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Abstract

Purpose: this paper examines mechanisms through which social capital strengthens microfinance impact on fostering female entrepreneurial success. Specifically, the study focuses on how, and to what extent, resources embedded in social networks determine microfinance impact on entrepreneurial success.

Design/methodology/approach: survey data were collected from 276 female micro-institutions entrepreneurs using multi-stage stratified random sampling across 80 micro-finance institutions in three South-Western Nigerian states. Hypotheses were tested using ordinal regression analysis.

Findings: the study found that relational and network social capital had a positive and significant influence on female entrepreneurial success. Specifically, intra-group trust and productive network ties among female entrepreneurs in poor communities predicated the positive impact of microfinance on entrepreneurial success. Also, resources embedded in networks are more positively correlated to education level and marital status. Furthermore, microfinance could have more positive impact for borrowers with sustainable relationships with loan officers who organise microfinance provisions and understand the entrepreneurs' context.

Originality/value: the research provides empirical evidence for the relationship dynamics between female entrepreneurs and microfinance institutions, by emphasising the importance of deploying different forms of social capital in sustaining microfinance impact on female entrepreneurial success.

Keywords: Female entrepreneurship, Microfinance, Network social capital, Relational social capital

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1. Introduction

Entrepreneurship is a term, which has been variously defined by researchers and lacks a universally accepted definition. Stokes *et al.* (2010) view entrepreneurship as a social phenomenon or process that can be defined on the basis of processes undertaken, outcomes achieved, and behaviours required. Similarly, Eisenmann (2013) expresses entrepreneurship as a pursuit of opportunity beyond resources controlled. Gaddefors and Anderson (2017) further argue that entrepreneurship can exist in multiple states as an independent event in a flow of changing circumstances. An important thread across definitions of entrepreneurship is, however the recognition of opportunity and the accompanying mechanisms for successful exploitation of such opportunities for value creation.

In developing economies, microfinance (MF) is widely used to stimulate entrepreneurship and revenue-generating activities among financially deprived individuals/families, alleviating poverty, and empowering women (Bruton *et al.*, 2011; Augsburg *et al.*, 2015; Chliova *et al.*, 2015; Banerjee and Jackson, 2017). Furthermore, microfinance is characterised by the provision of small loans under social collateral, group liability, peer monitoring, and early/frequent repayments to reduce costs and default risks (Aggarwal, *et al.*, 2015; Haldar and Stiglitz, 2016). As such, the microfinance concept is generally societally attractive to scholars, practitioners and policymakers alike.

In Nigeria, over 1,000 microfinance banks provide financial/credit-plus services to low-income clients across different settings. However, the extent to which they foster entrepreneurship in the country is still underexplored (CBN, 2020). Furthermore, researchers have questioned the view that microfinance is a comprehensive solution for poverty alleviation and that it offers a better life for microcredit beneficiaries (Banerjee & Jackson, 2017). For instance, Banerjee *et al.* (2015) argue that while microcredit impacts household consumption by facilitating investment in small household businesses, it neither has universal demand, nor is it particularly profitable. Others have sought to identify factors that determine microfinance impact

on entrepreneurial activities, for instance, by looking beyond finance provisions to social interaction, particularly among poorer entrepreneurs with limited access to capital. In this regard, Haldar and Stiglitz (2016) opine that social capital and trust can contribute to the success of microfinance institutions (MFI) in developing economies.

Microfinance clients generally tend to be poor, less educated and with limited or no business network experience. So, MFIs adopt innovative approaches such as exchanging social- for material-collateral, early and regular repayments, and group-lending to manage various lending risks (Aggarwal *et al.*, 2015). Furthermore, complementary mechanisms, such as resources embedded in social networks, are often required to access and energisemicrofinance for entrepreneurial activities. However, our knowledge of how, and to what extent, resources embedded in social network ties enable women entrepreneurs access to microfinance is very limited.

In this paper, we focus on examining ways in which microfinance facilitates entrepreneurial activities. Using social capital theory, we evaluate the extent to which social capital resources embedded in social networks enable microfinance to foster entrepreneurship. We thus pose the question: *How and to what extent do resources embedded in social networks determine the impact of microfinance in fostering entrepreneurship?* We further investigate the direct effect of microfinance on entrepreneurial success (using micro-firm profitability). We conceptualise social capital as resources embedded in social networks (Bourdieu, 1986; Lin, 2003). We further use intra-group trust to represent relational capital and network contacts (interaction/regular contacts with MFI officers) to represent network capital. Although there is significant research into social capital, empirical examination of various social capital forms' influence on microfinance and entrepreneurship is limited (cf. Karla & Zinman, 2011; Lee & Jones, 2015). We contribute to this research gap by extending the social capital literature to microfinance and female entrepreneurship. Furthermore, we argue that relational and network social capital are vital mechanisms through which microfinance contributes to business creation and performance.

