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Microfinance and Entrepreneurship: The Enabling Role of Social Capital

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Abstract

Purpose: Although scholars highlight the importance of social capital for accessing various resources embedded in social networks, little is known about the mechanisms through which social capital strengthens the impact of microfinance on fostering entrepreneurship. Drawing on forms of social capital, this paper seeks to examine how, and to what extent resources embedded in social networks determine the impact of microfinance on entrepreneurial success.

Design/methodology/approach: Survey data was collected through multistage stratified random sampling of 317 micro-entrepreneurs across 80 microfinance institutions in three South-Western states of Nigeria.

Findings: The findings showed that both relational and network social capital positively strengthen the impact of microfinance on entrepreneurial success. However, married and better educated microfinance clients are likely to benefit more from the resources embedded in social networks.

Research limitations/implications: Better understanding of the complex interplay of social capital dimensions, the users' context and the outcomes of microfinance may require the deployment of a longitudinal research design involving a comparable control group.

Practical implications: Microfinance will have a positive impact on borrowers where microfinance provision coordinated by individuals (loan officers) with understanding of the entrepreneur's context and who are committed to building sustainable work relationships.

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Originality/value: This paper contributes to the current debate on relationships between microfinance and entrepreneurship using a social capital perspective.

Keywords: Entrepreneurship, Impact, Microfinance, Small businesses, Social capital

Introduction

Microfinance (MF) is one form of entrepreneurial finance most widely used in less developed economies (Bruton et al., 2011; Chakravarty and Shahriar, 2014) to stimulate entrepreneurship and increase revenue generating activities by financially excluded poorer individuals/families, to alleviate poverty and to empower women (Ansari et al., 2012; Attanasio et al., 2015; Augsburg et al., 2015; Banerjee and Jackson, 2017; Chliova et al., 2015; Pitt et al., 2006; Shahriar et al., 2015). Thus, it generally attracts the attention of scholars, policy makers and practitioners (Siwale and Ritchie, 2012). Its distinguishing characteristics are the provision of small loans under social collateral, group liability and peer monitoring, as well as early/frequent repayment in order to reduce costs and default risks (Aggrawal, et al., 2015; Besley and Coate, 1995; Haldar and Stiglitz, 2016).

A common characteristic of Sub-Saharan Africa, including the study context Nigeria, is high levels of poverty and low GDP growth. As of Q3 2017, the Nigerian unemployment rate was 18.8% with 18 million people unemployed and under-employed, further highlighting the importance of the government's enterprise policy drive for poverty reduction and job creation (Nigeria National Bureau of Statistics, 2017). Furthermore, 942 microfinance banks currently provide financial and credit plus services to lower income clients both in rural and urban settings (CBN, 2018). However, our understanding of the extent to which microfinance fosters entrepreneurship in Nigeria and how this occurs is still very limited. Further afield, researchers have questioned the espoused belief of microfinance as an all-encompassing solution to poverty alleviation and a better life for up-takers of microcredit (Alvarez and Barney, 2014; Banerjee et al., 2015; Banerjee and Jackson, 2017). Banerjee et al. (2015) argued that although microcredit affects the structure of household consumption, as it allows for some level of investment in small household businesses, there isn't necessarily a universal demand for it and it is not particularly profitable. Other researchers, however have sought to identify the conditions or factors which facilitate or constrain the impact of microfinance on entrepreneurial activities. Bruton et al. (2011), for instance, emphasise that to achieve effective business performance and deal with lenders, micro-credit borrowers should possess relationship management skills. Adekunle (2011) further suggests that group membership contributes to entrepreneurial performance. More recently, Newman et al. (2014) argued that microfinance should look beyond strict finance lending provisions towards facilitating social interaction particularly among poorer entrepreneurs who have less access to various forms of capital. Halder and Stiglitz (2016) in their comparative study of the Grameen Bank of Bangladesh and the SKS Microfinance model of India also concluded that microfinance institutions (MFI) success in developing countries could be attributed to social capital and trust.

From the demand side, microfinance clienteles tend to be; very poor, possess limited or no business network experience, lack access to finance, are often less educated and lack necessary business skills (Aggarwal et al., 2015). As an innovative financial service, microfinance is in a distinctive position to serve such disadvantaged and financially excluded sections of society. These MFIs use innovative approaches such as; substituting social collateral for material collateral, early and regular repayments, and focus on group lending in order to manage various risks involved in lending (Aggarwal et al., 2015). On behalf of the clienteles, complementary mechanisms, such as resources embedded in social networks, are required for having access to and use of microfinances for entrepreneurial activities (Aggarwal et al., 2015; Bourdieu, 1986; Lin, 1999).

