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*Pennsylvania Western University, Clarion, Pennsylvania*

# TRUST, SOCIAL CAPITAL AND BUSINESS DEVELOPMENT TRAJECTORIES IN RURAL ETHIOPIA.

Mathewos Belissa and Worku Tuffa

## ABSTRACT

This study explores an inter-link between trust, social capital and rural business using data from 300 households in Walmara, Ethiopia. It revealed that religious institutions foster trust based network contributing to building social capital. It is also found that 'confidence' is state of cognitive trust variable at which social capital is shared. At early stage of business, trust in informal networks generates more social capital, while expansion stage increasingly relies on service institutions, even if, institutions exert negative effect at the growth stage. This underscores the dynamic nature of trust emphasizing importance of institutions at later stage for optimized use of social capital. This implies that business startup largely relies on informal networks but its sustainability is driven by strong institutional trust. Hence, aligning informal and formal trust networks can promote social cohesion, determining sustainability of rural economies. Findings are anchored to the reality that sustainable rural business development is determined by stock of social capital which is in turn a factor of trust to informal networks and/ or institutions across different stages of business.

**Keywords**: Trust, Social Capital, Rural Business, Social Networks, Structural Effect Modeling, Ethiopia.

## INTRODUCTION

Development is a multidimensional concept integrating various perspectives, with social capital emerging as a key factor in economic and social progress (Woolcock & Narayan, 2000). The concept that is broadly defined as the networks, norms, and trust that facilitate collective action (Putnam, 1993; Woolcock, 2001), plays a critical role in business development. However, theoretical inconsistencies persist, with scholars debating its conceptualization and application (Paldam & Svendsen, 2001). Despite these debates, social capital is recognized as a fundamental driver of economic activities, particularly in rural economies where formal institutions are weak, and trust-based networks influence business transactions and market access (Granovetter, 2005; Laurie et al., 2005). Ethiopia, with its predominantly agrarian economy, provides a compelling case for examining the role of social capital in business development. The majority of smallholder farmers, cultivating less than 1.5 hectares, rely on informal networks for resource mobilization and credit access (CSA, 2017; Gebrehiwot & Wolday, 2020). However, trust as the foundation of social capital, varies across different business development stages, influencing entrepreneurial success in diverse ways (Hoff & Stiglitz, 2016; Portes, 2000).

Trust and social capital are increasingly recognized as foundational assets for achieving sustainable development outcomes in rural contexts. Trust, whether interpersonal or institutional, reduces transaction costs and uncertainty, thereby enabling cooperative behaviour and collective action (Putnam, 2000; Ostrom, 2009).

This study examines the role of trust in social capital formation and its influence on rural business development. It aims to identify the behavioural dimensions of trust that contribute to business success at different business growth stages and provide insights on individual and institutional trust at different stages of business development for integrating social capital into rural development policies and strategies.

## LITERATURE REVIEW

### Theoretical underpinnings

This study is based on two major theories of social capital. Bourdieu (1986) locates social capital within individuals through their family and social groups, while Coleman (1988) conceptualizes social capital as arising from the relationships people form through collective action. The former is referred to as individual social capital theory, and the latter as collective social capital theory. Based on these theories, different forms, characteristics, and types of social capital are explored considering key elements that support its formation. A meaningful debate in social capital theory concerns two types of social networks: those with strong ties among homogenous individuals and those with weak ties among heterogeneous members. Lin (2001) argues that networks within closely related individuals develop strong ties, facilitating high levels of trust. Conversely, Granovetter (1973) emphasizes the importance of weak ties in forming bridging social capital, which fosters trust among diverse groups.

The structure of social connections and the psychological processes that facilitate these connections determine the effects produced by social networks. These ideas correspond to two theoretical approaches: cohesiveness and structural holes. The cohesiveness approach, supported by Coleman (1990), emphasizes trust as the primary indicator of social capital. On the other hand, Burt (2000) suggests that structural holes create opportunities for new

linkages and resource mobilization. Fukuyama (2001) further asserts that social capital is characterized by people adhering to norms of active participation and cooperation in economic projects, particularly in rural business settings. Trust is a key determinant of social capital, as it facilitates economic cooperation and entrepreneurial growth (Zak & Knack, 2001).

Social capital is generally classified into bonding and bridging forms. The former refers to strong ties within groups, promoting cooperation among members based on interpersonal trust (Woolcock & Sweetser, 2002). Bridging social capital, on the other hand, connects individuals through institutional networks, enhancing inclusiveness and access to broader economic opportunities (Granovetter, 1973). His theory of embeddedness also highlights personal relationships to help businesses secure resources, through forms of social capital (Granovetter, 1985), and institutional theory of North (1990)**,** emphasizes the role of stable institutions in fostering economic growth. Strong social capital fosters shared norms which sustains local business initiatives and promote resilience of businesses against shocks (Woolcock & Narayan, 2000).

**Empirical studies**

The existence and role of social capital in economic and social phenomena have been widely debatable both in theory and practice (Bhandari & Yasunobu, 2009). The formation and function of social capital is anchored in social relations and the level of trust developed among members. The interplay between the trust and social capital remains central to sustainable development and business initiatives in the rural setting. Nguyen and Dinh, 2025) found three dimensions of social capital positively influences supply chain resilience and boosts suitable business performance.

*Characteristics of Social Capital*

Social capital is characterized by networks, norms, and trust, which facilitate coordination and cooperation for mutual benefit (Putnam, 1995). Stone & Hughes (2002) categorize social capital into family relationships, kinship, friendship, civic attachments, and institutional ties, with varying strengths depending on trust levels. Ostrom (2009) further defines social capital as shared knowledge, norms, and expectations about interactions governed by trust. The role of institutions in shaping social networks is critical, as Abdelmoety and Agag (2022) argues, institutional pressures impacts economic potential of society, ensuring sustainable engagement in the economic activities.

*Social Capital and Trust*

When access to formal financial institutions is limited, social capital serves as an alternative resource for business development. Dercon et al. (2006) reported that informal savings groups and social networks play a vital role in providing credit when formal financial institutions are inaccessible. Bezabih et al. (2016) complement this by stating that trust within social networks reduces transaction costs and enhances financial resilience. Assefa et al. (2021) found that strong social capital fosters knowledge transfer through peer learning and mentorship, particularly in agribusiness and rural enterprises. Woolcock (2001) links trust in social networks to improved business cooperation and innovation. These social assets serve as intangible resources that determine the long-term viability of enterprises. Business rooted in communities with higher levels of trust are more likely to engage in sustainable practices as the cost of transaction is compromised with social resources (Pretty, 2003). Considering gender

perspective in social capital, differences exist in social capital formation, as women's networks tend to focus more on domestic relationships rather than economic opportunities (Exelle and Holvoet, 2011).

*Institutional Trust and Informal Networks*

Business entities that trust government institutions are more likely to formalize and comply with regulations (Keefer & Knack, 2008) and conversely, weak trust in institutions can lead to informality, limiting business growth potential. Fafchamps (2004) argues that social groups with strong internal trust may restrict business opportunities to insiders, reducing economic inclusivity.