We specifically focus on female entrepreneurs. Although the Nigerian microfinance industry ecosystem is comparable to other nations regarding female-focused lending, recent studies show that Nigerian women are 16% less likely to default on loans than Nigerian men (Sayuti and Kabiru 2017). Also, as with other nations, female-owned and operated businesses are on the rise in Nigeria (GEM, 2012; Umemezia & Osifo, 2018). Ameh and Iheanacho (2017) reveal that rice farmers targeted by MFIs face significant limitations in their access to credit based on issues such as marital status, age, annual income, and gender. Also, over 70% of all approved loans were for males, which indicate a gender-based disparity in loan approval rate. In a similar vein, Ugwuja and Ngweze (2018) discovered a significant difference in the mean loan amount accessed by men compared with women, with men accessing far more significant amounts. In exploring this disparity, Umemezia and Osifo (2018) discovered that women lack awareness of credit opportunities, have challenges getting credible guarantors, and, face potential bias amongst loan officers regarding their ability to meet loan terms.

Ugwuja and Ngweze (2018) equally identified greater asset possession by males than females due to the high disparity in loan approval rates between the two sexes. They continue by noting that more property equates to more collateral to obtain credit, including loans from MFIs. This implies that MFIs microfinance practice in Nigeria is suboptimal and not significantly different from a bank loan. Traditional microfinance requires collateral substitutes such as social capital, trust, and association to replace physical collateral (Babajide, Taiwo and Adetiloye, 2017; Minocha, 2019).

2. Literature Review

2.1 Women Entrepreneurship & Access to Finance

Entrepreneurship is a gendered phenomenon as women experience entrepreneurship differently from men. Studies predicated on cause-effect explanations tend to attribute this to, *inter alia*: differences in intentions; motivations; access to resources; and, enterprise performance. Many studies report that enterprises owned by women are more financially constrained than male-owned businesses (Gottlieb, 2016; Mezgebo, Ymesel and Tegegne, 2017; Saviano, Nenci

and Caputo, 2017; Brixiová, Kangoye and Said, 2020; Molina, 2020). Brixiová, Kangoye and Said (2020), drawing on firm-level data obtained from the 2016 World Bank Enterprise Surveys for Eswatini, Lesotho and Zimbabwe, found that women entrepreneurs are more constrained in accessing finance and other resources and, this, in turn, affects the performance of women enterprises. Furthermore, in the context of Uganda, Karakire Guma (2015) found that the most significant barriers that women entrepreneurs face are access to finance due to the collateral requirements and gender discrimination.

Interestingly, Fiala (2018) examined the effects of finance and skill constraints on business growth using a sample of 1550 business owners in Uganda. The study found that despite offering loans to men and women successfully, expanded access to more loans by 50% showed no effects for female-owned enterprises compared to male-run enterprises. Fiala (2018) attributed such performance difference to the fact that microfinance has a propensity to targets 'poor women' who mostly operate businesses that are unable to expand easily because of community and household constraints which severely limit their ability to utilise the loans for their business. In contrast, Acheampong (2018) found that women entrepreneurs are better utilisers of microfinance for entrepreneurial purposes than their male counterparts. In particular, it positively affected early-stage entrepreneurial activity in women.

Several theoretical grounds may explain the gender gap concerning access to financial services. Studies like Gottlieb (2016), Solano and Rooks (2018) and Fiala (2018) emphasise the role that gender bias, social norms, culture, and social capital play in influencing women entrepreneurs' access to finance. Hence, our focus is on the role of social capital in explaining women entrepreneurs' access to microfinance and its effect on entrepreneurial success (performance). Social networks have been found to be crucial for women in Africa in being able to identify or recognise entrepreneurship opportunities (Akanji, 2016; Mudzividzwa, 2015). For instance, Ngek (2018) found bridging social capital as the most yielding for entrepreneurial opportunity identification and recognition. In the context of Ethiopia, Hundera (2014) signalled the value of marital status, personal skills, business network, and informal networks for exploiting opportunities and business creation.

2.2 Microfinance and Social Capital

MFIs provide small non-collateral credit to the poor, women, and small enterprises. Particularly, where relationship networks exist among clients, they often engage group-based lending and early and/or frequent payment techniques to enhance monitoring loan repayment, cost reduction, and risks (Aggarwal *et al.*, 2015). There is, however, limited supporting evidence for the impact of networks on microfinance. We thus address this gap in the literature by using the concept of social capital in the Nigerian microfinance context. Although there exists extensive research on social capital, there three prime contributors to our understanding of the phenomenon; Pierre Bourdieu who adopts a class approach with social capital seen as a resource associated with membership of social groups, James Coleman who explored social capital in family contexts as a resource for human capital development, and Rubert Putnam who views social capital as a key factor impacting trust and reciprocity at macro, regional and national levels (Bourdieu, 1986; Coleman, 1988; Putnam, 2000). Following Lin (2003), we maintain that social capital is rooted in social networks and social relations. Furthermore, we view social capital as resources embedded in social structures that are accessed or mobilised as required. This view allows the exploration of resources embedded in the social structures of entrepreneurs and their access to, and usage of, such resources for entrepreneurial success. Additionally, entrepreneurs can activate their networks to mobilise resources, enhance social status, and gain validation (Bourdieu, 1986; Liao & Welsch, 2005). Hence, in the context of microfinancing, social capital can be a crucial resource for both business creation and development.

