose of this paper was to examine the effect of performance related pay system on teachers' performance in secondary schools in Tanzania. This article compared PRP to other systems of reimbursement for government employees. This paper explores the teaching and learning and challenges of such pay schemes which have not been investigated in Tanzanian context of pay system. Finally, a recommendation will be offered for a system of performance

related pay that will allow governments to utilize such a pay scheme to improve the cost-effectiveness of the delivery of government services. Therefore, this paper was guided by the following specific objectives i. to examine the effect of performance related pay on employee's performance in Tanzania. ii. To explore the effect of learning and teaching infrastructures on PRP and, iii. to examine the challenges in implementing performance related pay in Tanzania.

## 2.0 Literature Review

The literature indicates that PRP has been at the core of many New Public Management and Reinventing Government movements over the past decades, inspired by private sector practices [6;7]. Indeed, various forms of PRP have been common practice in the private sector for many decades, particularly at the senior management level. Intriguingly, they have continued as an industry norm despite the turmoil caused by the 2008–2009 global financial crisis and widespread criticism of the “perverse”, unethical, and unintended consequences



of high individual rewards tied to the individual and firm-level performance of financial firms [8;9;10]. These studies have explicated the genesis and development of performance related pay and noted that it was practiced in private sector but they did not deal with the effects of performance related pay in Tanzania Public Institutions. Furthermore, the private sector experience cannot be generalized in Tanzania Public Institutions because they have different legal and administrative set up.

PRP can be based on linking pay to performance at three levels i.e those of the individual, the group, or the organization [10]. Typically, individual performance-related pay includes methods such as piece rate, merit pay and sales commission incentives, while collective performance-related pay is based on group or organizational performance and includes team-based pay, goal sharing, gain-sharing, profit-sharing and employee shared ownership plans.

On the other hand, PRP in public administration has received much critique, despite its popularity. Studies suggest that PRP schemes may “crowd out” prosocial behavior and intrinsic motivation [11]. Moreover, simplistic monetary performance schemes may yield unintended consequences such as goal displacement, and “creaming”, “shirking”, and “cherry picking” by managers and employees: strategic behavior prioritizing often rudimentary tasks that satisfy quantitative performance metrics and therefore result in monetary

rewards and recognition [12]. On the other hand, PRP has merit as it can help to tackle concerns surrounding goal ambiguity by making it clear what is expected of managers and employees, and how they will be evaluated and rewarded when meeting those expectations. By reducing goal ambiguity, it could be argued PRP also increases employee and performance outcomes [12]. Due to the merit of PRP, health sector stakeholders, from international donors to government and health system policymakers, program managers, and health care and secondary education providers increasingly see performance for payment as an important complement to investing in inputs such as buildings, drugs, and training when working to strengthen health systems and achieve the Millennium Development Goals (MDGs) and other targets that represent better health status for people [13].

Nevertheless, PRP has been at the core of many New Public Management and Reinventing Government movements over the past decades, inspired by private sector practices [13]. Indeed, various forms of PRP have been common practice in the private sector for many decades, particularly at the senior management level. Intriguingly, they have continued as an industry norm despite the turmoil caused by the 2008–2009 global financial crisis and widespread criticism of the “perverse”, unethical, and unintended consequences of high individual rewards tied to the individual and firm-level performance of financial firms [14].



By providing financial incentives that encourage work toward agreed-upon results, performance related pay helps solve challenges such as increasing the quality of, as well as access to and use of health services. Many developing countries are piloting or scaling up performance related pay programs to meet MDGs and other health indicators [14]. Each country's experience with P4P is different, but by sharing approaches and lessons learned, all stakeholders will better understand the processes and challenges involved in performance related program design, implementation, evaluation, and scale-up [14].

In May 2007, the Health Systems 20/20 project led a performance for pay workshop in Rwanda. For instance, head of the resource center at Ifakara, developed a draft design for performance related pay in Tanzania while in Kigali, and subsequently received funding from Norway to conduct a more in-depth feasibility study addressing the practical modalities of a PRP system. The study concluded that: "There is a strong case for introducing performance related pay in Tanzania," but emphasized certain pre-conditions, such as a strengthened health management Information system [15]. This study was based on establishment of the pre-conditions for PRP.