The focus of this paper is thus to examine the mechanism through which microfinance fosters entrepreneurial activities within a developing economy context. Drawing on social capital theory, we examine the extent to which social capital resources embedded in social networks enable MF to spur on entrepreneurship. We address the research question: *How and to what extent do resources embedded in social networks determine the impact of microfinance in fostering entrepreneurship?* Using appropriate survey questions, the paper examines the direct effect of microfinance on micro-firm profitability (we termed this as 'entrepreneurial success'), and the mediating role of relational, and network social capital in explaining the microfinance effect on fostering entrepreneurship. Here, we conceptualise social capital narrowly as resources embedded in social networks (Bourdieu, 1986; Lin, 1999, 2003). More specifically, we use trust within group membership to represent relational capital, and social contacts (interaction and work relationship with MFI officers) to represent network social capital. Although there has been increased research into entrepreneurial capital, to the best of our knowledge empirical examination of the influence of various forms of social capital in relation to microfinance and entrepreneurship is rare and the few empirical studies undertaken by development economists remain inconclusive (Crepon et al., 2015; Karlan and Zinman, 2011; Lee and Jones, 2015). The paper thus addresses this research gap and extends the social capital literature to microfinance and entrepreneurship. Furthermore, we argue, that the relational and network social capital dimensions are key mechanisms through which microfinance contributes to business creation and performance.

Microfinance and social capital

MFIs provide the active poor with diversified and affordable financial services which enable them to engage in entrepreneurial activities and thereby generate employment, income and improve their standard of living (CBN-MPSRF, 2005). Specifically, MFIs are known to provide small non-collateral credit to the poor, women and small enterprises, using group-based lending where social network relationships among clienteles, and early and frequent payments are utilised to enhance monitoring and repayment of loans and reduce costs and risks (Aggarwal, et al., 2015; Bauer et al., 2012; Ghatak, 1999). There is, however, limited supporting evidence for the underlying mechanisms by which this enabling role of microfinance is perpetuated.

The concept of social capital on the other hand has gained relative prominence within sociological and organisational circles with an increasing number of studies being conducted by enterprise researchers to gain a better understanding of its impact on organisation practice (Adler and Kwon, 2002; Edelman et al., 2004; Nahapiet and Ghoshal, 1998). Although entrepreneurial social capital has also been extensively researched, these studies have tended to be objectivist with more subjective research is only now emerging (Lee and Jones, 2015). Lee and Jones (2015) in particular argue for a fusion of objective and subjective data in order to enhance situated meaning and entrepreneurial intentions within networks. Whilst Nahapiet and Ghoshal (1998) note that social capital exists in structural, relational and cognitive dimensions. Bourdieu (1986) identifies social capital as one of three forms of capital, which can be represented as symbolic capital. Nordstrom and Steier (2015) similarly note that symbolic capital in the form of relational interactions is a source of competitiveness for family businesses particularly, and possibly for microbusinesses in general.

Social capital is generally considered to be a resource that could arise from family relationships as well as membership of social groups and emphasizes the significance of trust and reciprocity in networks of relationships (Bourdieu, 1986; Coleman, 1988). Light (2004) defines social capital as “relationships of trust embedded in social networks” and according to Portes (2010), trust and reciprocity are significant forms of social capital which enable joint responsibility for loan application, loan repayment and lowering transaction costs. Furthermore, through social capital, entrepreneurs can activate their networks to mobilise resources not possessed internally (Bourdieu, 1986; Liao and Welsch, 2005; Tata and Prasad, 2015). Hence, social capital is a key resource for business creation particularly in the context of microfinance. It also enhances entrepreneurs’ social status and approval (Coleman, 1988; Portes, 1995).

Following Lin (1999) we maintain that social capital is rooted in social networks and social relations and adopt Lin’s definition of social capital “as resources embedded in a social structure which are accessed and/or mobilized in purposive actions”. This definition allows us to explore the resources embedded in the social structures of entrepreneurs; their access to such social resources; and their use of such social resources for entrepreneurial success.

Relational Embeddedness

The relational dimension views social capital in terms of occurrences within group relationship networks. This is distinguished from the structural dimension as capital resources are embedded in the actual relationships individuals maintain. It is this embeddedness that determines individual actions, given their involvement within their social groups, and influences behaviour (Nahapiet and Ghoshal, 1998). Also, within the context of microfinance, social interaction, social ties, trust relationships and shared value systems are the main social capital dimensions (Liao and Welsch, 2005).