2.2.1 *Relational embeddedness*

Social capital is generally considered a resource that arises from relationships and membership of social groups, emphasising the significance of trust and reciprocity in relationship networks (Bourdieu, 1986; Larson, 1992; Putnam, 2000). Accordingly, trust and reciprocity are vital in facilitating joint responsibility for loan applications and repayments and lowering transaction costs. The relational dimension of social capital views resources as embedded in, and between, individual relationships. That is, it is inherent in the quality of relationships maintained among individuals and manifests

through attributes such as trust and trustworthiness and collective identity in social groupings (Nahapiet & Ghoshal, 1998). In this regard, social interaction, social ties, trust, and shared value systems are identified as the main relational social capital (RSC) attributes (Liao & Welsch, 2005). In reviewing trust in lending, Moysidou and Hausberg (2019) particularly argue that trust plays a critical role in the perceived probability of realising returns on investment. Furthermore, trust can change the nature of the interaction between lenders and borrowers, thus allowing borrowers to develop informal and personal relationships that increase access to information and invariably to funding.

Additionally, by developing a framework of common values and beliefs, trust relationships serve as the glue holding group members together and enable MFI clients to receive loans collateralised by group guarantee (Stokes *et al.*, 2016; Montiel-Campos, 2019). Furthermore, trust anchors on the expectation that fellow group members will reliably honour obligations and engage in predictable business behaviours whilst utilising credit. Trusting behaviour thus affects the persistence of networks and improves the quality of information flow critical to lending, use of credit, and on-time repayment.

In less regulated institutional environments with limited access to formal insurance, entrepreneurs tend to rely heavily on RSC to access microfinance services. We hypothesise that trust within groups is important for maintaining relational capital and improves the value of embedded resources in fostering entrepreneurial success. Joint liability of group members based on trust helps reduce transaction costs and mitigates likely default by members of a group. This implicit condition thus sets the norm for joint loan applications by group members through the performance effects of network engagement (Stam *et al.*, 2014). Furthermore, strong network ties are deemed to improve enterprise performance through; trust mechanisms, relevant information sharing and supportive attitudes toward problem-solving (Shi *et al.*, 2015). Arguably, trust can 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.

Conversely, contractual trust is deemed weak and marginal, and hence likely to have limited impact. We thus expect a positive relationship between RSC measured as trust and entrepreneurial success. We also argue that in-group trust reinforces the effectiveness of joint liability and reciprocity where loans are used for intended business purposes, thereby enhancing the impact of microfinance on entrepreneurship.

Existing studies establish a positive relationship between social capital (trust) and access to resources. We, however, seek to explore how interacting variables such as education level, marital status, age, and gender of entrepreneurs strengthen or weaken the relational social capital's effect on the microfinance-entrepreneurial success link. It is also unclear whether the impact of social capital increases or decreases entrepreneurial success among female entrepreneurs. For instance, previous research among female middle managers indicates that while other forms of capital (human and psychological) have a definite relationship with entrepreneurial alertness (capacity for opportunity recognition), the same cannot be said of social capital (Montiel-Campos, 2019). However, Peter and Muniyithya (2015) reported that cultural background, education level, age, and marital status all influence entrepreneurial success. Other researchers equally view high education levels as having a positive and significant impact on business efficiency and profitability (Jiménez *et al.*, 2015; Kampelmann *et al.*, 2018). We also hypothesise that positive interaction exists between age and both measures of social capital, with older entrepreneurs in groups more likely to benefit from social capital due to their experience of making social connections within the community.

Finally, Lindstrom (2010) found a strong and positive association between social capital (measured as trust) and marital status, with lower trust levels among divorced and separated couples, compared to married couples. Consequently, we expect the relationship between marital status and social capital can be positive or negative. Based on the foregoing, we advance the following hypotheses:

H1: RSC has a positive impact on entrepreneurial success (firm performance).

H1a: The strength of RSC influence on entrepreneurial success depends on the level of education.

H1b: The effect of RSC on entrepreneurial success differs by marital status.

2.2.2 Structural embeddedness - network social capital

We conceptualise networks as the sum of invisible links between individual MFI clients and MFI officers to establish relationships and communication (Larson, 1992; Jack, 2010). Beyond these benefits, networks also serve as mechanisms through which MFI clients access information on group members, MFI services and learn about business opportunities in the social context (Jack, 2010). Hence, networks are both structures and flow as they are vital for unlocking and accessing the social capital embedded within a network (Jack, 2010; Pena-López & Sánchez-Santos, 2017). Group structures, in the MF context, thus provide a mechanism through which MFI loans are accessed and repayments are enforced, and necessary information on group membership and network relationship dynamics are shared.