Performance related pay schemes link pay to a measure of individual, group or organizational performance. There is a wide variety of a method used, but all schemes assume that the promise of increased pay will provide an incentive to

greater performance in an organization be it private or public organization [15]. In general performance related pay has been practiced in Tanzania not only in health but also in education sectors but less has been said on the effects and challenges of performance related pay on employee's performance. This paper seeks to unravel the effects of the performance related pay on employees' performances and the challenges encountered by organizations while implementing it but these pre-conditions have led to some sort of practice of PRP in terms of bonus and other payments related to the teachers' performance.

## 2.1 Theoretical underpinnings of performance related pay

The underlying rationale for performance-related pay is based on theories of motivation and the degree to which financial reward can influence an individual's performance. The view that the right behaviour can be encouraged through reward and discouraged through punishments derives from many years of psychological thinking. For behaviourists like [16], learning only takes place through external positive and negative reinforcement i.e the 'carrot or stick' approach to reward.

Expectancy theory, treats employees as having a degree of choice and places a strong emphasis on the motivational effects of incentives and on the problems posed by poorly defined targets [17]. Employees will respond to the incentive or

reward on offer if they value it (valence), if they believe good performance will be instrumental in bringing the desired reward (instrumentality) and if they expect their efforts will achieve the desired performance (expectancy). The circle of valence-instrumentality expectancy can be broken at a number of points [17]. Employees may feel they lack scope to increase their effort, or that their effort will make little difference to their performance. This undermines expectancy. They may believe that management lacks the competence or the good faith to evaluate and reward their performance fairly, a view that undermines instrumentality. Applying these considerations to renegotiation, one can see that employees are more likely to exert bargaining power on workers. It has to negotiate its way to an approximation of that design and, in so doing, to respect the various budgetary and efficiency constraints it must satisfy to meet its own objectives.

Taylorism applied this thinking to financial rewards, contending that money was the sole motivator for workers to perform. This is an essentially employer-centric view of reward, based on the premise that behaviour can be controlled and molded to suit employer needs. It is a view that takes no account of employee reward preferences. This perspective has been hotly contested by other motivational theorists. For example, expectancy and goal theorists put the emphasis on cognition thought processes – that is, the decisions people make about how far to participate and perform in the workplace. For goal theorists,



future goals or anticipated outcomes can be used to influence behaviour and motivation, and the mere existence of goals can lead people to behave in ways that mean they will attain their goals.

Goal theory was refined in a number of ways through expectancy theory building on earlier work by Vroom, developed the central hypothesis that motivation is dependent on whether the outcomes hold psychological value or ‘valence’ for the individual [18]. Effort would be made where people expect to be rewarded for it, but there needs to be a clear line of sight between the effort and expected reward. The reward needs to match the effort expended i.e if the reward is too small or unimportant for the effort involved, an individual will not try that hard, so ‘valence’ has both quantitative and qualitative dimensions i.e whether the reward is of the right kind and whether there is enough of it. This theory has implications for the level of awards that are paid under PRP schemes. There is also the contention made by [19] that people are uncomfortable about being better rewarded than others, although this seems to depend on the social setting. ‘Needs’ theories, such as those put forward by Maslow and Herzberg also challenge the more mechanical motivational theories of Skinner and Taylor [20]. This paper uses expectancy theory of motivation because it articulates that employees will respond to the incentive or reward on offer if they value it (valence), if they believe good performance will be instrumental in bringing the



desired reward (instrumentality) and if they expect their efforts will achieve the desired performance (expectancy).

### 3.0 Methods and Materials

This section presents the case study design, sampling procedures of respondents, data collection methods and data analysis technique used in this study. This study was conducted in Runzewe, Msonga and Ushirombo secondary schools in Bukombe district. The district has a total of 14 Secondary schools owned by the Government and two secondary schools privately owned. The reason for selecting Bukombe district is based on the fact that within a qualitative research approach, a case study strategy approach will be adopted. Also, the fore selected schools give bonuses to the teachers if their students have “A” and ‘B’ passes in various subjects. The case study strategy is considered to be appropriate because it is the one used to investigate the phenomenon within a small and manageable area and sample. Furthermore, other factors for choosing health centers and secondary schools are such that the performance related pay are practiced in health institutions and secondary schools in Bukombe district.



In this study, purposive sampling was applied for selecting the teachers and education officers from secondary who receive bonuses and overtime payment. Another criterion for using purposive sampling is the issue of extreme case purposive sampling where the researcher expects that the teachers and education officers have rich information of the performance related pay in Tanzania.