Entrepreneurship naturally thrives in socially supportive environments (Stephan and Uhlaner, 2010). We argue that in the Nigerian context, where formal contract enforcement institutions are less developed and formal insurance is inaccessible, entrepreneurs rely heavily on relational social capital to access microfinance services. We hypothesise that trust within groups is important for maintaining relationship networks and improves the value of embedded resources in fostering entrepreneurial success. Joint liability of group members not only helps reduce transaction costs but also mitigates the likely default by members of a group. This implicit condition sets the norm for joint loan applications by group members. In a meta-analysis of social capital of entrepreneurs and firm performance, Stam et al. (2014) identified a positive and significant link between social capital and performance. They also found that weak ties have smaller effects than structural holes, whilst network diversity has a significantly large effect on performance. Relational social capital influence on entrepreneurs' access to resources and information is well evidenced by the previous studies (e.g., Tata and Prasad, 2015). Galunic and Moran (1999) reported that relational trust improves sales and innovation performance. Furthermore, strong ties improve enterprise performance through; trust mechanisms, relevant information sharing and supportive attitudes toward problem solving (Uzzi, 1997). Shi et al. (2015) particularly noted that trust could prove beneficial or detrimental to SMEs dependent on the type of trust in consideration. In this regard, interpersonal trust is highly relational and of immense benefit, in contrast to contractual trust, which is weak and marginal, and hence likely to have limited impact. We thus expect a positive relationship between social capital measured as trust and entrepreneurial success. We also argue that trust within groups reinforce the effectiveness of joint liability and reciprocity where loans are used for intended business purposes and thereby enhance the impact of microfinance on entrepreneurship (Attanasio et al., 2015).

Although existing studies establish a positive relationship between social capital as trust and access to resources, we seek to explore how interacting variables such as education level, marital status, age and gender of entrepreneurs strengthen or weaken the effect of relational social capital on the link between microfinance and entrepreneurial success. It is also unclear whether the impact of social capital increases or decreases entrepreneurial success among female entrepreneurs. For instance, Peprah (2012) noted that marital status and education do not influence access to credit among women entrepreneurs in Ghana. Peter & Munyithya (2015) on the other hand reported that cultural background, education level, age and marital status all influence entrepreneurial success, and Babajide (2011) equally views high education levels as having positive and significant impact on business efficiency and profitability. Age is included as an additional control variable and a proxy for experience.

We hypothesize that there is a positive interaction between age and both measures of social capital. Older entrepreneurs in the group are more likely to benefit from social capital due to their experience of making social connections within the community. Although not significant, Wydick et al. (2011) found age of the household head to have a negative relationship to microfinance. Finally, Lindstrom (2010) found a strong positive association between social capital measured as trust and marital status, with lower trust levels among divorce and separated couples compared to married couples. Consequently, we expect that the relationship between marital status and social capital can be positive or negative. Based on the foregoing, we advance the following hypotheses:

Hypothesis H1: Social capital measured as trust (relational social capital) is positively related to the impact of microfinance on entrepreneurial success (firm performance)

H1a: The strength of relational social capital’s influence on the impact of microfinance and entrepreneurial success depends on the level of education.

H1b: Married clients have a stronger relationship between the relational social capital and the impact of microfinance and entrepreneurial success

Structural embeddedness

The structural dimension of social capital relates to the resource which is embedded in structural positions and refers to impersonal configurations that link individuals but are distinct from individuals or resources they possess (Coleman, 1988; Nahapiet and Ghoshal, 1998). Social interactions and strength of tie within MF group members is vital in the development of group level social capital (Mani & Lakhal, 2015). We hypothesise that social interaction through group membership in the microfinance context provides network ties necessary to access loans, develop business learning opportunities and manage loan risk at group and individual levels.

Entrepreneurs' social interaction and networking enables resource acquisitions and entrepreneurial outcomes. We argue that embedded resources in social networks improve the outcomes of entrepreneurial activities for two reasons (Lin, 1999). Firstly, they facilitate information flows: Network ties with loan officers could be considered as strategically positioning entrepreneurs and facilitating access to information on the loan availability, loan conditions and opportunities for starting business. Secondly, social ties maintained with loan officers allows them to play an active role in decision making regarding loan application, loan size and approval of loans. Most importantly, creating and maintaining good working relationships with loan officers may provide entrepreneurs with social credentials crucial to accessing loan facilities. We believe that the network ties with loan officers provide the bridge in structural holes which enable not only information and influence flow but also access to credit for business start-up and operations as well as ensuring repayments (Burt, 1992; Lin, 1999; Iyanda et al., 2014; Van den Berg et al., 2015).

