

Microfinance and Women Entrepreneurs' Business Performance: The Mediating Role of Social Capital

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Abstract

These days, women are believed as changing the global economy as entrepreneurs, consumers and workers. More women have been involved in entrepreneurship and play vital role as part of economic growth. Women entrepreneurs are look forward to give strong contribution to boost economic growth by reducing poverty, drive Malaysia towards the goal of becoming a high income, sustainable and inclusive economy by 2020. The Malaysian Government has allocated RM 200 million in 2016's Budget for micro-financing facility by Amanah Ikhtiar Malaysia (AIM) to increase women participation in entrepreneurship and expand their existing business. Most literatures claim microfinance and social capital seem cannot be separated and play important role in the entrepreneurial process and crucial for the business performance. Thus, the mediator role of social capital is studied in this paper. 190 respondents under the umbrella of Amanah Ikhtiar Malaysia (AIM) were involved in the questionnaire-based survey. Consequently, this study expected to contribute empirical

evidence on the relationship between microfinance on women entrepreneurs' business performance and the mediating role of social capital in the relationship.

Keywords: Microfinance, Social Capital, Women Entrepreneurs, Amanah Ikhtiar Malaysia, Business Performance.

Introduction

Today women are belief as changing the global economy as entrepreneurs, consumers and workers. Every year, the number of women participate in labour force is increasing and in 2012, women represent 49.5% or nearly half of the national labour force. Thus, the Malaysian Government has set a 30% target of women representation at senior decision making and corporate boards by 2016. Budget 2015 also has upheld the role of women in national development and in nurturing future generations. Hence, RM 2.26 billion has been provided to the Women, Family and Community Development Ministry for development and operating expenditure to intensify the involvement of women in the job market and entrepreneurial activities. Among the

planned programmes are to train 125 potential women directors to fill the position as members of the board of Government-linked companies (GLC) also private sector, 1Malaysia Support for Housewife programme which emphasises skills training and incentives for housewives, Women Career Comeback Programme for professional women returning to the job market, Women Special Protection Homes, Single Mother Skill Incubator Programme (I-KIT), Women Entrepreneurship Incubator Programme (IkUnita) and Women Core Development Programme. In Budget 2016, a sum of RM 200 million is allocated to Amanah Ikhtiar Malaysia (AIM) for micro-financing facility to increase women participation in entrepreneurship and expand their existing business.

Nowadays, microfinance program is part of main contributor in creating new job opportunities and generating income for the purpose of increasing social well being and economic status of the poor and eradicating poverty (Hamdino et al., 2012). In 1987, an action research project carried out by the Centre for Policy Research University of University Science Malaysia (USM) institutionalise the first microfinance institution, Amanah Ikhtiar Malaysia (AIM) replicating the concept of Grameen Bank has been established. It was sponsored by the Asia and Pacific Development Centre (APDC), Islamic Economic Development Foundation of Malaysia (YPEIM) and the Selangor State

Government to facilitate in eradicating poverty of the rural poor in Malaysia.

In this day and age, there are lots of microfinance institution comprise of Government programme, NGOs and financial institutions (banks) which provide financial services to poor people. Some of the earliest microfinance institutions in Malaysia are *Yayasan Usaha Maju* began in 1988 formerly known as “Projek Usaha Maju”, *Yayasan Basmi Kemiskinan* (YBK) in 1990 and The Economic Fund for National Entrepreneurs Group (TEKUN) which has been set up in 1998. Amanah Ikhtiar Malaysia (AIM) offers financial services or small loan to about 82% of the total and hardcore poor household in Malaysia (Mamun et al., 2010). AIM duplicated the concept of Grameen Bank which applied group based loan, providing credit without any collateral to a group of people with the same interest to start up their business. The participants were chosen based on their gross monthly income that fall under Poverty Line Indicator (PLI) consists of poor and hardcore poor households.

AIM was established in 1987 in accordance to Trustee Incorporation Act 258, 1952 (revised 1981). In 1986, the microfinance scheme has been introduced with the objective of reducing poverty by providing microcredit programme, facilities, guidance and continuous training for the poor to become entrepreneurs. AIM microfinance scheme can be divided into three categories which are economic purposes, non-economic purposes and

recovery. The loans/financings offered to urban and rural poor households to be involved in various types of legal business activities such as small businesses, manufacturing, animal husbandry, agriculture, fishing and services. As the establishment of AIM in 1987 until February 2015, AIM has disbursed the loan of RM 12, 153, 111, 093 to 356, 458 borrowers and has 137 branches to facilitate its member.