Table 1: Sample Size and its Composition at (N=64)

S/No	Category of Respondents	Respondents in Bukombe district
1	Secondary school teachers	20
2	Students	20
3	Education Officers	10



5	Total No. of respondents	50
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Source: Field data (July, 2024)

In this study, a structured interview was used in data collection as it involved the use of a set of predetermined questions and highly standardized techniques of recording. This method was used because the researcher intended to get insights, experiences on the practices of performance related pay systems in Tanzania and its effects on employees’ performance. The documentary review includes books, records, government publications, and official statistics as far as this study is concerned were used in data collection. This method was employed to gather information from various secondary schools related to teachers’ performance, students’ academic performance in Bukombe district in Tanzania.

The data collected were qualitative in nature and were analyzed thematically. Thus, in using this type of qualitative data analysis, major themes were identified in this form of data analysis, the researcher perused the collected data and identify information that was relevant to the research questions and specific objectives stated in this study. The method used involved developing a coding system based on the collected data and the major issues topics to be covered and as well as intensity through which the frequency of idea, word, and description appears. For instance, in research which states what are the effects of

performance related pay in Tanzania, the data analysis was based on the topics/issues that were identified in the data collected. On other hand, the quantitative data collected were subjected to the calculation of frequencies and percentages relating to research questions.

#### 4.0 Study findings and Discussion

##### 4.1 The effect of Performance Related Pay on teachers' performance of teachers in secondary schools

This paper examined if performance related pay (PRP) improved the performance of teachers in secondary schools. As earlier stated, due to performance related pay was measured by looking at the number of students who scored “A” and “B” in their form four examination after teachers were promised and given bonuses based on these results. The findings are presented in Table 2 below for further details.



Table 2: Responses on whether PRP increased the performance of teachers

S/ N	Categories of respondents	PRP increase d the perform ance of teachers	PRP did not incre ase the perfo rman ce of teach ers	N e u t r a l
1	Teachers	20(100 %)	00	0 0
2	Education officers	8 (80%)	2(20 %)	0 0



3	Students	20 (100%)	00	0 0
T o t a l N o. o f r e s p o n s e s		48(96%)	2(4%) )	0 0

Source: Field data, August, 2024

The data collected through interview indicated that many respondents were supervised by their supervisors and assigned tasks based on the areas of specialization. The supervisor was the head of academic affairs in secondary

schools who assigned subjects to teach basing on the area of specialization of the teachers. For instance, English language teacher was assigned teaching English language in secondary schools and when his/her students scored “A” these “As” were equated to 10,000/= each per year. In other words, if the secondary school teacher has seven students scored an “A”, then he or she could be awarded 70, 000/= (Interview, August, 2024).

The findings in table 2 indicate that 48(96%) of respondents were of the opinion that performance related pay increased the performance of the employees in secondary schools because teachers who received bonuses for good performance of their students were striving to increase their performance in the final examination specially form four and form six examinations. The remaining percentage of respondents 10% were of the opinion that performance related pay did not improve the performance of teachers. These findings corroborate with [21;25] who found that in Denmark, for 57% of managers and 48% of Union representative increased their performance due to PRP. In addition, PRP may also lead to better retention of high-quality staff, apart from its positive effect on performance. This was demonstrated by the Danish survey, where 54% of managers and 55% of union representatives took this view. The research by [25] shows that similar experiences occurred in the limited field of attracting and retaining top quality school teachers in England and Wales. On the other hand, [25] maintains that performance related pay also is based on outputs that is

completion of pre-agreed tasks or number of clients/cases served, or outcomes such as student test scores, official client evaluations, service utilization rates or revenue creation and collection.

One respondent from Msonga secondary school aptly commented as follows” I received a bonus because of good performance of form four students in my subjects. It was a proud to me” (Interview, August, 2024). These findings give impression that many i.e 96% respondents were optimistic that performance related pay increased the performance of teachers in secondary schools. These findings were further corroborated with documentary evidences which indicate the performance of various secondary schools in form four examination which were associated with teachers’ motivation particularly being given bonuses due to good performance of students [25]. For example, in 2022, Runzewe Secondary School had good form four examination results i.e 54 students passed form four examination with division one, 71 students with division two and 9 students with division three. In other words, there was no division zero. On the other hand, Msonga Secondary school form four examination results of the year 2023 indicate that 5 students passed examination with division one, 21 students with division two, 22 students passed examination with division three while 102 students passed with division four and 21 got division zero. In addition to that, Ushirombo secondary school indicate that in 2023, 20 students passed with division one while 47 students passed with division two, 64 students passed with



division three while 2012 students passed with division four while 6 got division zero. The findings indicate that in 2022 Runzewe Secondary School has good academic performance and there was no division zero. The good academic performance was attributed to incentives such as bonuses and other incentives which motivated teachers to work hard. The findings indicate further that teacher's motivation cannot be the sole fact for students' academic performance, other factors such as teaching and learning materials are discussed and how they affected performance related pay of teachers.