Following previous literature (Bourdieu, 1986; Lin, 1999; Scrivens and Smith, 2013), we specified social resources as network resources (MFI group membership) and contact resources (network with Microfinance loan officers). Group membership enables access to resources embedded in group networks and contact resources facilitate resources accessible through MFI officers for entrepreneurial action. The contact resources are of immense importance for MFI clients as such contacts have power and positional authority in mobilising finance for the MFI clients (Hofstede and Bond, 1984). Such networks could be considered as bridges or weak ties that make it possible for entrepreneurs to make returns on their activities.

Bandura (1986) views that individuals possessing status and prestige would likely have opinions and behave in ways that have greater impact on social network activities than peripheral members. As such, one might expect a positive relationship between entrepreneurs and loan officers perceived to occupy positions of greater value. Furthermore, the efficacy of interactions among the social actors is an important determinant of the relationship maintained, as the efficacy is reflective of the perceived utility of past interactions (Kostova and Roth, 2003). Such perceptions may be individual or collective and could influence individual actors' orientation towards the transfer or reception of resources. The above arguments support the view that actors with personal networks consisting of resource rich and powerful ties will show better performance. The relevance of this argument is that the perceived good ties of borrowers with MFI loan officers enable access to loans and related services. Newman et al., (2014) further maintain that credit-plus activities such as business training and client support help boost the confidence and optimism of would-be borrowers. In the context of Vietnam, Raven (2015) reported that business training can improve women microenterprise performance as well as their motivation, success, and perceptions. However, others have equally argued that such training may have limited impact on venture profitability (Karlan and Valdivia, 2011). In this paper, we argue that the nature of relationships maintained between group members and microfinance officers has the propensity to influence dispositions of entrepreneurs to achieve business success as such relationships generate more favourable perceptions of the firm's desire to support entrepreneurism (Linan and Santos, 2007). This in turn generates a sense of entrepreneurial feasibility to achieve set objectives. Hence, we can hypothesise that both loan availability and usage through resource-rich contacts play an important role in entrepreneurship.

Feigenberg et al., (2010) were the first scholars to report on the economic returns of social interaction within the microfinance context. The studies of these authors showed association between social interactions lasting more than a year and improvements in informal risk sharing, and default reductions. Pena-López and Sánchez-Santos (2017) further opine that entrepreneurial ties between group members and loan officers (structural social capital) yield opportunities to access appropriate information flows and resources. Network relations at the individual level contributes to the entrepreneurial start-up or firm success (Davidsson and Honig, 2003; Lin 2003).

Further, social capital measured as social networks is expected to have a positive relationship with entrepreneurial success. Social network ties created through contact resources (MFI officers) enhance business activities, strengthens community ties and increases access to informal credit (Attanasio et al., 2015; Karlan and Zinman, 2011). Siwale and Ritchie (2012) also established that relationships between entrepreneurs (borrowers) and loan officers can have a positive impact on entrepreneurial outcomes. Babajide (2011) similarly affirms that businesses with no regular contact with their loan officers are 4.73 times more likely to fail compared to businesses that have regular contacts with loan officers, signifying the importance of the contact resource. Other studies also show that entrepreneurs with higher education levels are more likely to have access to financial resources, and be successful in entrepreneurial activities (Agboola et al., 2016; Davidsson and Honig, 2003; Langat et al., 2015; Mwangi and Ouma, 2012). Based on the foregoing, we hypothesise as follows:

Hypothesis 2: Network social capital (such as contact resources with MFI officers) is positively related to the impact of microfinance on entrepreneurial success

Hypothesis 2a: Network social capital's influence on the impact of microfinance on entrepreneurial success differs by marital status

Hypothesis 2b: Network social capital's influence on the impact of microfinance on entrepreneurial success differs by education level

Microfinance and entrepreneurial success (profit)

While inadequate financing has been identified as a major cause for business failure, there still exists a lack of consensus on the contributions of microfinancing to business performance. In the meta-analysis of microcredit, Chliova et al. (2015) established that the impact of microfinance on key economic development outcomes (firm survival, growth, profitability, etc.,) is greater at individual levels in weak institutional contexts.

Several previous studies, however, questioned whether microfinance enables the creation of profitable ventures (Bradley et al., 2012) and reported non-significant or negative financial outcomes (Coleman, 1999; Stewart et al., 2010). Banerjee et al. (2015) also question the espoused belief of microfinance as an all-encompassing solution for poverty alleviation and user welfare improvement and Bruton et al. (2011) maintain that not all borrowers achieve significant business performance improvement. They attributed high venture performance to; having a clear future growth orientation for both businesses and the self, decision-making discretion, skilful relationship management to deal with lenders, and cordial engagement with group members.