Microfinance and social capital seem cannot be separated since it was introduced by Grameen Bank in 1976 as group based lending which emphasized network and trust. The role of social capital in the entrepreneurial process is critical for the performance of small firms where certain forms of social capital can directly improve business performance (Stam et al., 2013). Besides financial capital and human capital, social capital plays a significant role to enhance the performance of women owned business as the business performance cannot be attributed wholly to the effects of physical, human and financial capital but also the role of social capital (Tundui & Tundui, 2013). Hence, the objective of this study is to examine the mediating role of social capital in the relationship of microfinance on women entrepreneurs' business performance.

Literature Review

Microfinance and women business performance

The establishment of Grameen Bank in Bangladesh has seen the role of microfinance as important source of financial resource (capital) for women entrepreneurs. Microfinance as defined by World Bank Report (2007), "Small loans that help poor people who wish to start or expand their small business but, are not able to get banks to lend them". While Asian Development Bank (2008) referred microfinance as "provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro enterprises".

Yusuff (1995) argues, access to financing as one of the most critical factors contributing to business success and it is also the greatest single issue faced by women entrepreneurs to start-up their business (BMS, 2013). Financial resources as internal resources are the key to business success (Martinez et al, 2013; Siegel & Renki, 2012; Davidsson et al., 2006; Hisrich & Peters, 2002). Women mostly labelled as "risky" borrowers and less credit worthy than men (Brush, 1992) which make them difficult to secure financial capital that is crucial for their business grow.

As Constantinidis et al., (2006) supported, financial capital is the biggest challenges

for entrepreneur, women entrepreneurs face more restriction than men entrepreneurs such as access to capital, land and business building where the asset ownership is male conquered (Roomi, 2005). As the poor and women entrepreneurs do not have experience in running business, borrowing and repayment financial history (Mahmood, 2009), also the amount requested are small make financial institutions are hesitant to consider as it is not cost effective (Jalbert, 2000).

As financial resource is identified as major barriers for women entrepreneurs in starting and running business (Van der Merwe, 2003; Gundry et al., 2002; Helmi, 1997), microfinance is financial services that are made available to those who would not normally have access to it and has been increasingly recognised as a powerful tool to rejuvenate struggling economies (Richard, 2000). Thus the poor and women who want to be entrepreneur or engage in entrepreneurial activities need to seek for other sources of capital namely microfinance.

Microfinance plays as capital resource for entrepreneurs and create opportunity for entrepreneurs to generate income (Branan, 2008). Most of previous studies agreed that credit assistance to entrepreneurs especially women, aids entrepreneurs performance which best resulted in improved income, output, investment, employment and welfare of the entrepreneurs (Lakwo, 2007; Kuzilwa,

2005; Peter, 2001). Study conducted in Nigeria (Ojo, 2009; UNCDF/UNDP, 2003), Tanzania (Kuzilwa, 2005), Haiti, Kenya, Malawi (UNCDF, 2003) were found to have positive impact on women entrepreneurs' performance. The study conducted by Ekpe (2011) in Nigeria also supported that microfinance has positive impact on women entrepreneurs' performance.

While the study of newer Norwegian firms between men and women-owned firms by Alsos et al. (2006), women entrepreneurs used lower amounts of capital than men which turn to women's lower levels of sales and growth. Fairlie & Robb (2009) resulted the same on their study on survey conducted by U.S Bureau of the Census, lower levels of start up capital and previous work experience tend to lower performance of women owned firms. Jayawardana (2012) in her study of accessing microfinance provider in Sri Lanka has identified that microfinance as an effective mechanism in providing financial services and recognized as an effective mechanism for bringing equal opportunity for women by providing capital through repayment technologies. Salwa et al., (2013) agreed, microcredit financing significantly lead to the success and positively affect to entrepreneurs success. As such, the following hypothesis is developed:

H₁ : There is significant relationship between microfinance as financial capital and women entrepreneurs' business performance.

Social Capital and Women Business Performance

These days, the intangible resources play a crucial role towards the performance of a firm. Intangible resources are dealing with human capital, structural capital, relational capital (Zhou & Fink, 2003; Ordonez de Pablos, 2002; Stewart, 1997) and social capital (Roxas & Chadee, 2011). Social capital is a combination of groups and team outcomes in term of knowledge sharing, learning, reductions in time requirements and transaction costs and reduced redundancy as well is defined as a quality created between people (Burt, 1992).