Based on the findings it was noted that the improved performance has been realized not only to secondary school teachers but also in health service institutions. For instance, in private hospitals in Tanzania, part time medical doctors are paid based on the number of patients he or she has attended in either a week or a month as such effectiveness and efficiency is likely to be met in terms of time and resources utilization for both patients, the hospital and even to the nurses and medical doctors.

#### 4.2 Adequacy of Learning and Teaching Facilities and Performance Related Pay

This study examined the availability of working facilities in relation to performance related pay. The findings indicate that 40(80%) respondents opined that there was a deficit of working facilities among teachers as such performance related pay especially academic performance bonuses were constrained. These findings were also supported by the evidences from documents which indicated the deficit of the effective facilities in many secondary schools in Bukombe district. The study findings indicated that basic utilities such as electricity, running water, classrooms, teachers’ offices were not adequate in Runzewe, Ushirombo and Msonga of the secondary schools. The findings indicate that the shortage of teaching and learning materials was a bottleneck on performance related pay in secondary schools because some of students could not perform in their final examination. These findings are summarized in the table 3 below:

Table 3: Adequacy of the Learning and Teaching facilities constrain performance related pay

S / N	Categorie s of	Responses on the inadequate	Respo nses on adequ	N e u t
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	responden ts	of learning resources	ate of the resour ces	r a l
1	Teachers	15(90%)	5(10%) )	0 0
2	Education officers	7 (70%)	3 (30%)	0 0
3	Students	18 (90%)	2 (10%)	0 0
4	Total No. of responses	40(80%)	10 (20%)	0 0

Source: Field data, August, 2024

The findings presented in table 3 indicate that many respondents perceived inadequate of teaching and learning materials in secondary schools in Bukombe district. The respondents had the view that they had no adequate books, chalk boards, and insufficient laboratory apparatuses. For example, the documentary data indicate that Bukombe district had 18439 students in 2023 but the books available were 5534 in geography, 70 books for Literature in English, 85 books for general studies and 6029 for physics. The findings indicate that books were inadequate compared to the number of secondary school students.

This went hand in hand with inadequate of school infrastructure particularly classrooms, teachers' office and school latrines. These primary data were further supported by documentary evidence which indicate the deficit of the learning and teaching materials and infrastructures as presented in table 4.

Table 4. Effect of Availability Secondary school Infrastructures on teachers' performance and PRP



S / N	Type	Requirement	Actual	Deficit	Percentage of the deficit
1	Classrooms	216	121	101	46.8%
2	Laboratories	42	42	0	0%
3	Libraries	14	22	12	85.7%
4	Desks	7560	7010	550	7.3%



5	Pit latrine s	199	8 1	1 1 8	59.3
5	Tables	876	1 6 6	7 1 0	81.1
6	Cupbo ards	137	4 0	9 7	70.8
7	Water tank	42	1 0	3 2	76.2
8	Teach ers Quatr es	85	3 3	5 2	61.2



9	Chairs	915	1	7	81.2
			4	7	
			5	0	

URT, Bukombe district Council Strategic Plan for a period of 2016-2021

The Bukombe district was also facing deficit of teacher houses. Out of 760 required teachers' houses, it was only 50 houses available. Inadequacy of teachers' houses has contributed to the shortage of teachers in Bukombe district. Inadequate of teachers incapacitate teachers in performance and students' academic performance. These findings are contrary with [21] who observed that Performance Related Pay can act as a window of opportunity for the introduction of significant managerial changes of performance in public sector. This is especially true for service delivery in public institutions for instance tax administration, social security, hospitals and secondary schools where work organization can be more directly linked to outputs or citizen demands than core administration. Due to the infrastructure deficit in secondary schools, PRP cannot facilitate wide-ranging organizational changes by linking pay bonuses to new objectives at the individual and the departmental levels [21]. New methods of work have often been introduced as a corollary of performance related pay, a

common example being to encourage a move away from a focus on working to a job description and towards an approach more focused on performance and customer or citizen needs.