Network capital relates to the resource embedded in structural positions and refers to impersonal configurations that link individuals yet are distinct from the individuals or resources they possess (Nahapiet & Ghoshal, 1998). Social interaction and the strength of ties among microfinance group members are also vital in developing group-level social capital (Mani & Lakhal, 2015). We thus hypothesise that group members' social interaction provides network ties necessary to access loans, develop learning opportunities, and manage loan risk at the group and individual levels.

Following Lin (2003), we argue that resources embedded in social networks improve the outcomes of entrepreneurial activities for two reasons. First, they facilitate information flow, as ties with loan officers could be considered as strategically positioning entrepreneurs and promoting access to information on loan availability, loan conditions, and business start-up opportunities. Secondly, social ties with loan officers allow them to play active roles in decision-making regarding the loan application, size, and approval. Most importantly, creating and maintaining regular contacts with loan officers may provide entrepreneurs with social credentials crucial to accessing loan facilities. We opine that network ties with loan officers provide the

bridge in structural holes which enable information flow and access to credit for business start-up and operations (Larson, 1992; van den Berg *et al.*, 2015).

Following previous literature (Bourdieu, 1986; Scrivens & Smith, 2013), we specified social resources as: network resources (MFI group membership) and contact resources (Microfinance loan officers). Group membership enables access to resources embedded in group networks and contact resources to facilitate resources accessible through MFI loan officers for entrepreneurial action. Contact resources are of immense importance for MFI clients as such contacts have power and positional authority in mobilising finance for MFI clients (Halder & Stiglitz, 2016). Such networks are considered bridges or weak ties that make it possible for entrepreneurs to earn returns on their activities.

Bandura (1986) opines that individuals possessing status and prestige would have opinions and behave in ways that have a greater impact on social network activities than peripheral members. As such, one might expect positive regular contacts between entrepreneurs and loan officers perceived to occupy positions of higher 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 (Lin, 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 of resource-rich ties will show better performance. This argument's relevance is that borrowers' perceived ties with MFI loan officers enable access to loans and related services. Pena-López and Sánchez-Santos (2017) further suggest that entrepreneurial relations between group members and loan officers (network capital) yield opportunities to access appropriate information flows and resources. Network relations at the individual level also contribute to entrepreneurial start-ups or firm success (Davidsson & Honig, 2003; Lin 2003). Arguably, the nature of network 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 firms' desire to support entrepreneurship. Hence, we can

hypothesise that loan availability and usage through resource-rich contacts play an important role in entrepreneurial success.

The preceding discussion underlines the expected positive relationship between network capital and entrepreneurial success. Social network ties created through contact resources (MFI officers) enhance business activities, strengthen community ties and increase access to informal credit (Karlan & Zinman, 2011). Similarly, Babajide (2011) affirms that businesses with no regular contact with loan officers are almost five times more likely to fail than businesses with regular contacts with loan officers, signifying the importance of the contact. In essence, relationships between entrepreneurs (borrowers) and loan officers could positively impact entrepreneurial outcomes. 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 & Honig, 2003). We, therefore, hypothesise as follows:

H2: Network social capital (NSC) - such as contact resources with MFI officers has a positive impact on entrepreneurial success

H2a: NSC influence on entrepreneurial success differs by education level

H2b: NSC influence on entrepreneurial success differs by marital status

2.3 Microfinance and Entrepreneurial Success

While inadequate financing has been identified as a major cause for business failure, there is still a lack of consensus on the contributions of microfinancing to business performance and other key indicators. Previous studies have questioned if microfinance enables the creation of profitable ventures and report non-significant or negative financial outcomes (Bradley *et al.*, 2012). Although some studies report conditions that enhance utilisation and impact of microfinance, they maintain that not all borrowers achieve significant business performance improvement (cf. Bruton *et al.*, 2011). Banerjee *et al.*, (2015) equally found inconclusive evidence on the impact of microfinance on micro-enterprise profitability. Other studies reported a slight

decline in subjective well-being; reductions in the incidence of wage work, consumption and savings; and no positive impact on total working hours or household income (Karlan & Zinman, 2011; Augsburg *et al.*, 2015).

In their microcredit meta-analysis, Chliova *et al.* (2015) established that the impact of microfinance on key economic development outcomes (i.e. firm survival, growth, profitability, etc.) is greater at individual levels in weak institutional contexts. Using randomised control trials, Augsburg *et al.* (2015) also found the impact of microcredit to include higher self-employment, increase in inventory, household labour, and profits. Bruhn and Love (2011) also found that providing financial services to low-income individuals increased the number of male informal business owners, women wage-earning opportunities, and average income levels. These empirical findings lead us to hypothesise that:

H3: The use of microfinance is positively related to entrepreneurial success (profit).

2.4 State of Microfinance in Nigeria

Microfinance in Nigeria is culturally rooted and predates the banking era, operating within both formal and informal sectors of the economy. Microfinance in the formal sector is regulated by the Central Bank of Nigeria (CBN). The Revised Microfinance Bank Supervisory and Regulatory Framework provided three categories of MFI licencing in Nigeria: *Unit*, *State* and *National* microfinance banks (CBN-RSRG, 2011).