High trust in informal networks may discourage engagement with formal institutions, thereby limiting external financial and technical support (Platteau, 1994). However, during economic crises, trusted social networks often provide more immediate assistance than formal institutions (Ervasti et al, 2019). Strong household trust is essential for economic resilience and rapid recovery from shocks, particularly in rural business environments. The current analysis revolves around trust as an essential element of social capital, from the perspective of both household and institutional influence on social capital development and its subsequent impact on business development phases. Thus, the interplay between trust and social capital creates trajectory for rural businesses to evolve from short-term survival strategies toward sustainable growth models.

North's (1990) institutional theory, posits that well-functioning institutions create conducive environment for economic activities by ensuring sustainable support, and providing access to resources. Similarly, Welter (2012) argues institutional trust to play a crucial role for businesses as they grow, enabling them to navigate complex legal frameworks. Djankov et al. (2002) also highlight the importance of institutional quality in fostering business development. Most of these scholars have a positive perception to institutions with respect to their support in nurturing business. However, as business starts, it goes through stages each of which would be influenced by institutions or social networks. The knowledge gap with earlier studies regarding trust in institutions and their influence is lack of specificity with respect to the stage of business development at which institutional trust or individuals (social network) trust is more critical. This is what the current study was attempting to address.

## METHODOLOGY

The study was conducted in Walmara district, Ethiopia, with a survey of 300 households. The area relies heavily on agriculture, primarily mixed farming, with emerging irrigation practices, animal fattening and small scale rural enterprises such as milk production, nursery business and horticultural crops. It represents the 7 other districts in the zone with similar social and economic settings (Zone Agri office, 2020; District Report 2022) practicing vibrant economic activities.

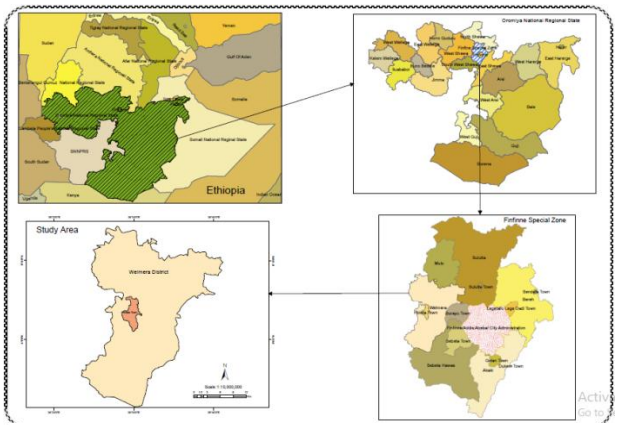



*Figure 1: Map of the study area*

To maintain ethical concern, permission letter was obtained from the local administration before entering into community and oral consent was obtained from respondents prior to interviews and group discussions.

The study employed mixed research design to integrate both qualitative and quantitative data, enabling a comprehensive understanding of social capital in rural business operations. This approach was chosen to address the social and cultural contexts influencing social capital formation. According to Creswell (2007), qualitative methods help explore social and cultural dynamics by capturing events, actions, norms, and values from perspective of participants. Structured questionnaire was used for quantitative data; FGD and KII provided qualitative insights.

The proposed variables were identified through a comprehensive literature review and pilot discussions with key informants from relevant offices. The study examines the trust element in the relational dimension of social capital and its contribution to business development through social capital formation. The article emphasizes three critical elements that correlate trust with the formation and effect social capital. Previous studies have used various indicators to assess business performance. Parker (2004) and Shaw et al. (2006) employed enterprise value, while Jethro (2009) used business start-up and expansion as indicators of social capital in rural non-farm enterprises. For this study, business growth, measured in terms of income, was adopted.

Descriptive statistics were employed for preliminary analysis using complementary measurement statistics including an F-test (to see group differences) and Chi-square tests (to evaluate association between categorical variables and social capital indicators). To fit into econometric model, Principal Component Analysis (PCA) was applied for factor reduction and to identify key variables. Communalities were checked to ensure adequate variable representation in the factor structure; followed by reliability test where Cronbach's Alpha ($> 0.7$) was considered for consistency. Structural Equation Model (SEM) was used to estimate the direct and indirect structural effects of trust building on social capital and in turn on business performance (Fan et al, 2016). Finally, Relative Importance Index (RII) was used to rank factors influencing trust based on Likert's scale responses, with higher values indicating stronger effect (Hossen et al, 2015).

**Dimensions of indicators and levels of Analysis**

The study examined the impact of trust on rural business development by assessing key dimensions of social capital, including participation, social interaction, and network density. Participation was measured by event frequency, while social interaction was evaluated based on individual contact patterns, following Brehm and Rahn's (1997) framework. Trust within social capital and its relationship with business performance was primarily analysed using descriptive, prescriptive, and predictive techniques. But Rose (1999) argued against empirical indicators for measuring social capital, favouring situation analysis over econometric approaches. This study however, incorporated Structural Equation Modelling (SEM) to strengthen the descriptive analysis, due to its potential to analyse the structural relationship of variables which are interconnected in the social network.

**Principal Component Analysis (PCA)**

PCA extracted 10 indices of social capital, revealing a significant Chi-square value ($p \leq 0.001$), indicating strong interrelations among variables. This confirms the appropriateness of PCA, as the shared variance supports its

application. Additionally, the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's test yielded a value of 0.715 (above the 0.5 threshold), further validating the suitability of the data for PCA (Field, 2013).

**Reliability test**

Following dimensionality reduction through PCA, a reliability test was conducted and showed that selected variables were reliable with Cronbach's Alpha exceeding 0.7, indicating strong consistency (Nunnally & Bernstein, 1994). Items were categorized into two: trust in households and trust in institutions/organizations. The extent to which each category influences social capital was further explored in the results section.

*Table 1: Reliability test analysis (Chronbach's Alpha)*

**Reliability Statistics - *Component 2***

| Cronbach's Alpha | N of Items |
|---|---|
| .724 | 10 |

**Item-Total Statistics**

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|---|---|---|---|---|
| HTI1 | 29.19 | 45.925 | .387 | .702 |
| HTI2 | 29.35 | 41.995 | .559 | .673 |
| HTI3 | 29.34 | 46.206 | .337 | .709 |
| HTI4 | 29.26 | 44.656 | .428 | .695 |
| HTI9 | 29.11 | 47.708 | .238 | .723 |
| OTI1 | 29.37 | 41.292 | .540 | .674 |
| OTI2 | 29.14 | 44.993 | .320 | .713 |
| OTI3 | 29.22 | 45.945 | .266 | .722 |
| OTI4 | 29.35 | 43.734 | .437 | .693 |
| OTI5 | 29.19 | 44.714 | .341 | .709 |

- HTI-Household trust (trusting members in the network)
- OTI-Organizational/institutional trust (trusting institutions)

**Structural Equation Modeling (SEM)**

Fan et al. (2016) describe SEM (here in this study used SEM Amos Version 24) as a powerful multivariate technique for testing and evaluating causal relationships. Hence, social capital was treated as a latent variable within the model. Unlike other approaches, SEM allows examination of both direct and indirect effects within causal relationships. SEM integrates multiple analytical techniques within a single model-fitting framework (Sturgis, 2020). It utilizes a conceptual model, path diagrams, and a system of linked regression equations to capture complex and dynamic relationships between variables (Bollen, 1989). The model consists of two components: the Inner (Structural) Model, examines relationships between latent variables, and the outer (Measurement) Model, defines the relationships between latent variables and their respective measurable indicators.