Furthermore, these findings are contrary to [22] who maintains that performance related pay also is based on outputs that is completion of pre-agreed tasks or number of clients/cases served, or outcomes such as student test scores, official client evaluations, service utilization rates or revenue creation and collection. Salary can either be wholly a function of performance that is measured using the outputs, for example as piece-rate pay in a manufacturing setting or commission-based salary in a sales environment, or a combination of base pay and one-off bonuses or merit increases of base pay. Also, the findings do not support the assertion by [23] who hold that all respondents (central government and local government) were of the view that health service delivery requires a team effort, and should be paid based on team performance.

#### 4.3 The Challenges of performance related pay in Tanzania



This sub-section examined the challenges of performance related pay in Tanzania. The respondents were requested to state the challenges encountered in performance related pay. The findings are summarized in Table 5.

Table 5: The Challenges of Performance Related Pay

S / N	Categorie s of responde nts	The Challenge of free rider in team performanc e	Diffic ult in measu ring perfor mance in Mult-	N e u t r a l
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			taskin g	
1	Teachers	10(50%)	10(50 %)	0 0
2	Education officers	5 (50%)	5 (50%)	0 0
3	Students	10 (50%)	10(50 %)	0 0
4	Total No. of responses	25(50%)	25 (50%)	0 0

Source: Field data, August, 2024

The findings indicate that linking pay to performance does not come without its management challenges. One of the challenges is “free rider problem” in group performance. That is the burden of paying people in a group or team but these

people have not demonstrated enough effort in work performance. The respondents had the view that a Tanzanian Manager is likely to face this challenge in implementing performance related pay because measuring public sector output at an individual level can be difficult due to the fact that group level schemes ought to suffer from “free-rider” effects that could reduce the impact of financial incentives on performance. These findings are presented in table 5 whereby 25 (50%) of respondents stated that free rider was a challenge encountered in group performance. The free rider problem occurs when the work of each team member complements the work of others to the extent that each person’s contribution is indistinguishable. Large team sizes are more likely to suffer from free-rider effects, as are teams that are involved in the production of output that is hard to measure or quantify. These findings corroborate with [23] maintains that,

“Performance Related Pay-schemes can be either individual performance pay schemes, such as piece rate wages, or collective performance pay schemes, such as profit sharing. In case of teamwork, individual performance related pay is difficult to measure; hence there is an incentive to free-ride. In such a case, group-based incentive schemes may have little effect on individual productivity and group incentives, payments are not proportionate to individual performance, as poor performers ("free riders") benefit from the efforts of others”.



Table 5 indicate further that perverse incentives may arise in case of multitasking. When employees are required to perform several tasks, they will focus only on those activities being rewarded and neglecting other activities. Therefore, it is not always clear that Performance Related Pay-schemes indeed increase productivity. Nevertheless, recent empirical study evidence in support of PRP increasing productivity, although the size of the effect differs substantially. These findings differ from [27] who found that a mid-increase in productivity due to profit sharing arrangements of about 2% for French firms. The piece rates cause productivity to increase with about 40% for a U.S. firm, half of which is due to an increase of the productivity of the incumbent workforce (incentive) and half of which is due to the inflow of high-productivity workers. The findings are also contrary to [28] which found that PRP can be used as a way to encourage team working through collective bonuses or credit given for co-operation in the team work or group work. For instance, USAIDS [28] holds that prior to the advent of performance related pay in Rwanda, health worker salaries in Rwanda were low and fixed and were paid irrespective of performance, leading to poorly motivated staff and low performance.

Another challenge can be in many cases public services are multifaceted and, as a result, the objectives of an organization are difficult to define and so to measure. For example, the objectives of a school might be to provide a “good education” but this is harder to define than, say, the production of a cars or the

adequate collection of garbage. Even breaking down the overall objectives into sub-components can be difficult; there is for example, much debate about what constitutes a good measure of hospital quality. This means that it can be hard to find good measures of performance and the measures adopted may be very noisy, they impart relatively little information about the effort of an employee or the organization [29]. As a consequence, linking rewards to the meeting of performance targets does not give effective incentives, may lead to some elements of strategic behavior and imposes unnecessary risk on employees and demoralization of employees who do not prefer performance related pay.

One of the reasons that these services are complex is because they involve several dimensions, some of which are relatively easy to measure, others of which are much harder to measure. Examples of the former are school students' performance on standardized tests and the re-admission of patients after operations [29]. This difference in measurability may mean that incentives can only be linked to the easy to measure outcomes. This may lead to an excessive focus on these outcomes at the expense of other tasks. For example, hospitals which receive financial incentives linked to cost reduction may have incentives to compromise on quality, while teachers monitored on student pass rates may choose to reduce the effort they put into less able students. Exerting more effort

on one task, therefore, reduces the amount of time or effort available for other tasks which are substitutes.