As of February 2019, there were 898 Microfinance banks (MFBs) in Nigeria, with 375 in Southwest Nigeria. Lagos had 192 MFBs, with 60 in Ogun, 19 in Ondo, 30 in Osun, 60 in Oyo and 14 in Ekiti, representing 41.7% of the total MFBs (CBN, 2020). The same statistics show that the total number of MFBs in the country declined by 12.1% between 2017 and 2018. Official statistics indicate that MFB total assets stood at N421.95 billion in 2018, while paid-up capital and shareholder funds stood at N63.50 billion and N97.63 billion, respectively. Total deposit liabilities, net loans, and advances stood at N185.11 billion and N220.95 billion in the same period (CBN-FSR, 2018). According to the 2017 World Bank report on microfinance activities in

Nigeria, microfinance banks served 13 million depositors and 4 million borrowers (World Bank, 2017). Eight National MFBs hold 44% of the sector's assets, 38% of deposits, and 52% of credits. Over 100 State MFBs reach as many depositors as the National MFBs, but vary widely in financial performance and soundness (World Bank, 2017).

The role of MSME (Micro, Small and Medium- Enterprises) in driving diversification and economic growth in any economy cannot be overemphasised. There is limited current data on SMEs in Nigeria. However, a survey conducted by the National Bureau of Statistic (NBS) and Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) estimated the number of MSMEs is about 37 million (NBS, 2017). Micro-enterprises make up 99% (36 million enterprises) of MSMEs. This is followed by small-scale enterprises (0.18% or 68,168 enterprises), and medium-scale enterprises (0.01% or 4,670 enterprises). The study also showed that MSMEs contributed 48% to GDP and 84% to employment in Nigeria. The sheer number of MSMEs in Nigeria is due to the high unemployment rate (23.1%). The high unemployment rate has been linked to the absence of jobs for university graduates and staff lay-offs from paid employment as a result of the difficult business environment. Furthermore, 95% of MSMEs have no form of insurance, which makes them more prone to the risk of business failure. Due to the challenging economic environment, many companies have been forced to downsize from small-scale to micro-enterprises. The role of microfinance as a catalyst to spur entrepreneurship has also become increasingly apparent. It makes microfinance a lifeline for credit, particularly for women who are more likely to lack access to funding from other institutions. In the next section, we present the methodological parameters used in this study.

3. Research Model and Methodology

3.1 Sample Selection

The study set out to examine mechanisms through which social capital acts as mediating factor in the relationship between micro finance and entrepreneurship

success. We adopted a survey approach to allow for representative participation and research data accuracy. The sample population consisted of female micro-entrepreneurs who were beneficiaries of microfinance loans across three south-western Nigeria states. The authors D'Espallier, Guerin, and Mersland (2011), using data collected from several MFIs across the globe, concluded that portfolios managed by women are characterised with lower portfolio risk, fewer write-offs, and fewer provisions. Another research similarly suggests that a female-focused lending model may not improve an MFI financial performance due to high administrative costs – induced by group lending methodology, but focusing on women significantly improves repayment (D'Espallier, Guerin, and Mersland 2013). Group-lending is vital in contexts of very poor, marginalised potential clients (Mersland 2009); thus, it is typically necessary for the female-focused model. Analysis of global data further suggests that, despite related costs, female-focused lending is not simply a 'feel-good' social impact talking point for microfinance investors but a legitimate best practice for MFIs given their missions.

A multi-stage stratified random sampling procedure was used to collect data from 480 micro borrowers across 80 MFIs that were actively using group lending methodology at the time of the survey. The three chosen states were focused on due to high concentrations of MFIs in the region. At the survey period, there were 790 MFIs in Nigeria with 256 in Lagos (166), Ogun (47) and Oyo (43) States, thereby accounting for 32.4 per cent of the country's total MFIs. Data were collected over a period of four months. Of 480 copies of the questionnaire administered, 317 survey responses were obtained. The high response rate (66%) was due to the active engagement of loan officers in supporting completion. There was 65% respondent (205) from Lagos, with 18% (58) from Ogun and 17% (54) from Oyo. Of the 317 entrepreneurs, 276 were female respondents - 45% of whom (125) fully completed the questionnaire. Lagos had 81, 23 were from Ogun and 21 were from Oyo. To test our hypotheses, respondents had to satisfy three conditions: 1) be female gender, 2) specify the amount of loans received from MFIs, and 3) indicate average profit before and after receiving loans. Table 1 below identifies the personal and business characteristics of the female entrepreneurs.

Table1 Here.