**Relative Importance Index (RII)**

The Relative Importance Index (RII) is a statistical measure based on Likert scale measurements (Hossen et al., 2015) used to determine the significance of specific causes and effects concerning a given outcome. It helps to identify the most critical and relevant influencing factors. A higher index value indicates a stronger impact or greater importance of a particular factor in shaping trust. The index is determined by the equation:

$$RII = \frac{5n_5 + 4n_4 + 3n_3 + 2n_2 + 1n_1}{A * N}$$

RII – is Relative Importance Index
$n_5$ = Number of respondents for Strongly Agree
$n_4$ = Number of respondents for Agree
$n_3$ = Number of respondents for Neutral
$n_2$ = Number of respondents for Disagree
$n_1$ = Number of respondents for strongly disagree
A = the highest weight in the scale = 5
N = the total number of respondents

The formula either appears as:

$$RII = \frac{\sum W}{(A * N)}$$

Where:

$\sum W$ – Sum of weight given to each factor $(5n_5 + 4n_4 + 3n_3 + 2n_2 + 1n_1)$

This is calculated by dividing the sum of the product of number of members responding to each choice in the Likert scale and the scale ($5n_5+4n_4+3n_3+2n_2+1n_1$) to the product of the highest weight in the scale (A=5) and the total number of respondents (N). The essence of equating the index is not to compare the relevance of items (on a scale of 1-5) but to identify the institution that is trusted more to influence the community's social capital.

## RESULT AND DISCUSSION

### Sociocultural and institutional characteristics

*Demographic characteristics*

A total sample of 300 household was selected for interviews, with 5 respondents excluded for missing data. The average family size is 6.71, typically having 2.81 working members, leaving an average of 4 dependents per household. In terms of gender composition, 70.2% of participants were male. The distribution reflects membership of the business associations and should not be interpreted as male dominance. It is also important to note that the term "women" refers to female association members, not necessarily female house heads. 94.6% of participants are married, 4.1% are divorced, and 1.4% widowed. An overview of religious insights show Protestant as the dominant religion (60.7%), followed by Orthodox Christianity (30.8%), Islam (5.1%), and Waqeffataa (3.4%). With respect to ethnic composition an overwhelming majority (99.7%) is identified as Oromoo. Most people have exposure to formal education (95%). Aboriginality is one of the factors assumed to influences social capital, hence included as a key demographic variable. Result indicated 77.3% of respondent categorized as original residents, the rest moved to the area, due to marriage or search for job. These data highlights cultural homogeneity showing interplay with migratory trends to shape social dynamics in Walmara.

*Socioeconomic characteristics*

The socio economic characteristics of the study area indicate three categories of economic activities identified based on the livelihood factors. Farming accounts 83.7%, nonfarm activities 4.7% and off farm 11.5% of the total. Respondents were categorized into rich (41%), medium (43.3%) and poor (15.6%) wealth groups. Landholding is the economic resource that matters most in the rural business development having implication on social capital. The mean holding is 3.27 hectare with maximum 10 and minimum 1ha owned by 93.6%. People with no land were identified to have established their livelihood on other economic activities than farming. The need for social capital was more evident with various categories of people according to their socioeconomic characteristics.

*Rural institutions*

The most frequently involved institutions in organizing and working with rural social groups are public offices[1], Private institutions[2] and NGOs[3]. Besides, the formal institutions, other social institutions and community associations existed to deal with the rural business operating households. These include churches, indigenous institutions, and community business associations. Each of these has interlinked with community trust and business formation, growth and expansion. According to discussants[4] from intuitions, their roles include arranging loans, technical support, linking the rural business to market and legalizing registration of business associations. Their engagement contributes to linking social capital. The role and contribution of institution to the social capital development is influenced by the level of trust at differ stages of business development.

**Description of trust variable in social capital**

The social capital resulted from interaction of people is categorized by kinship (bonding), geographical domains (bridging) and role model (linking) has in it several elements that make up the capital to happen, while determining it stock level. The following are components of social capital whose presence and extent in the social interaction determines the strength of the relationship, level of trust and stock of social capital.

*Trust and Solidarity*

Trust was defined as the extent to which people feel safe and rely on their relatives, neighbors and members in their social network. The cognitive dimension of social capital is manifested into three forms. One is *trusting people* (the adaptation) through interacting with member in the network; second is *feeling safe* in the area and the third is *developing confidence* on people they are interacting with. The result in Table 2 provides valuable insights into the cognitive aspects of trust and their role in shaping social capital. The three key cognitive trust variables were ranked based on Relative Importance Index (RII)**,** indicating their significance in fostering social cohesion. The result indicates confidence in people plays the most crucial role**,** reinforcing the findings of Putnam (2000), Coleman (1990), and Fukuyama (1995).

*Table 2: Attitude score and RII of cognitive response on trust variables (T-23)*

| *Cognitive response* | *Total Average score** | *A*N* | *RII (Score/A*N)* | *Rank* |
|---|---|---|---|---|
| Trust in people | 896 | 1475 | *0.607288* | 3 |
| Feel safe in the area | 969 | 1475 | *0.656723* | 2 |
| Confidence on people | 1068 | 1475 | *0.724068* | 1 |

** Total average score of items under each of the cognitive response variables*

*Trust to approach People (RII = 0.607, Rank 3)*

Although trust in people is fundamental, it ranks third in relative importance. This suggests that it is a context dependent factor that does not function in isolation but is shaped by broader contextual factors such as historical

[1] Holeta Agricultural Research Center, district cooperative promotion office and Small and Micro Enterprise promotion offices.

[2] Vision Micro Finance, Oromiya Saving and Credit, African Village Financing, and Special functional promotion.

[3] GIZ and KOPIE working in a community through funding community projects carried on Holeta research center.

[4] *Dr Abebe Chindi-Crop research coordinator, Holeta Research Center; Mr Abriham – Vision Microfinance, Holeta branch head*

experiences, aboriginality, and societal norms as also reported by Nooteboom (2007) and Rose (1999) who argues trust as conditional. It means that people are more likely to trust institutions when perceived fair and effective**.** Similarly, Hardin (2002) supports this stating that trust is built over time through repeated interactions and positive experiences. This cognitive stage of trust has less power to contribute to formation of social capital.

*Feeling Safe in the Area (RII = 0.657, Rank 2)*

The second ranking factor**,** feeling safe in the community**,** reinforces the notion that perceptions of safety and security significantly influence trust levels**.** Several studies support this finding that safety fosters social interactions, informal exchanges, and cooperative behaviours (Rose, 1999; Rothstein & Stolle, 2008), than just adapting to the social environment. Uslaner (2002) posits that trust flourishes in environments where individuals feel secure**,** leading to higher levels of community involvement and social responsibility. In contrast, insecurity negatively impact trust, leading to social fragmentation and reduced participation in collective activities (Delhey & Newton, 2003). Despite the fact that safety stands important factor for involvement, that is not the level one can harvest social capital. That is an assurance for improved interaction leading to building confidence.