Putnam (2000) stated that social capital could reduce the probability opportunism and monitoring cost. The concept of social capital is a mix of networks, trust, norms, and reciprocity among members of the society (Marin et al., 2012) and a set of social relationships with individuals, organizations, societies and business units. Previous literatures proved that social capital help entrepreneur in access to valuable information, resources and opportunity (Kwon & Arenius, 2010; Manolova, et al., 2007; Carter et al., 2003). A study conducted by Kickul et al., (2007) on women entrepreneurs resulted that formal and informal social capital can enhance their market growth and expansion. As women entrepreneurs face many obstacles and challenges in obtaining business fund, financial

management and development of effective marketing also advertising, social capital seems to be important to their business growth (Hisrich & Brush, 1983; Pellegrino & Reece, 1982). Jiang et al., (2012) reported their case study on 11 women entrepreneurs from Mid-Atlantic region of United States, social capital in the form of networks is directly and positively related to business growth where the networks are important in achieving entrepreneurial success by being their peer mentor and advisory.

Daud & Yusoff (2010) explained, social capital play significant roles in small-sized and medium-sized enterprises (SMEs) by enhancing knowledge capture, knowledge modification and knowledge transfer which can lead to innovation. In their research on 833 SMEs in Klang Valley, Malaysia showed social capital positively influences firm performance which the relationships involve employees, customers, suppliers, alliances and partners who help to update information and knowledge. Aldrich (1989) supported, social capital can assist in efficient access to financial capital and “the social legitimacy may be valued over the technological contribution of a deal in attracting venture capital financing” (Steier & Greenwood, 1995).

Cetin et al., (2008), “Access to financial capital is considered crucial factor in entrepreneurship, other types of resources-educational and social –could also have an effect on entrepreneurship.” In their study, they distinguish the concept of social

capital into formal and informal aspects. Formal social capital is defined by formal participation in civic organization (Schofer & Fourcade-Gourinchas, 2001; Putman, 1995), while informal social capital is defined as social relationship establish by individual with family, friends, colleagues, neighbours and others (Pinchler & Wallace, 2007). In their study comparing of women and immigrants entrepreneurs, social capital is vital for them to rely on to overcome the difficulties in accessing labour market and lack of opportunities. Yetim (2008) emphasized, women acquire more assets through social networks where they utilize relations to shape the networks and connections also use the social networks as a source of social capital (Greve & Salaff, 2003; Aldrich & Zimmer, 1986). Yetim (2008) consider women entrepreneurs networks differ from male networks where the women networks are build through relatively more informal means and rely heavily on strong connection and contacts among family, close relative, friends and related community members which are important sources of social capital for women entrepreneurs.

The concept of group based lending in microfinance programme is seen as substituting for financial collateral in the selection of loan recipients and loan disbursal also recovery (Mayoux, 2001). The model developed by Grameen Bank in Bangladesh, promoting self-employment based on savings and credit cooperatives and federations of self-help groups.

Mayoux (1998), group based microfinance significantly benefits women not only in terms of access to credit and savings but also to build social capital through developing and strengthening women's economic and social network. Bastelaer (2000) claims, most NGOs and financial institution offer to poor borrowers valid substitute for individual collateral in term of "social collateral" which borrowers' status or the social network they are belong to, replace the traditional physical or financial collateral. Most microfinance institution applied the concept of group based lending where the borrowers (mostly women) set up weekly meeting to discuss financial matters, shared problems (either personal or business matter), seek advice and possible opportunities also current affairs. The meeting will be conducted by an officer from the microfinance institution which the repayment of the loan will be collected during the meeting. In case of any absents or fail to repay the loan, the members' of the group (who default payment) are responsible to pay on behalf of their member. Here is the concept of social capital or "social collateral" applied in most of the microfinance institution. Thus the following hypothesis is developed:

H₂ : The relationship between microfinance as financial capital and women entrepreneurs' business performance is mediated by social capital.