A multi-item questionnaire was used to obtain responses. Female micro-entrepreneur borrowers were required to rank questionnaire items in the order of importance/appropriate fit, where necessary. The scale was based on the level of importance attached to the items listed. The questionnaire contained closed-ended questions in six sections. Sections One (business profile) and Two (group membership and social capital) aimed at understanding the influence of social networks and trust relations on loan access 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 collected demographic profile-related data. In total, 61 items were included across all 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 suitable for our research purposes (cf. Myburgh, 2001).

3.2 Qualitative Measures

The study used qualitative measures to measure the factors that explain entrepreneurial success and mediating role played by social capital on microfinance. These qualitative measures were taken from the multi-item questionnaire described in the Section 3.1.

Entrepreneurial Success: Our choice of profit as a success measure draws from the fact that earnings and profits are well-established measures of entrepreneurial success in entrepreneurship literature, particularly at individual levels (van Praag, 1997; Botha *et al.*, 2006; Lofstrom and Bates, 2009). From the questionnaire, we used difference in 'weekly average profit before taking loan' and 'weekly average profit after taking loan' to calculate profit increase post-microfinancing (see Mahmood *et al.*, 2014; Chliova *et al.*, 2015). Profit differential was calculated in local currency

and ranged from a loss of N80,000 (£175.32) to a maximum profit of N26,000 (£56.98). Entrepreneurial success was categorised using an ordinal scale according to the difference in profits/assets. From our sample, 11% of the female entrepreneurs made loss after receiving the loan. Consequently, profit differentials scaled between 1- Loss post-microfinancing, 2- N0 – N3000 profit, 3- N4,000 and N10,000 profit, 4- N11,000 and N20, 000 profit and 5- above N20,000 profit.

Relational social capital(RSC): Respondents were questioned on membership access to the group to gain microfinance loans on a 3 point scale (1 – Yes, 2- No and 3 – I don't know) Membership access to the group was used to capture RSC among female entrepreneurs. Also, to capture within-group dynamics, two other questions about trust relationships and its effect, were used as a proxies for RSC – based on a 3 point scale (1-Yes, 2-No, and 3-I don't know). These are (i) "Do you trust other members of your group" and (ii) "Can you say that other members of the group trust you?".

Network social capital: From the extant literature, the mediating role of microfinance on entrepreneurial success is enhanced when female entrepreneurs have good working relationships with loan officers. Two questions were asked about their working relationship with the microfinance loan officers on a 5-point scale (1 = strongly agree and 5 = strongly disagree). These are (i) My work relationship with loan officers has helped in improving my business, (ii) network relation with MFI officers helped to receive relevant information on loans and the conditions attached.

3.3 Quantitative Measures

The study used quantitative measures to capture the amount of microfinance loans received by female entrepreneurs and control for some personal characteristics within the cohort.

Microfinance: Loans advanced to respondents, with loan amounts categorised according to an ordinal scale: (1-below N15,000; 2-N15,000–N25,000; 3-above N25,000).

Individual-level control variables: Three control variables were used to determine whether individual characteristics matter for entrepreneurial success: age (older women may be more experienced in making social connections leading to entrepreneurial success), education level and marital status. We did not add dummies to control for the regions i.e. Lagos, Oyo and Ogun as female entrepreneurs exhibit similar personal and business characteristics.

Robustness checks were carried out using the multicollinearity and correlation matrix. Our results showed no presence of collinearity between the independent variables as the variance inflation factors (VIF) were less than 10 for all variables: microfinance (VIF:1.085; tolerance: 0.922); RSC (VIF:1.440; tolerance: 0.695); NSC (VIF:1.086; tolerance: 0.921); Education (VIF:1.072; tolerance: 0.932); Marital status (VIF:1.083; tolerance: 0.923); Age (VIF:1.073; tolerance: 0.933). Furthermore, independent variables were not significantly (highly) correlated using the Pearson's Correlation two-tailed test (Table 2).

Table 2 Here

4. Logistic Regression and Results

The data were analysed with SPSS using ordinal logistic regression. This is because treating ordinal variables as continuous, like a multiple regression, leads to biased and misleading results (Winship & Mare, 1984). The use of ordinal logistic regression is justified when both the dependent variable (entrepreneurial success) and independent variables (relational social capital and network capital) are categorical on an ordinal scale (De Maris, 1995; Lundahl *et al.*, 2009, Idahosa and Tchaawa, 2019).

The resulting regression consists of the six variables discussed in sections 3.2 and 3.3 and is shown below in equation (1)

$$\text{Entrepreneurial success} = \alpha + b_1(\text{microfinance loans}_i) + b_2 \text{relational social capital}_i + b_3(\text{network capital}_i) + b_4(\text{education}_i) + b_5(\text{age}_i) + b_6(\text{marital status}_i)$$

4.1 The Role Of Relational Social Capital (Group Membership) and Network Capital

Tables 3 and 4 present the direction of the relationship between social capital and entrepreneurial success. Table 3 presents the results of the mediating role of relational social capital (group membership) and network capital (working with microfinance loan officers) on entrepreneurial success controlling for age and education. Table 4, on the other hand, expresses the result for the mediating roles of relational and network capital with control for marital status.