*Confidence in People (RII = 0.724, Rank 1)*

The highest score in RII indicates is having confidence in people. This is the most crucial cognitive factor determining the level of social capital. The finding goes with Putnam (2000), who claims trust to be foundational for collective action. Newton (2001) further explains that trust is not merely an individual sentiment but a societal asset that contributes to institutional efficiency**.** Early reports placed that in communities with high confidence in each other; relationships are more resilient, leading to stronger social networks (Fukuyama, 1995). The current result relates more with Mayer, et al, (1995) who long time back categorized cognitive trust variables and reported that the impact of trust of on rural business development is expressed through the confidence variable. This supports the argument that trust evolves in distinct phases, each contributing differently to business outcomes (Luhmann, 2000).

Social capital and its associated resources are outcomes of trust, expressed through trust to approach people, feeling safe, and ultimately developing confidence. Among these dimensions, confidence is the critical stage where social capital becomes valuable for business support. This finding agrees with the report of Adler and Kwon (2002). In study area, respondents contextualized trust building as it begins with approaching people (in the form of adaptation), feeling safe and developing confidence, which is conceptualized as:

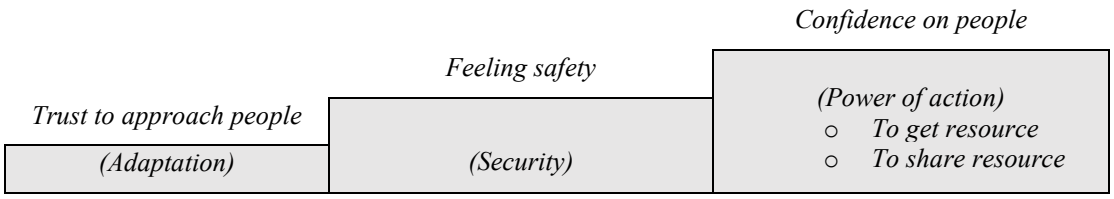



*Diagram 1: The continuum of cognitive feeling in trust building*

The diagram illustrates the Theory of Change (ToC) in developing confidence within a social network. The cognitive trust phases determine the flow of social capital. Initially, when an individual trust to approach others, they

begin to feel safe in interactions. As confidence builds, individuals become more willing to share resources in various forms. The manifestation of social capital in business activities occurs when resource sharing begins, signaling the presence of trust at its confidence level. This finding goes in line with Kushitor et al (2018), who reported that sense of safety fosters a healthy, secure environment and gradually leading to development of confidence. Conversely, a lack of confidence raises concerns about trust levels, which in turn triggers feelings of insecurity within the community.

At the stage of approaching people, there are factors that influence the relationship; this includes proximity, aboriginality, and other social characteristics within the community. Aboriginality was considered to assess its impact on trust building; consistent with the work of Putnam (2000), the duration of residence within a given community significantly influences familiarity with the rural social networks affecting trust building. As previously discussed, there are no specific criteria for membership in social networks. 82.4% of respondents have lived in the area for more than 30 years, which further supports the notion that the length of time in the community contributes to stronger trust. This is in conformity with Glaeser et al (2002). Looking at gender segregated data across level of trust the result indicates women (50.5%) to have more confidence on their peer networks than men (8%). The study highlights trust as key factor in fostering strong social relationships, but was found to be influenced by both political interests and internal community dynamics. While no major threats to trust were identified, 34.6% of respondents perceived government influence as a factor eroding social trust. However, community's shared identity, long-term cohabitation, and absence of discrimination have supported to maintain strong trust.

*Trust in Information sharing and communication*

Access to information plays crucial role in building social capital, fostering trust, and enhancing social tie. Despite the various sources, individuals are encouraged to share information to their peers as confirmed by 36.6% of respondents. Majority (81.4%) rely on social networks as Putnam (2000) argues in favour of strong social ties to enhance collective action and economic opportunities. Coleman (1990) supports that trust-based information sharing strengthens communities in rural settings. Though 93.6% of the respondents claim that their access to information improved since five years, most of them (89.2%) disregard information from local administration as incredible, and for having political interest. Market places and radio/TV broadcasts emerged as the most trusted source of information, instead. This goes with McQuail (2010) who reported digital media as credible information source in societies where institutional trust is low. Radio and television are particularly valued by the Walmara community as politically less biased compared to government sources. Access to market information is other key for community economic development. This study classified the level of access to information as *limited, medium,* and *better.* Accordingly, 57.6% of respondents have better access to market information agreeing with Fafchamps & Minten (2012). This also goes with the work of Aker (2010), on information asymmetry and its impact on rural economies.

*Trust and Social Cohesion in Rural Walmara*

Trust enhances community relationships in Walmara, leading to higher safety perception and social inclusion. 94.6% of formal group members reported feeling very safe compared to 62.7% of non-members, highlighting the protective role of social networks. Over all, community perception remains high with 89.1% respondents feeling safe

regardless of group membership. These findings align with scholars, who reported trust as foundation of social capital (Putnam, 2000; Fukuyama, 1995; Coleman, 1990) further supporting the notion that dense social networks reduce vulnerability and increasing social security. However, the lower percentage of non-group members who feel safe (62.7%) highlights a potential gap in inclusiveness. Lin (2001) argues that exclusion from formal networks can limit access to social capital, making marginalized individuals more vulnerable. This also agrees with Sen's (1999) capability approach, which reported social exclusion due to limited ability to participate. The finding highlighted that participation in formal social groups strengthens social cohesion, informational, and material support to members. From these evidences and related literatures, we conclude that trust is a crucial driver of social cohesion, network resilience, and inclusive participation. As Aldrich (2012) points out, resilient communities often exhibit high levels of trust and inclusion, which help them address their business challenges. These findings contribute to the body of knowledge emphasizing the role of trust in building resilient and inclusive rural societies.

*Trust in social Empowerment*

Respondents shared the understanding that empowerment is a level to which individuals make decisions that matters their well-being and influence institutions that operate in their domain. Among the total, 89.8% are of the opinion that they can take decisions. In contrary, the power of the community to influence public institutions is minimal (16%) and conditional to the issue of concern (20%). This highlights that, context specific reality govern the level of empowerment to influence institutions. It might not depend on the strength of the network as much as it depends on the trust people have on institutions. Hence, the capacity to influence institution cannot be a good measure of strength and power of social network. Discussing empowerment in light of trust, the participation of community on collective action also matters. Good participation of people (99.3%) was identified though sometimes challenged by factors like information gap (33.6%), religious beliefs (12%), politically classified meetings (12%) and some community (29%) feels ignorant to attend activities initiated by local administration.