Whilst some previous studies are inconclusive on the impact of microfinance on micro enterprise profitability (see, Angelucci et al., 2013; Banerjee et al., 2015), others reported positive impacts on business profitability (Augsburg et al., 2015, Crepon et al., 2015); significant increases in investment for business assets (e.g. Crepon et al., 2015) and slight decline in subjective well-being (Karlan and Zinman, 2011). Using a randomized trial, Augsburg et al. (2015) reported that the use of microfinance led to an increased level of employment and a reduction in the incidence of wage work.

Using a multivariate logistic regression to investigate the effects of MFI lending on micro and small enterprises (MSEs) performance in Kenya, Wanambisi and Bwisa (2013) found that the loan amount is significantly and positively related with performance of the MSEs. Habibullah (2001), using increase in sales, asset acquisition and technology as measures of business performance, also found that microfinance increased the income of MSE operators and poor people in Bangladesh. Oyeniyi (2014) examined the influence of microfinance banks on the performance of small scale businesses at the community level and found microloans to have a great impact on performance of small scale businesses in areas of source of capital, profit, business expansion, savings/investments, and wealth creation. These empirical findings lead us to hypothesize that:

Hypothesis 3: The use of microfinance is positively related to entrepreneurial success (profit).

Methodology

The study population from which the sample is drawn comprises of MFI clients in three South-Western states of Nigeria (see Table 1). Data was collected from 317 micro-entrepreneurs in a survey conducted over a four month period. Using multistage stratified random sampling, 480 entrepreneurs/(clients) were selected across 80 microfinance institutions. 317 respondents provided responses with 180 fully completing their questionnaires. Hence the survey achieved 37.5% response rate. This is an acceptable level of survey response given the nature of the profile of MFIs' clients who tend to have low levels of education. The median amount of loans received by clients was approximately $98 and the median amount of profit made after microfinance loans was approximately $17.

[TABLE 1 ABOUT HERE]

The demographic profiles of respondents were as follows. Almost all clienteles (91.5%) were in buying and selling businesses (The Nigerian Microfinance Policy, Regulatory and Supervisory Framework allows for short MF loan cycles of 6-12 months, making such loans suitable for trading purposes). The remaining 8.5% were in; manufacturing (4%), agricultural (3%), E-service (1.2%), and Artisan businesses (0.6%). Of the 180 respondents, 50.6%, 28% and 18.5 % were within the age groups of 30-39 years, 40-49 years old, and 20-29 years old, respectively. The majority of clients had a secondary (52%) and a primary (32%) education ; with 6.6%, 6.2% and 2.8% having a diploma, no education and a first-degree education respectively (see, Table 2). 86% of the borrowers were women and most female entrepreneurs in our sample were married.

[TABLE 2 ABOUT HERE]

A multi-item survey questionnaire was used to elicit a range of information from the respondents. The questionnaire had six sections: Sections One (responses on business profile) and Two (relating to group membership and social capital) were aimed at understanding the influence of social networks and trust on access to loan and entrepreneurial success. Sections Three, Four and Five dealt with loan utilisation, loan size and tenor, and loan administration (including access to pre- and post-loan training and support services from involved MFIs). Section Six was used to collect demographic profile-related data. A total of 61 items were included across the six sections with data collected on nominal, ordinal and ratio scales. Our choice of questionnaire design was in line with previous studies that found similar scales to be suited for research purposes (Courtis, 1992; Firer and Meth, 1986; Myburgh, 2001). Below we describe the data used from the questionnaire to measure our variables.

Measures used from the Questionnaire

Entrepreneurial Success

We used 'business profit after using loan' as the measure of entrepreneurial success. This is because microfinance assists entrepreneurs to invest in new businesses or finance existing ones, for various aims including making profit. This measure is consistent with Chliova et al. (2015) who used venture profits as a dependent variable to measure entrepreneurial success.

Microfinance

This is a continuous variable measured by "the amount of the last loan received by the entrepreneur". We use this measure because it follows the question above on the amount of profit after using the loan.