Table 3 Here

Table 4 Here

This is supported by the response that female entrepreneurs agreed that being a group member contributed to increased profit after receiving microfinance loans. The coefficient of RSC measured by membership access to loan facilities is positive and significant at the 5% level ($\beta = -1.524$, $p < 0.089$). Group membership thus nurtures a sense of *special trust* between borrowers, solidifying reciprocity, obligations and enforcing social collateral for loan repayments. However, the respondents also disagreed on the degree of trust between group members.

H1a predicts that the strength of RSC influence on entrepreneurial success depends on the level of education. The response of women with primary education or less

shows they were most likely to achieve higher entrepreneurial success after receiving microfinance loans within the group. The coefficient of women with primary or no education is positive and significant at the 1% level ($\beta=20.206$, $p<0.000$).

H1b on the other hand, predicts that married clients have a stronger RSC that improves microfinance's impact on entrepreneurial success. The response of married female entrepreneurs shows that RSC has a significant positive mediating effect on the relationship between microfinance loans and entrepreneurial success ($\beta=1.282$, $p <0.032$). The coefficient of the interaction between RSC measured by trust is positive and significant at the 5% level. In other words, female entrepreneurs that are married achieve greater entrepreneurial success because of their increased RSC.

H2 predicts that Network social capital (NSC) - such as contact resources with MFI officers, is positively related to the impact of microfinance on entrepreneurial success. Table 3 shows that most respondents agreed that networking/mentorship programmes helped their businesses achieve entrepreneurial success ($\beta=1.039$, $p <0.016$) after receiving microfinance loans. The coefficient of networking with a microfinance loan officer is positive and significant at 1% showing that NSC increases entrepreneurial success. Our results further suggest that interactions with loan officers who provide business-relevant information and resources enhance client propensity to enterprise (Liao & Welsch, 2005).

H2a predicts that NSC influence on the impact of microfinance on entrepreneurial success differs by education level. This is supported by the response that female entrepreneurs with secondary education strongly agreed that working with microfinance loan officers increases entrepreneurial success ($\beta=2.865$, $p <0.047$). The role of education is emphasised by the response that female entrepreneurs with primary education or less strongly disagreed that working with loan officers increased entrepreneurial success ($\beta=-18.742$, $p <0.000$).

H2b predicts that NSC influence on the impact of microfinance on entrepreneurial success differs by marital status.

From Table 4, the coefficient of the interaction between NSC (measured by network relations with microfinance loan officers) and marital status is positive and significant at the 1% level ($\beta=0.598$, $p < 0.005$). This shows that married female entrepreneurs have better productive networks with microfinance loan offices, leading to entrepreneurial success. H3 predicts that the use of microfinance is positively related to entrepreneurial success (profit). The results from Table 3 show a strong positive and significant relationship between microfinance loans and entrepreneurial success ($\beta=1.049$, $p < 0.052$). Entrepreneurial success is measured by profit differentials before and after receiving the loan. The results are also confirmed in Table 4 ($\beta=1.025$, $p < 0.051$), with controls for marital status as an individual characteristic of female entrepreneurs.

5. Discussion

Our findings primarily demonstrate that both forms of social capital positively influence the impact of microfinance on female entrepreneurial success. In addition, by examining the interacting effects of various control variables, we were able to determine that educational attainment and marital status can positively impact the successful performance of female entrepreneurs. In this regard, more-educated and married microfinance recipients are likely to benefit more from the resources embedded in social networks. We discuss our findings below, offer implications of our research, and conclude by outlining the scope for future studies.

5.1 Social Capital and Entrepreneurial Success

The research findings show how the combination of relational and network social capital can make a real difference to female entrepreneurs by enabling them to: gain access to loans; build confidence; and, develop positive mind-sets to engage in entrepreneurial behaviour. Existing research demonstrates that social capital determines small loan access by entrepreneurs and how they utilise such loans (Agboola et al., 2016; Davidsson & Honig, 2003). For example, Agboola et al. (2016) show social capital as a significant determinant of loan size accessible to entrepreneurs, and that education level predicts access to credit. Specifically, our

finding contributes to the existing literature on social capital as a strong predictor of entrepreneurial success. That is, intra-group social networks are a strong predictor of business creation (Davidsson & Honig, 2003). Not only did group membership have a positive and significant influence on entrepreneurial success ($\beta=1.524$, $p<0.089$), the majority of female entrepreneurs agreed that post-receipt of microfinance loans, networking and mentorship programmes (exemplars of NSC) contributed to their ability to achieve success in their businesses ($\beta=1.039$, $p <0.016$). As such, our study provides supporting evidence of the impact of relational and social network resources on accessibility and effectiveness of microfinance on entrepreneurial success.