**Institutional trust and social capital in rural Walmara**

To assess the role of institutions in social capital formation, five key institutions were compared. Using Likert-scale items measuring trust, Table 3 presents the Relative Importance Index (RII) of these institutions, highlighting the perceived significance of institutions operating in the district. The result showed religious institutions as most trusted**,** followed by household's business associations and primary cooperatives**.** The observation aligns with earlier assumptions (Woolcock & Narayan, 2000), which is seconded by recent reports (Narayan and Shah, 2002) highlighting the role of churches in strengthening rural social networks. In contrast, trust for government institutions is low, controverting report of Crowley and Barlow (2022) that confers government institutions to directly influence entrepreneurial activities and household economic decisions. There are studies that argue in favour of the current result with statement that limited trust in government institutions can hinder rural development and participation in state led initiatives (Ostrom, 2000). It can be concluded that informal networks play more central role in social capital formation, underscoring the importance of community driven development models that leverage existing social networks for sustainable development.

*Table 3: The Relative Importance Index for statement to trust institutions*

| Institutions | Weighted score | A*N[5] | RII (Score/A*N) | Rank |
|---|---|---|---|---|
| 1. Primary cooperatives | 998 | 1475 | *0.676610* | 3 |
| 2. Own business association | 1006 | 1475 | *0.682034* | 2 |
| 3. District coop promotion | 930 | 1475 | *0.630508* | 5 |
| 4. District agriculture office | 971 | 1475 | *0.658305* | 4 |
| 5. Religious institutions | 1027 | 1475 | *0.696271* | 1 |

**Econometric analysis of trust variables**

It was hypothesized that trust element manifested by three dimensions; vis *Trusting* people in the community, *Feeling safe*, and having *confidence* on people are equally distributed across different levels of household business. A t-test analysis of trust as social capital element has been summarized in the tables below.

*Trusting vs level of rural business*

A t-test result indicates trusting community and building confidence varies according to level of business influenced by the social capital. Feeling safe either have no effect on the business or its effect might have been distributed over the two other trust sub variables (trusting and confidence). The test is significant at P<0.005.

*Table 4: The distribution of trust variables on household business*

| Hypothesis Test Summary | | | | |
|---|---|---|---|---|
| | **Null Hypothesis** | **Test** | **Sig.** | **Decision** |
| 1 | The distribution of T23TruComm is the same across categories of BD-Current Business Status. | Independent-Samples Kruskal-Wallis Test | .009 | Reject the null hypothesis. |
| 2 | The distribution of T23FeelSafe is the same across categories of BD-Current Business Status. | Independent-Samples Kruskal-Wallis Test | .526 | Retain the null hypothesis. |
| 3 | The distribution of T23Confident is the same across categories of BD-Current Business Status. | Independent-Samples Kruskal-Wallis Test | .000 | Reject the null hypothesis. |
| Asymptotic significances are displayed. The significance level is .05. | | | | |

*$T_{23}$TruComm- Just Trusting; $T_{23}$FeelSafe - Feeling safe; $T_{23}$Confident-Hacving Confidence*

*Tusting people vs Business developemnt stages*

Checking the distribution of trusting community across three stages of business development, vis *Beginning*, *Growing*, *Expanding,* the median level appears highest in the "Beginning" and decreases as businesses grows and expands. The distribution significantly differs across stages of a business (P=0.009), inferring that the beginning stage has higher community trust compared to growing or expanding stages. This means early-stage businesses relies more on people, and expansion may introduce more complexity, or cooperation challenges.

[5] A = the highest weight in the scale, i.e 5 N= Total number of respondents

*Feeling Safe vs Business stages*

The result on feeling safe as trust cognitive variable across the three business stages indicates no significant value (P=0.526) concluding that business growth stages are not influenced by safety perceptions. This leads to the explanation that feeling safe may be influenced more by external factors than internal to the network of people. This finding relates to Welter (2012) who suggests perceptions of safety to be shaped by broader institutional environments rather than the micro social network during business growth.

*Confidence vs Business stages*

When the level of confidence is distributed across business stages, variability increases as businesses grows, especially in the expanding stage, where confidence levels show a wider range and lower median. The confidence level significantly differs across business stages (p-value=0.000). It is interpreted in such a way that the beginning and growing stages of rural business, requires higher confidence levels, but gradually drops as the business reaches level of expanding, may be due uncertainties and risk suspected by Storey (2011). This relates to Baum & Locke (2004) who highlight an early-stage entrepreneurs displaying higher confidence

*Trust vs Membership of respondents*

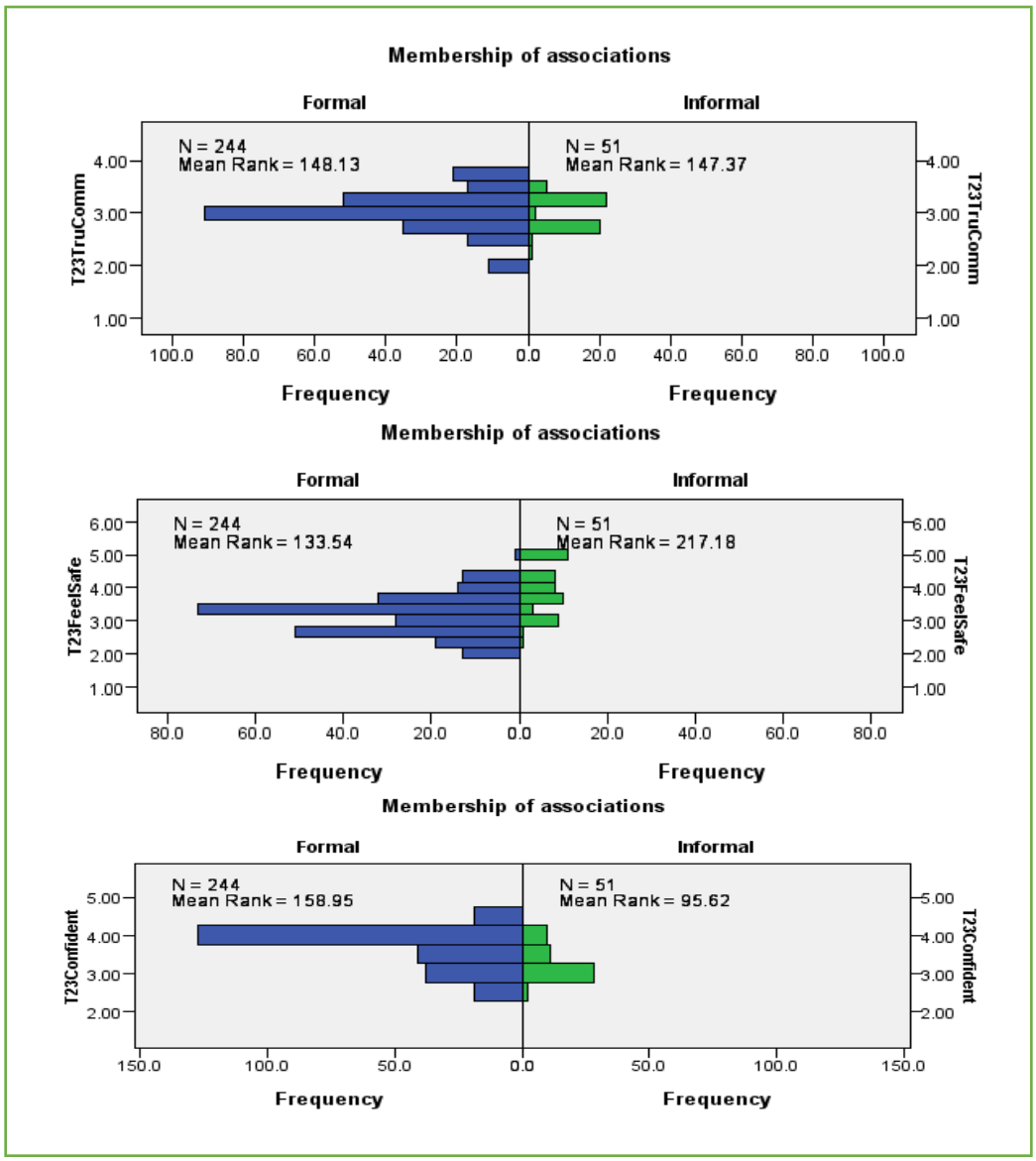
The result in table 5, provides valuable insights on relationship between membership and trust cognitive perceptions: Trust in the community (T23TruComm), feeling safe (T23FeelSafe), and confidence in interactions (T23Confident). The Independent-Samples Mann-Whitney U Test was employed to assess level of distribution across membership, with a significance threshold of 0.05 (Mann & Whitney, 1947). Among the three cognitive variables; feeling safe and confidence depicts variation with membership. Meaning, formal members feels safer and develop confidence, making the two trust sub variables most important. For the trust in the community (p=0.953), membership doesn't matter. Personal experiences, societal norms, or broader social structures, may play more substantial role in shaping trust as also assumed by Putnam (2000). Feeling safe and confidence in social network (p=0.000) implies enhanced engagement in social network, likely due to increased social cohesion, and collective security mechanisms within the group. This finding highlights the social benefits of association membership, particularly in fostering safety and confidence. However, trust in the community remains unaffected, due to broader societal factors than issue of membership. This underscores the importance of community-based organizations in enhancing individuals' sense of security and social engagement, having far-reaching implications for social capital development.