Research Framework

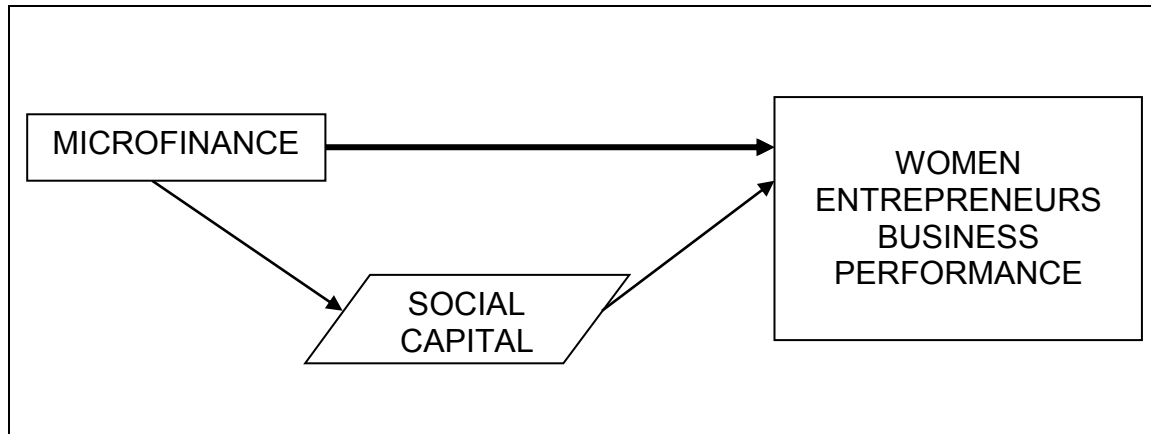


Figure 1 shows the proposed relationships among the variables examined in this study. The framework shows the direct relationship between microfinance as source of financial capital and women business performance. Microfinance is assumed to have a direct relationship on women business performance. While social capital plays as mediating role in microfinance-women entrepreneurs' business performance. This means social capital affects women entrepreneurs' business performance through microfinance. At the same time, microfinance has a relationship with both social capital and women entrepreneurs' business performance.

Research Methodology

This study adopted a cross-sectional design with stratified random sampling method where the samples were selected from different geographic area from entirely Malaysia. This study limited to the

recipient of Amanah Ikhtiar Malaysia as AIM offer their micro financing to female alone. The data used for this study is obtained from AIM's database ended for February 2015. Respondents were selected from the highest scheme offered by AIM which is I-Wawasan and only those who have good repayment record and are successful entrepreneurs are eligible for this scheme. 500 sets of mail questionnaire were randomly distributed to women entrepreneurs under the umbrella of Amanah Ikhtiar Malaysia (AIM) in Malaysia with 230 set were returned and only 190 sets are completed. However, 6 of them deleted during the data cleaning process, making the total of 184 usable questionnaires for further analysis.

In this study, the dependent variable is measured based on entrepreneurs' total income increased, number of items sold increased, improvement in saving, output increased, improvement of stock/raw material and investment increased. The

independent variables of microfinance and source of financial capital for women entrepreneurs and the mediating role of social capital which is the concept of group based lending were used in this study. This study employs descriptive and multiple regression to analyze the data.

Result and Discussion

This section comprises of two sub sections which are the respondents profile and the result of multiple regression analysis. From 184 respondents, most of them were in the range of 41 - 50 years old (40.2%), 31 – 40 years (37%), 51- 60 years old (16.85), 61 years and above (3.3%) and 20-30 years old (2.7%). All of the respondents have formal education at least primary school (13%), while 73.9% have their secondary certificate, diploma (8.7%), college (3.3%) and only 1% of the respondents have degree and above. Most of the respondents have been worked before (62.5%) and 31% of them started their business that relevant to their previous worked. 45.1% of the respondents run their business in manufacturing sector, 38% are in services while 14.1% in agriculture and 2.7% in other sectors. The result of descriptive statistics of respondents is presented in Table 1.

For the analysis of multiple regressions, data cleaning and data examination in this study involved data screening and data testing, which aim to meet the multivariate assumptions. After screening the data, tests

to meet four assumptions of multivariate analyses were conducted: normality, linearity, homoscedasticity and multicollinearity. In this study, the cut-off value for VIF is less than 10 and tolerance value of more than 0.1 and no tolerance values approaching zero (0) which specify the presence of high multicollinearity (Table 2). Hence, as deliberated in the statistical analysis, there is no violation of the assumption for this study. Therefore, the assumptions for multiple regressions are met.

Correlation analysis was carried out to determine the relationship among the studied variables and the hypotheses developed. The first hypothesis, H_1 attempted to examine the relationship between microfinance and business performance among women entrepreneur. Results in Table 3 indicated that correlation coefficient (r) was high and p -value was less than 0.01. The finding indicated that there was significant relationship between microfinance and business performance ($r=0.553$, $p=0.000<0.01$). This study successfully supports H_1 . Hence, H_1 is accepted.