There could also be a mismatch between how employees define performance and what their employer means by performance. What's more, while linking individual achievements to pay can be appropriate where work is simple, specific and measurable, many jobs in the public sector are not so easy to measure and even in the private sector the trend is away from such work, as the economy becomes more volatile, uncertain, complex and ambiguous, and businesses have to become nimbler and more resilient. This may mean that team and organisational performance will become just as, and possibly more, important than individual success. In addition, rather than simply focusing on what has been achieved, employers will also have to look at the values, behaviours and attitudes that underpin sustainable performance at an individual, team and organisational level. For example, Police forces represent one government bureaucracy in which it is particularly difficult to identify appropriate performance incentive measures. Providing performance incentives for some of the measurable outcomes that do exist could have unintended consequences which might reprioritize police tasks against the wishes of local communities. For example, [30] offers evidence from the Los Angeles Police Department that increased performance measurement and public oversight on

their own undermined officer's willingness to make arrests, which in turn led to a significant increase in crime rates.

Also, it is argued that increases in salary costs produced by pay-per-performance schemes could be funded or even offset by increased productivity, as happens in some industries in the private sector. However, the measurement of productivity in the public service poses many problems. Not all activities the public service does are measurable. It often occurs where managers are asked to make on the performance of their staff and who authorize the bonus to avoid conflict. If performance bonuses are "routinely" paid, it is quite clear that any credible linkage with performance will indeed be lost, and the net result is simply an inflation of the wage bill. These considerations highlight the importance of making the performance requirements sufficiently challenging, making the measurement of performance as objective as possible, having a non-discretionary linkage between performance and pay, and communicating clearly the purpose, rationale and rules of the scheme.

There is also a risk that Performance Related Pay could actually have "perverse" (unintended and damaging) consequences. For example, it could be that workers will focus only on those services or activities which are being measured and rewarded, neglecting other essential elements of their duties. This highlights the importance of selecting measures of service performance that

encourage delivery of a comprehensive package of essential services. Another example might be rewards that potentially encourage inefficient or unnecessary clinical intervention i.e the most infamous case being the link between provider-payment and unusually high caesarean section rates in Brazil. In Mexico nutrition assistance for underweight children actually worsened malnutrition, possibly because only malnourished children qualified and mothers wanted to sustain their entitlement.

#### 4.4 Conclusion

This paper examined the effect of performance related pay on teachers' performance in secondary schools. The findings have indicated that performance related pay can increased the performance of the teachers in secondary schools because teachers who received bonuses for good performance of their students were striving to increase their performance in the final examination specially form four and form six examinations. However, PRP was hindered by inadequate of teaching and learning materials in secondary schools in Bukombe



district which included inadequate books, chalk boards, and insufficient laboratory apparatuses as well as free rider problem and Mult-task challenges.

In most public schools, teachers were not provided with adequate learning materials to enable them effectively discharge their teaching job. However, in order for them to perform efficiently and effectively, they should be provided with appropriate learning and teaching materials that are strictly implemented that is, including bonuses, school physical facilities and teaching materials that allow them to undertake their work and promote students' academic performance. Therefore, the government, community and other education stakeholders should put more emphasis on the provision of appropriate school infrastructures to make teachers perform better and to ensure learners achieve academic excellence. For instance, provision of bonuses and annual increment according to teachers' performance, provision of school physical facilities, and students' learning facilities.

#### 4.5 Recommendation

Based on the study findings, it is recommended that the government should ensure adequate school infrastructures and learning and teaching materials in

public secondary schools. For example, teachers' offices, chairs, water, and electricity should be regularly be available. This will boost the hardworking spirit of the teachers in the teaching and learning process. Moreover, the government should ensure that incentives to teachers with good performance are provided. Second, the government should ensure the provision of school facilities and learning materials such as books, laboratories with adequate apparatus, building classrooms to remove congestion in class and make teachers have a comfortable teaching and learning environment hence good performance. This will make them discharge their teaching duties well and ultimately lead to improved academic performance in public secondary schools in Bukombe District.

PRP should also be properly administered particularly proper supervision so as to overcome the challenges of free rider problem in team performance and Mult-tasks which are difficult to measure performance. This paper recommends that other studies can be conducted on the efficacy of PRP in executive agencies and private organizations.



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