*Table 5: Trust vs membership*

**Hypothesis Test Summary**

| | Null Hypothesis | Test | Sig. | Decision |
|---|---|---|---|---|
| 1 | The distribution of T23TruComm is the same across categories of Membership of associations. | Independent-Samples Mann-Whitney U Test | .953 | Retain the null hypothesis. |
| 2 | The distribution of T23FeelSafe is the same across categories of Membership of associations. | Independent-Samples Mann-Whitney U Test | .000 | Reject the null hypothesis. |
| 3 | The distribution of T23Confident is the same across categories of Membership of associations. | Independent-Samples Mann-Whitney U Test | .000 | Reject the null hypothesis. |

*Asymptotic significances are displayed. The significance level is .05*




*Note: $T_{23}$TruComm - Just Trusting; $T_{23}$FeelSafe - Feeling safe; $T_{23}$Confident-Hacving Confidence*

*Figure 2: Trust vs membership of respondents*

According to Fig 2, the Trust variable presented as: Trusting community, Feeling safe in community, having confidence in community were tested if the distribution is the same across membership. Results indicate that trusting community is the same across membership (P=0.93). Feelings safe and confidence were not the same across membership (P=0.000). The result implies organizing community as "formal membership" is detrimental to generate more stock of social capital that has contribution to rural business development.

*Trust in light of gender difference*

Gender perspectives are analyzed with respect to their practices, social networking, and institutional approaches to the different gender categories. Test result shows that there is no difference in gender groups on the distribution of the three trust cognitive variables. The *Independent-Samples Mann-Whitney U* Test on the trust variable distribution

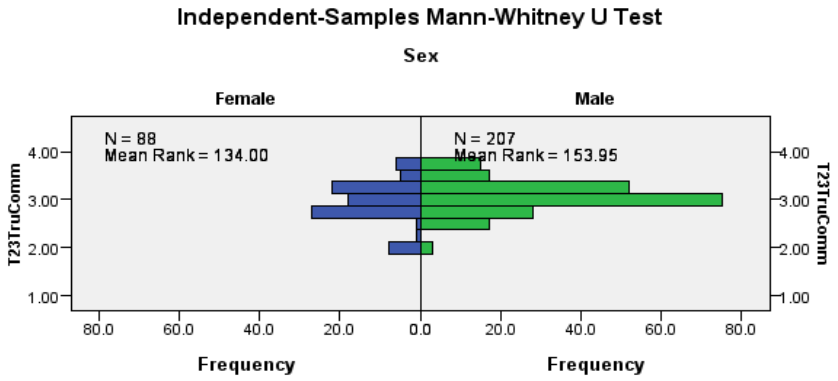
over gender indicates non-significant, implying no difference in distribution of trust across male and female. Meaning, there is no association between social capital and gender groups, as far as trust component is concerned. The gender segregated analysis, however indicates women with more trust to institutions (36.6%) working with their social group than men (24.1%). Within the group, most women (50.5%) have high level of trust to their members than men (8.1%); and women trust women more than men trust men in their respective groups. Trust determine strong social tie (bonding social capital) as indicated in favor of women (46.4%) than men (18.6%). This means women social groups are more characterized by bonding social capital than the men groups. Though the result is not statistically significant, across all the three trust variables the distribution is more with male categories implying the need to strengthen trust among male groups for better social capital outcomes.

*Table 6: Trust vs Gender groups*

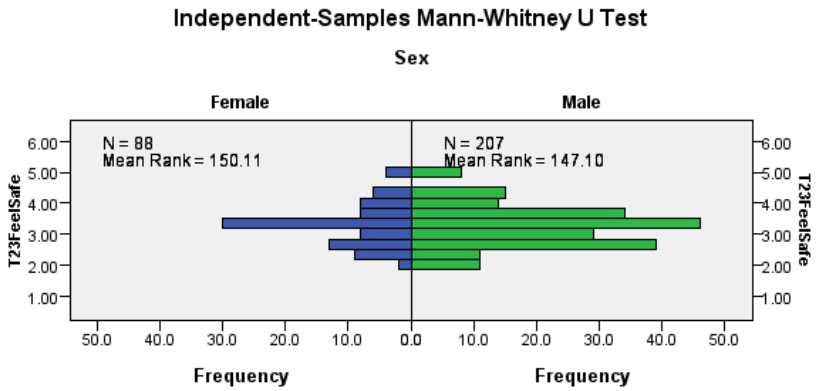
**Hypothesis Test Summary**

| | Null Hypothesis | Test | Sig. | Decision |
|---|---|---|---|---|
| 1 | The distribution of T23TruComm is the same across categories of sex | Independent-Samples Mann-Whitney U Test | .059 | Retain the null hypothesis. |
| 2 | The distribution of T23FeelSafe is the same across categories of sex | Independent-Samples Mann-Whitney U Test | .778 | Retain the null hypothesis. |
| 3 | The distribution of T23Confident is the same across categories of sex | Independent-Samples Mann-Whitney U Test | .642 | Retain the null hypothesis. |