Table 4 exhibits the results of hierarchical regression to examine the effect of social capital as a mediating variable on the relationship between microfinance and business performance. The four steps hierarchical regression was adopted and analysed to examine each equation as illustrated in Figure 1. In equation 'a', the regression analysis was carried to examine

the effect of microfinance on social capital as mediating variable (MV). Results indicated that microfinance give significant affect on social capital (B.-0.253, $t=-3.522$, $p<0.01$). Equation b was the effect of MV to business performance (DV). MV was found to have significant effect of DV (B=0.196, $t=2.699$, $p<0.01$). Equation 'c' in the table was the effect of IV on DV. Lastly, equation c' was the effect of IV on DV with the present of MV. The results in equation c' indicated that microfinance also give the significant effect on business performance (B=0.553, $t=8.962$, $p<0.01$).

The results showed that this study is successfully fulfilled the needs of mediating effect as described in Figure 2. It can be summarized that social capital played the partial mediating role in the relationship between microfinance and women entrepreneurs business performance. Hence, H₂ is accepted. The hypothesis of H₂ posits the significant mediating effect of social capital in the relationship between financial capital and business performance.

Conclusion & Implication

As the above discussion, it has proved that the microfinance provided by AIM play a vital role in women entrepreneurs' business as financial support. It is believed that microfinance as financial capital is among the important factors that significantly contribute to women entrepreneurs' business performance.

Women especially with low educational background and lack of capital need credit assistance which microfinance is considered as best in improved income, output, investment, employment and welfare of the women entrepreneurs and their business performance.

As women entrepreneurs face many obstacles and challenges in obtaining business fund, social capital seems to be important to their business growth. Social capital from the group based lending is understood to expose women entrepreneurs to social network and business opportunities to valuable information, resources and opportunity seem to be important to women business performance. The findings of this study supported that microfinance has significantly related to women entrepreneurs' business performance and the relationship is mediated by social capital. Therefore, there is the call for a research in this area to strengthen the entrepreneurship literature. This is because microfinance as financial capital and social capital are important for women entrepreneurs to expand and develop their business which then lead to their business performance. As for practical contribution, the result of this study would help the financial institution and government to take appropriate decision and action to improve financial products which will be benefited women entrepreneurs in term of more attention given to them and would improve their business performance.

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Appendix

Table 1 : Descriptive Statistics of Respondent

Respondents' profile	Items	Frequency	Percentage (%)
Age	20 -30 years	5	2.7
	31- 40 years	68	37
	41-50 years	74	40.2
	51-60 years	31	16.8
	61 years and above	6	3.3
Marital status	Single	6	3.3
	Married	168	91.3
	Divorced	8	4.3
	Widow	2	1.1
Highest education level	Primary	24	13
	Secondary	136	73.9
	Diploma	16	8.7
	College	6	3.3
	Degree	1	.5
	Others	1	.5
Industry	Manufacturing	83	45.1
	Services	70	38
	Agriculture	26	14.1
	Others	5	2.7
Worked Before	No	69	37.5
	Yes	115	62.5
Business Relevant to Previous worked	Not Related	67	36.4
	Yes	57	31
	No	60	32.6

Table 2 : Variance Inflation Factors (VIF)

	Tolerance	VIF
Microfinance	.939	1.064
Social Capital	.569	1.758

Table 3 : Intercorrelation between variables

	Performance	Microfinance	Social Capital
Performance	1		
Microfinance	.553	1	
Social Capital	.493	.101	1

Notes: **p<0.01; *p<0.05

Table 4 : Effect of mediating variable on the relationship between microfinance and Business Performance

	B	t	Sig.
Equation a (IV to MV)			
Microfinance	-0.253	-3.522	0.01
<i>R²=0.064, F=2.404, p>0.01</i>			
Equation b (MV to DV)			
Social Capital	0.196	2.699	0.008
<i>R²=0.038, F=7.282, p<0.01</i>			
Equation c (IV to DV)			
Microfinance	0.553	8.962	0.000
<i>R²=0.306, F=80.310, p>0.1</i>			
Equation c' (X & M - Y)			
Microfinance	0.644	11.071	0.000
Social Capital	0.359	6.169	0.000
<i>R²=0.427, F=67.356, p<0.01</i>			

Figure 2: Method Used to Analyze Mediating Effect