Social Capital

Two measures for social capital were used. The first related to trust among group members based on its social relation dimension. Four questions were asked to elicit respondents' views on trust relationships and its effect, using a nominal scale (1-Yes, 2-No, and 3-I don't know). These were: (i) "I trust other members of the group"; (ii) "Membership of this group contributed to the success of business"; (iii) "Membership of this group contributed to access loan" (iv) "Membership of this group contributed to improvement in welfare". The second measures social capital related to social network. Three questions were used to capture the perceived usefulness of work relationships with MFI officers. These were: (i) My work relationship with loan officer has helped in improving my business, (ii) network relation with MFI officers helped to receive relevant information on loans and its conditions; (iii) Pre-loan training enhances my entrepreneurial activities. The responses were in a 5-point scale from 1 – strongly agree to 5 – strongly disagree.

Demographics

We used four control variables: education level, gender, age and marital status, in analysing whether the impact of social capital on the relationship between microfinance and entrepreneurial success differs by these control variables. Table 3 reports the correlations among the logarithm of entrepreneurial success (Y_t), micro-finance loans (X_t), access to loan facility (S_{1t}), the success of business (S_{2t}), improvement in welfare (S_{3t}), trusting other group members (S_{4t}), the work relationship with the loan officer helps improvement in business (S_{5t}), pre-loan training enhances my entrepreneurial activities, sex (D_{1t}), level of education (D_{2t}), age (D_{3t}) and marital status[34] (D_{4t}). The Table indicates no problems of multi-collinearity as most of the variables under consideration are not strongly correlated.

[TABLE 3 ABOUT HERE]

[3] Marital status is measured in a nominal scale to distinguish between single, divorced, separated and married clients.

The Model

Using a categorical regression to estimate our model, we tested whether there is a significant relationship between microfinance and entrepreneurial success controlling for the level of education, age and marital status. This method of estimation is appropriate when different variables are measured with different scales (from continuous to categorical) that are not normally distributed. Therefore, estimating our model using categorical regression produces BLUE estimates (Greene, 2011). In equation (1), the dependent variable (Y_t) denotes entrepreneurial success. The independent variables are microfinance loans (X_t), a vector of variables (β) that measure social capital (S_t) and a social demographics variables (D_t). We include the interaction between these demographic variables and social capital dimensions to find out if the relationship between microfinance and entrepreneurial success differs by the level of education, age, gender and marital status. By controlling for these factors, we seek to unpack the mechanisms through which microfinance helps in fostering entrepreneurship.

$$Y_t = \alpha_0 + \alpha_1 X_t + \beta S_{it} * D_{it} + \epsilon_t \ldots(1)$$

Results

Relational social capital – trust

Overall, the results showed that social capital positively affects the impact of microfinance on entrepreneurial success (profit after the use of loan). The impact of microfinance on entrepreneurial success is significant and positive where group members are embedded in trustful relationship. Table 4 shows relational social capital (trust, reciprocity) has a positive and significant influence on the impact of microfinance on entrepreneurial success (β=0.361, p<0.001). However, those clients with a higher level of education (β=1.250, p<0.001%) and women (β=1.088, p<0.001) are more likely to benefit from trust-based social relationships. Trusting other group members in their loan use and repayment nurtures a sense of *special trust* between borrowers thereby solidifying reciprocity, obligations and enforcing the social collateral for loan repayments. Therefore, increased trust among female entrepreneurs with higher levels of education contributes positively to entrepreneurial success. This finding adds a nuanced explanation to the observation by Salia et al. (2018) that educational level positively impacts female entrepreneurial traits by highlighting the vital importance of trust-based relationship in the process. As the sample predominantly comprised of married female entrepreneurs, we interacted loan access with marital status to understand the effect of marriage on loan access and entrepreneurial success. This showed marital status has a positive significant effect ($\beta=0.579$, $p<0.001$) on access to loan and entrepreneurial success. The results suggest that being married increases the chances of loan access compared to being single, divorced or separated. We suspect this is due to marriage increasing individual and family connections, thus boosting the chances of access to loan.

We also examined whether relational social capital (trust) enhances the perceived improvement in welfare. Older entrepreneurs experienced an improvement in welfare and this had a positive impact on entrepreneurship success ($\beta=1.353$, $p<0.001$). However, the relationship between welfare improvement and entrepreneurship did not differ by marital status. Older clients were more likely to perceive positive improvement in their welfare because of their access to loan facilities but married clients could see a reduced subjective well-being. This result contrasts with other results which showed being married facilitates better access opportunities to loans and its effect on entrepreneurial success. It might be argued here that married clients may trade-off welfare improvement in favour of firm performance and hence are less likely to use the return on loans (profit) for household consumption. Thus, hypotheses H1 and H1b are accepted.