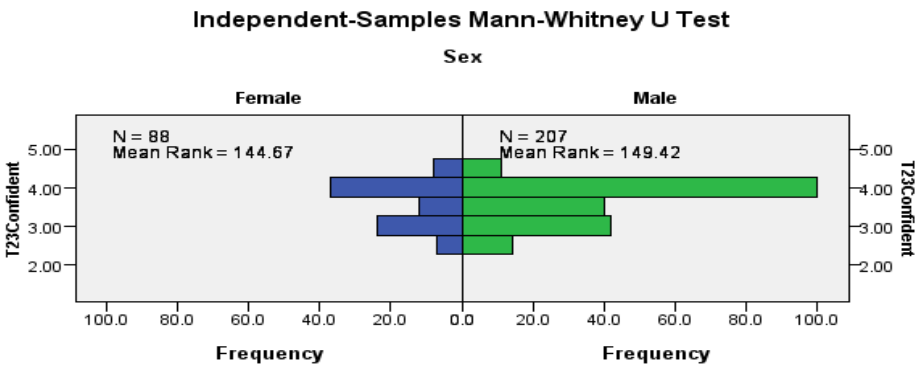
*Asymptotic significances are displayed. The significance level is .05*




*A- Trust on Community*




*B- Feeling safe in community*




*C- Building confidence in community*

*Figure 3: A,B,C The mean comparison between Trust and Gender categories*

**Trust and institutions under structural equation**

The structural equation model (SEM) result presented (in the Fig 4) explores the relationship between household trusts, institutional trust, against business development stages**.** Both trust types are the structural dimension of social capital, and were considered as latent variables to be regressed over the stages of business development categorized as beginning, growing and expanding business. The result highlights the stage at which households trust and institutional trust are most crucial. Table 6 indicates the effect of each dimensions of social capital at the different growth stage. At the beginning of the business, household trust showed positive contribution with standardized loadings of 0.042; whereas trust to institutions has zero effect (0.000). This implies an increase in level of trust in households, increases the level of business by a unit of 0.042 during its beginning phase. This aligns with Aldrich and Cliff (2003) and North (1990) who reported the essence of informal networks over inefficient institutions in supporting business through social capital. But the scholars didn't identify the stage of business at which it influences more. The same result contradicts with Welter (2012) who blindly reported the essence of institutional trust to encourage business..

At growing stage, an increase in trust for institutions by 1 unit, slides down the rate of business growth by a unit of 0.21 (-0.21); but a trust for households increases the growth of the business by a unit of 0.153. Here, institutional interference on the business has negative effect within the social capital system. The negative coefficient suggests that businesses may face institutional challenges discouraging the business at its early growing stage. This result is agrees with scholars (Welter, 2012; Djankov et al, 2002) who found institutional inefficiencies that hinder growth of rural businesses, in which case businesses rely on interpersonal trust than formal systems. This again aligns with Granovetter's (1985) theory of embeddedness**,** which argues that economic actions are deeply embedded in personal relationships rather than institutional structures. The current findings also relate with Welter and Smallbone (2006)**,** who highlighted that businesses navigate challenges by leveraging personal networks rather than reliance on institutional frameworks**.**

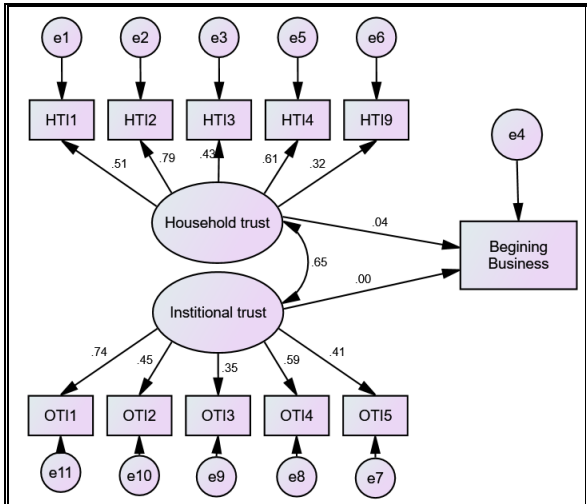
At the business expansion phase, the effect of institutional trust has a standard regression weight (loading of) 0.25, while trust to households has negative effect (-0.23), suggesting that reliance on close social networks may not necessarily facilitate business at the stage of expansion, unlike during the beginning; more focus is vital to

institutional support. This result is significant at P<0.05. The negative effect of household trust at this stage may indicate that as businesses grows, excessive dependence on family and close networks could limit access to external markets, and financial resources, unless linked through institutional mediation forming bridging social capital. Uzzi (1997) has a fear that strong personal ties can lead businesses to become too reliant on informal support systems, restricting their ability to scale effectively. Besides, Institutions like financial systems are more likely to succeed in expanding household business, rarely engage during business startup. In summary households have a positive effect at the beginning and growth stage and negative effect at expansion stage; whereas, institutions have zero effect at the beginning, negative effect at growing stage and significant positive contributions at business expansion stage for business supporting by social capital (bonding or bridging).

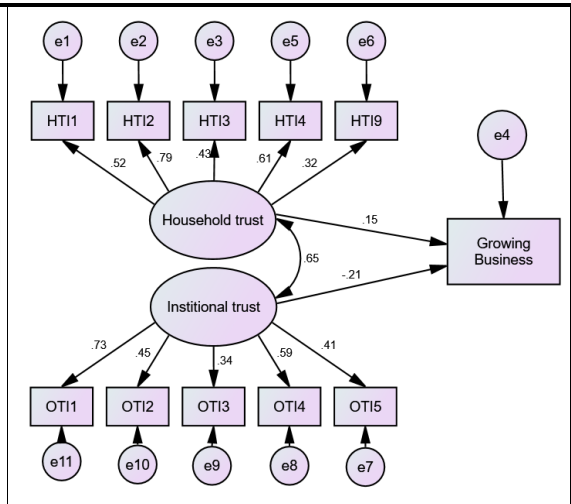
*Table 7: Effect of household trust vs institutional trust on different stages of business performance*

| Business Stage | Household Trust | Institutional Trust | Key Insight |
|---|---|---|---|
| **Beginning** | Moderately positive (0.15) | Negative (-0.21) | Personal networks help (Bonding), but institutional constraints slow growth. |
| **Growth** | Slightly positive (0.04) | No effect (0.00) | Informal networks are crucial for starting a business. |
| **Expansion** | Negative (-0.23) | Strongly positive (0.25) | Businesses must seek institutional support for business expansion (Linking) |

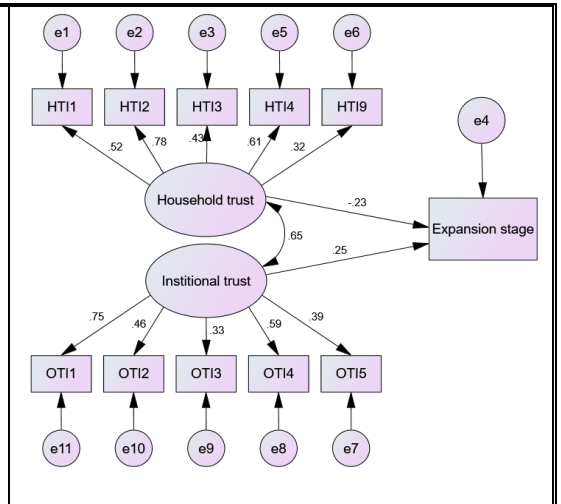
In general, the result implies that, early stage businesses should leverage personal networks for promising business start-up; and at the expansion stage institutional engagement is crucial for sustainable business growth and diversification.