We further argue that social capital is a key factor determining microfinance's impact on entrepreneurial success (firm profitability). The results demonstrate that microfinance group members, embedded in trusting social relations that enable cooperation, reciprocity and mutual obligation, are more likely to gain from socially supportive environments for entrepreneurship (Haldar & Stiglitz, 2016). In essence, the results show that the impact of microfinance on entrepreneurial success is significant and positive when group members are embedded in trustworthy social relations. This adds to the social capital and entrepreneurship literature by demonstrating the possibility for social capital to still impact entrepreneurial success despite evidence that it may not contribute to entrepreneurial alertness (Montiel-Campos, 2019).

5.2 Entrepreneurial Success, Educational Attainment and Marital Status

In exploring the impact of control variables in mediating the role of social capital on entrepreneurial success, we found that respondents with secondary education strongly agreed that working with microfinance loan officers increased the viability of their businesses ($\beta=2.865$, $p <0.047$). On the other hand, women with primary or no education could not achieve entrepreneurial success from working with loan officers ($\beta=-18.742$, $p <0.000$). Furthermore, we observed a positive and significant moderating effect of marital status on entrepreneurial success and NSC ($\beta=0.598$, $p <0.005$). The case was similar for RSC as the married respondents demonstrated

greater inclinations for trust among themselves ($\beta=1.282$, $p < 0.032$). In this regard, we argue that marriage, in the context researched, increases the propensity for entrepreneurial success.

Our research further extends studies that report the positive impact of microfinance on firm performance (e.g., Karlan & Zinman, 2011), and others that suggest that access to microfinance in itself is no guarantee of entrepreneurial success (Banerjee & Jackson, 2017). By evaluating mediators such as educational attainment and marital status, we provide insight into key variables that enable microfinance to contribute to entrepreneurial success positively. Our research invariably shows that social network ties with strategically positioned actors positively and significantly strengthen the impact of microfinance on entrepreneurial success for married female clients and women with higher education levels. This is an important finding as it indicates that entrepreneurs who value the strategic position of microfinance officers would be more motivated to develop a sense of self-efficacy, hope and positive mind-sets for accessing and using loans (Nahapiet & Ghoshal, 1998; van den Berg *et al.*, 2015). Furthermore, such individuals would be more inclined to ascribe greater long-term value to sustained relationships, beyond immediate loan access goals (Moysidou & Hausberg, 2019).

5.3 Research Implications

Our contribution in this paper is to the current debate on relationships between microfinance and entrepreneurship using social capital perspective. In doing so, we have provided empirical evidence demonstrating the extent to which forms of social capital (relational and network) contribute to enabling entrepreneurial success through microfinance activities. We found that for female entrepreneurs in poor communities, both the intra-group trust and productive network ties with contact resources could predict the positive impact of microfinance on entrepreneurial success. Furthermore, microfinance clients could benefit from developing and using both the bonding and bridging networks (Davidsson & Honig, 2003). Our research also has implications for business practice. The findings suggest that MFIs need to have appropriate staff (loan officers) that understand the small entrepreneur's context and build sustainable, productive work relationships.

Theoretically, the paper addresses the identified gaps in the literature and makes relevant contributions to the entrepreneurship literature by providing empirical evidence on the extent to which relational and network social capital help explain the effect of microfinance on entrepreneurial success among women. In doing so, the paper also extends aspects of entrepreneurship literature (RSC & network capital) to the microfinance literature. Specifically, the paper shows that the female entrepreneurs' positive perception that group membership is instrumental for their access to loans and business success and trustworthiness and reciprocity contribute to entrepreneurial success.

5.4 Conclusions and Future Research Considerations

This research draws three main conclusions. First, the complex interplay of relational and network social capital in enhancing microfinance impact on entrepreneurial success suggests that the availability of microfinance by itself is insufficient for female entrepreneurs to achieve entrepreneurial success. Microfinance provision should be complemented with the existence of enabling social relations and strategic network ties for finance loans to have any sustainable effect. Secondly, whilst both forms of social capital can boost the impact of microfinance on entrepreneurial success, they are not of equal importance. We conclude that network ties 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 & Welsch, 2005). Finally, understanding the profiles/attributes of MFI clients is important for MFIs as they were found to be good indicators of clients' ability to exploit available loan opportunities.

Although the study provides important insights into the role of social capital in enhancing the impact of microfinance on entrepreneurship success, we acknowledge limitations to this research; in choosing to undertake a survey, we managed to capture a snapshot of respondents' assessment of their entrepreneurial activities. However, the choice method does not allow us to investigate the nuances of the social capital dimensions in terms of how they influence success. Furthermore, we acknowledge that entrepreneurial success is a robust construct, which we have only examined from a single perspective, profits. We thus identify several scopes for

future research. First, future qualitative research can be undertaken into exploring how female entrepreneurs can leverage relational and network capitals in assuring success. Future research can also look into examining the impact of other contributory determinants of entrepreneurial success. Furthermore, future studies can deploy longitudinal research involving a comparable control group to better capture and understand the complex interplay of the social capital dimensions, the users' context, and microfinance outcomes. Cross-country studies of the role of social capital can also be undertaken to provide much-needed insight into the impact of cultural variations on microfinance and entrepreneurship.

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