The Anova F-statistic shows that we reject the null hypothesis that the model does not explain a significant amount of variance in entrepreneurship success. The R^2 of 0.36 is low but our model is robust given the significance of the regressors and the results of the Anova F-statistic. The results highlight the interactive effect of social capital dimensions with control variables such as level of education, age and marital status in enhancing the impact of microfinance on entrepreneurial success.

[TABLE 4 ABOUT HERE]

Network social capital

This study found that network social capital influence is an important factor in enhancing the microfinance impact on entrepreneurship (β=0.555, $p < 0.001$). The model overall shows a good fit with an $R^2=0.732$. The results in Table 5 thus concur with the second hypothesis that the impact of microfinance on entrepreneurial success increases when clients are in productive work relationships with contact resources. The result supports the argument that confidence and self-efficacy of borrowers developed through productive network ties and related support services from MFIs boost the impact of loan on entrepreneurial success. Here, the bridging social capital (interaction with loan officers who generate business relevant information and resources) enhances these clients 'propensity to enterprise' (Liao and Welsch, 2005). When interaction variables were introduced to the model, the result showed that network social capital effect is positive and significant for entrepreneurs who have a higher education level (β=1.009, $p<0.005$) and who are married (β=0.606, $p<0.005$). Thus, we claim that education level and the marital status of entrepreneurs could predict the positive influence of network social capital in enhancing the impact of microfinance on entrepreneurial success. The interacting effect of age with network support from the MFI is negatively related to the impact of microfinance on entrepreneurial success showing the older MFI clients are less likely to exploit contact resources effectively. We hypothesise that such a negative interacting effect might be due to a tendency for older and poorer MFI clients to be socially isolated from contact resources that have high level authority positions and power (cf, OECD, 2011). Furthermore, contrary to our expectation, the analysis showed that pre-loan training received prior to loan periods, though positive, does not have a significant impact on entrepreneurial success[5].

[TABLE 5 ABOUT HERE]

Discussion

[5] We controlled for location of entrepreneurs in terms of receiving training in rural and urban areas. We also examined the impact of pre-loan training alone on entrepreneurial success and found no significant relationship.

Our conceptualisation of social capital as intersecting structure, relations and action helped us to examine the role of network ties and trust, as forms of social capital, in enhancing the impact of microfinance on entrepreneurial success. We also examined the interacting effects of control variables such as age, gender, marital status and the two forms of social capital in predicting the impact of microfinance on entrepreneurial success. Our findings from both empirical models showed that trust among group members and social network ties, positively and significantly influence the impacts of microfinance on entrepreneurship.

The study showed how the relational and network social capital *combined* can make a real difference by enabling poor households to have access to loans, build confidence and positive mind-sets to engage in entrepreneurial behaviour and the economic returns thereof. Different research contexts have demonstrated that social capital is a determining factor for accessing and use of credit/finance by entrepreneurs (Agboola et al., 2016; Davidsson and Honig, 2003; Iyanda et al., 2014; Mwangi and Ouma, 2012). For example, Agboola et al. (2016) provided evidence showing social capital as a significant determinant of loan size accessible to entrepreneurs, and that education level predicts access to credit. Davidsson and Honig (2003) in their study of social and human capital roles among nascent entrepreneurs reported that social capital variables (bonding and bridging social capital) were found to be very strong and consistent predictors of the outcomes – specifically, bridging social capital is operational and a strong predictor of business creation. Siwale and Ritchie (2012) and Van den Berg et al. (2015) also reported positive entrepreneurial performance due to network ties with loan officers. Langat et al. (2015) found that age and educational levels positively and significantly affected household and individual access to microcredit. Hence, our study provides supporting evidence on the impact of relational and social network resources on accessibility and effectiveness of microfinance on entrepreneurial success. The results thus confirm Hypotheses 2, 2a and 2b.

Our study further extends previous findings which report the positive impact of microfinance on firm performance (e.g., Karlan and Zinman, 2011; Oyeniyi, 2014; Wanambisi and Bwisa, 2013) and other studies which suggest that access to microfinance in itself is no guarantee of entrepreneurial success (Alvarez and Barney, 2014; Banerjee and Jackson, 2017; Bruton et al., 2011). The finding that pre-loan training does not have a significant impact on micro-entrepreneurs' profit accords with Karlan and Valdivia (2011). They found little or no evidence of changes in performance indicators (business revenue, profits, or employment) because of entrepreneurial training on female micro entrepreneurs, though it improved their business knowledge.