**Beginning stage of a business**
Hosehold trust = 0.04
Institutiona trust = 0.00




**Growing stage of a business**
Hosehold trust = 0.15
Institutiona trust = -0.21




**Expanding stage of a business**
Hosehold trust = -0.23
Institutiona trust = 0.25

**S t a n d a r d i z e d R e g r e s s i o n W e i g h t s**

| | Estimate |
|---|---|
| HTI1 <--- HHT_1 | .514 |
| HTI2 <--- HHT_1 | .785 |
| HTI3 <--- HHT_1 | .432 |
| HTI4 <--- HHT_1 | .611 |
| HTI9 <--- HHT_1 | .322 |
| OTI5 <--- OT | .409 |
| OTI4 <--- OT | .590 |
| OTI3 <--- OT | .351 |
| OTI2 <--- OT | .446 |
| OTI1 <--- OT | .736 |
| BB <--- HHT_1 | .042 |
| BB <--- OT | .000 |

| | Estimate |
|---|---|
| HTI1 <--- HHT_1 | .517 |
| HTI2 <--- HHT_1 | .785 |
| HTI3 <--- HHT_1 | .433 |
| HTI4 <--- HHT_1 | .608 |
| HTI9 <--- HHT_1 | .320 |
| OTI5 <--- OT | .413 |
| OTI4 <--- OT | .592 |
| OTI3 <--- OT | .341 |
| OTI2 <--- OT | .447 |
| OTI1 <--- OT | .735 |
| GB <--- HHT_1 | .153 |
| GB <--- OT | -.205 |

| | Estimate |
|---|---|
| HTI1 <--- HHT_1 | .518 |
| HTI2 <--- HHT_1 | .783 |
| HTI3 <--- HHT_1 | .432 |
| HTI4 <--- HHT_1 | .612 |
| HTI9 <--- HHT_1 | .317 |
| OTI5 <--- OT | .392 |
| OTI4 <--- OT | .585 |
| OTI3 <--- OT | .334 |
| OTI2 <--- OT | .455 |
| OTI1 <--- OT | .748 |
| EB <--- HHT_1 | -.233 |
| EB <--- OT | .248 |

*Note: BB- Beginning Business; GB- Growing Business; EB- Expanding Business*

*Figure 4: Regression effect of individual and institutional trust on the stages of business development*

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

The findings highlight the evolving role of trust in determining the stock of social capital that contributes to sustainable business development (establishment, growth and expansion). Among the three cognitive trust variables, building confidence in the social network is the stage at which the power of trust is manifested. That is where the mediating factors of social capital are exploited. Resource sharing, collective power and any sort of support to household businesses in the form of social capital are practiced at the stage where confidence is ensured. A relative importance index result showed religious institutions as primary trusted institute by the community followed by their own business associations. When it comes to examining the effect of trusting institutions against the trust to peer households, the effect of institutional trust is significant during business expansion; trust to peers social network is very essential at the beginning of the business but keeps declining as the business grows. While personal networks and household trust are beneficial in the early stages of business development, they become constraints when businesses seek to scale up and formalize. This necessitates a transition from peer trust to institutional trust as the business expands.

The study suggests that fostering institutional trust while maintaining beneficial social connections is essential for sustainable business start-up, growth and expansion. Entrepreneurs must gradually shift their reliance from household trust to seeking support of formal institutions to access larger markets, secure investment, and sustainable business linkage in the form of linking social capital. On top of that sustaining social capital ensures resilience, cooperation and shared responsibility with in communities. The dynamism from informal trust to formal institutional trust enhances competitiveness and institutional support contributing to broader sustainable development through forming linking social capital by integrating social, economic and institutional dimensions.

### Recommendations

Key recommendations generated from the study were categorized for actions by business owner, policy makers and some directions for future research as a contribution to body of knowledge.

**For Rural business owners**

1. Social capital is embedded within the network of people, but that is not the only end to enjoy benefits of the capital. The level of trust determines the level and sustainability of emerging social capital. Trust in turn has phases of cognitive development, in which confidence building appears determining phase of trust for building high level of social capital. Therefore, the social network needs to grow to the level of confidence building on members in the social network.
2. Trust on peer households (informal) and trust on institutions indicated varying influence at different stage of business development. At the initial business phase trust with individuals or peers need to be strengthened, but there should be transition to institutional trust as the business expands. Rural business owners need to integrate into formal business environments by engaging with institutions for business

diversification while maintaining beneficial personal networks. This dual approach contributes to business success and sustainability.

3. Business owners should strategically leverage both social capital and institutional supports to optimize growth opportunities and meet business expansion at distinctive stages of a business.
4. Business households need to strengthen community-based networks and cooperative models, as that was found to have positive and significant effect on business at the beginning stage.

**For Policymakers and Institutions:**

1. The fact that institutions have zero effect at the beginning and negative effect at growth stage of a business entails the bureaucratic challenges to business operations, which needs reframing to help build trust
2. Policy reforms should focus on strengthening informal social networks, trust building, social capital creation, and the linking role between rural business households and institutional support.
3. Policies need to focus on aligning institutional frameworks and policies with rural business initiatives and the rural social networks where social capital plays significant role in business development.

**For Future Research:**

1. Further research should explore why trust in the community supports business at its early stage but not at the subsequent growing and expansion stage. Also important is to look into details of why institutional trust makes a significant contribution at expansion stage but not at early stages of business development.
2. The trust component of social capital is manifested by three cognitive dimensions such as trusting community, feeling safe and building confidence. It was found that the confidence stage of trust cognitive dimension is the point at which one enjoys the highest level of social capital. This requires an in depth research to examine how to generate significant social capital even from the beginning, because the span between trusting community to building confidence takes time. It is also recommended to identify mechanisms through which associations enhance safety, confidence, and business success that ensures sustainability of the economic growth.
3. Future studies should assess the mediating role of informal networks in contexts where institutional trust is weak. The few mediators identified by this study are in the domain of network of people.

In summary, strengthening personal networks while reforming institutional frameworks can create stock of social capital that contributes to more promising and sustainable business. By fostering business friendly policies, institutions can support business initiatives even from the beginning phase. Strengthening trust in institutions will ultimately enable businesses to scale and ensure sustainability through linking form of social capital for sustainable economic development.

**Declaration of interest**

The authors declare no conflicts of interest.

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## ABOUT THE AUTHORS

**Mathewos Belissa** *(Corresponding Author)* - Assistant Professor at Ambo University, PhD Candidate at Addis Ababa University, College of Social Sciences and Humanities, School of Development Studies, Ethiopia.

**Worku Tuffa (PhD)** - Assistant Professor of *Business and Enterprise Development* at Addis Ababa University, College of Social sciences and Humanities, School of Development Studies, Ethiopia