The study showed that MF group members, embedded in trusting social relations which enable cooperation, reciprocity and mutual obligation, are likely to gain from socially supportive environments for entrepreneurship (Halder and Stiglitz, 2016; Hofstede and Bond, 1984; Stephan and Uhlaner, 2010). Furthermore, social network ties with strategically positioned contact resources positively and significantly strengthen the impact of microfinance on entrepreneurial success for married clients and those with higher education levels. This is an important finding for two reasons; first, it shows that entrepreneurs who value the strategic position of microfinance officers would be more motivated to develop sense of self-efficacy, hope and positive mind-sets for accessing and using loans (Bandura, 1986; Nahapiet and Ghoshal, 1998). Secondly, in developing country contexts with weak infrastructural developments and symbolic capitals such as educational attainment among entrepreneurs (Bourdieu, 1986), there is also a higher likelihood for entrepreneurs to rely on individuals with higher power distance or positional authority (Hofstede and Bond, 1984).

Conclusion

This research draws three main conclusions. First, the complex interplay of the forms of social capital in enhancing the impact of microfinance on entrepreneurial success suggests that the availability of microfinance by itself is an insufficient condition for entrepreneurial success. Microfinance provision should be complemented with the existence of enabling social relations and network ties of strategic nature for it to have a sustained effect. Second, whilst both forms of social capital could boost consequences of microfinance on entrepreneurial success, they may not be of equal importance in determining the relationship between the latter two. Network ties, as bridging social capital, are likely to have more predictive power for microfinance effects on entrepreneurial success as they allow the acquisition of critical resources for enterprise (cf, Liao and Welsch, 2005; Van den Berg et al., 2015). Third, understanding the profiles/attributes of MFI clients are important for MFIs as they were found to be good indicators of clients' ability to exploit available loan opportunities.

In effect, the findings of this study show that social capital is a key factor that determines the impact of microfinance on entrepreneurial success (firm profitability). In particular, the results show that: 1) the impact of microfinance on entrepreneurial success is significant and positive when group members are embedded in trustworthy social relations. However, married female clients with higher levels of education are more likely to benefit from trust-based social embedded relationships. 2) Network social capital (contact resource with MFI officers as a bridging social capital) strengthens the positive impact of microfinance on fostering entrepreneurial activities. When interaction variables were introduced to the model, the result showed the network social capital effect is positive and significant for married entrepreneurs with a higher level of education. The interacting effect of age with network social capital on the relationship between microfinance and entrepreneurship, however, was found to be negative.

In this paper, we have attempted to contribute to the current debate on relationships between microfinance and entrepreneurship using social capital perspective. In doing so, we provided empirical evidence which shows the extent to which forms of social capital (trust and network ties) contribute to enabling entrepreneurial success through microfinance activities. We found that for entrepreneurs in poor communities, both the within-group trust and productive network ties with contact resources could predict the positive impact of microfinance on entrepreneurial success. Clients could benefit from developing and using both the bonding and bridging networks (Davidsson and Honing, 2003). Our research also has implications for business practice as the findings suggest that MFIs need to have appropriate staffs that understand the small entrepreneur's context and can build sustainable productive work relationships. Theoretically, the paper addresses the identified gaps in the literature and makes relevant contribution to the entrepreneurship literature by providing empirical evidence on the extent to which relational and network social capital would help explain the effect of microfinance on entrepreneurial success. In doing so, the paper also extends aspects of entrepreneurship literature (relational social capital & network capital) to the microfinance literature. Specifically, the paper shows that entrepreneurs' positive perception that group membership is instrumental for their access to loans and business success, as well as trustworthiness and reciprocity, contribute to entrepreneurial success.

Although the study provided some important insights into the role of social capital in enhancing the impact of microfinance on entrepreneurship, there is scope for further research. We suggest future studies to deploy longitudinal research design involving a comparable control group in a specific context to better capture and understand the complex interplay of social capital dimensions, the users' context and the outcomes of microfinance. Cross-countries study of the role of social capital is also relevant in providing a much-needed insight on whether their impact could vary across different cultural settings in the context of microfinance and entrepreneurship.

Secondly, findings from existing researches on the impact of microfinance on entrepreneurship (and its outcomes) are inconclusive and contradictory. The findings of this study however casts light on the vital importance of deploying different forms of social capital (the relational and network social capital) for the sustained outcome of MF on entrepreneurship simultaneously. Finally, this conclusion suggests the relevance of questioning the win-win assumption which privilege MFIs and the need to enhance the social welfare of disadvantaged/poor clients. And this requires a qualitative understanding of the perspectives of microfinance users, using qualitative research approaches (Ansari et al., 2012; Banerjee and Jackson, 2017; Haldar and Stiglitz, 2016).

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