The Mediating Effect of Opportunity for Entrepreneurial Activity on Micro-Credit and Women Entrepreneur's Performence: A Conceptual Framework

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Abstract

Women enterprises aid grass root economic development of a country and women entrepreneurs contribute to the economic development of their families. However, it is discovered that women entrepreneurs perform below their male counterparts. This is caused by factors that normally affect entrepreneurship development, among which is lack of credit. Numerous evidence from the literature support the fact that women entrepreneurs' lack of business capital and inability to access credit for business are occasioned by factors such as poverty, unemployment, low household and business income, lack of asset collateral, and societal discriminations mostly in developing countries. This leads to their low business performance, whereas the rate of their participation in the informal sector of the economy is higher than males, and credit could have positive effect on enterprise performance. However, the availability of credit could not lead to business performance without an opportunity for entrepreneurial activity because, Entrepreneurship and Financial Management Theorists believe that funds are mostly sourced to start or improve business, or to finance a pre-determined project or contract. The objective of this study is to examine the mediating effect of opportunity for entrepreneurial activity on credit and women entrepreneurs' performance. The study involves a survey using structured questionnaire and an in-depth interview to solicit responses from women entrepreneurs, and secondary data from microfinance institutions. Data analysis involves the use of descriptive statistics.
KEYWORDS: Micro-credit, opportunity, women entrepreneurs' performance.

Introduction

Among the factors that affect entrepreneurship development in a country is lack of credit. Women entrepreneurs lack adequate physical capital such as credit and savings for business which force them into quest for micro-financial assistance (Ibru, 2009; Kuzilwa, 2005). This is due to unemployment (Akanji, 2006; Olomola, 2002), low household and business income (Lawal, Omonona, Ajani & Oni, 2009), lack of asset collateral required by conventional banks (Brata, 2004; Lawal et al., 2009) and high interest rates (Mohd & Hassan, 2008), their inability to save (Mkpado & Arene, 2007), size of the firm, age of the firm and type of industry (Antoncic, 2006; Hedges, Wu & Chua, 2007). For instance, lack of asset collateral necessitated the need for group formation which provided insurance for loan as well as aid in loan monitoring and enforcement (Olomola, 2002). Therefore, since they do not have physical capital as collaterals demanded by conventional banks, they could use social capital demanded by micro-finance institutions [1](IFC, 2007). Again, in micro-finance, interest rates are higher than the conventional banks so as to cover overhead costs such as personnel costs (Otero, 1999). However, such interest rates are charged on weekly returns; as such it becomes lower (Olomola, 2002), and beneficial to women entrepreneurs (Tazul, 2007). Women entrepreneurs had low business performance than their male counterparts, for example in UK and USA (Carter & Shaw, 2006).

[1] International Finance Corporation

Women generate less profit, less sales turnover relative to men and have low survival rate due to low start-up capital, and are less efficient and less growth oriented (Harrison & Mason, 2007); yet credit has been found to have positive impact on enterprise profit performance (Akanji, 2006; Peter, 2001; Reavley & Lituchy, 2008). However, credit could not lead to business performance without an opportunity for entrepreneurial activity. This is because the Entrepreneurship Theory (Shane, 2003) postulates that business environment provides opportunity for entrepreneurial activities to those entrepreneurs who could identify them, and their decision to exploit such opportunities leads to the demand for micro-finance in terms of resource acquisition. Acquisition of resources could also lead to opportunity for entrepreneurial activity.

Appropriate use of acquired resources through good business strategy and organizational design could lead to business performance (Brana, 2008; Koontz & Weihrich, 2006; Salman, 2009; Shane, 2003). Again, Financial management theorists believe that funds could only be sourced to finance a predetermined project, business or contract (Van Horne, 1980). As such, micro-finance could only lead to business performance when there is the tendency to engage in new business or business expansion (Antoncic, 2006; Shane, 2003).Therefore, this study examines the mediating effect of opportunity for entrepreneurial activity on the relationship between credit and women entrepreneurs' performance because limited studies are available in this area (e.g. Tata & Prasad, 2008; Shane, 2003).

Literature Review

Evidences from literature show that adequate credit aids entrepreneurship performance (Gatewood, Brush, Carter, Greene & Hart, 2004; Kuzilwa, 2005; Lakwo, 2007; Martin, 1999; Ojo, 2009; Peter, 2001). The result of such credit assistance to entrepreneurs, especially women, is often seen in improved income, output, investment, employment and welfare of the entrepreneurs (Kuzilwa, 2005; Lakwo, 2007; Martin, 1999; Peter, 2001). Despite the fact that Karnani (2007) argued that micro-credit do not lead to women entrepreneurs' performance; rather the government should build more industries to create jobs, credit have been found to have positive impact on business performance of entrepreneurs in Kenya (Peter, 2001), Nigeria (Ojo, 2009), Tanzania (Kuzilwa, 2005), UK (Carter & Shaw, 2006), USA (Reavley & Lituchy, 2008). Credit also had positive impact on the income and wellbeing of women in Uganda (Lakwo, 2007). Therefore we hypothesize that:

H1: Credit is positively related to women entrepreneurs' performance.

Availability of micro-credit provides the needed opportunity, in terms of new business or business expansion, for entrepreneurs to start or improve business in order to make profit and improve their lives (Allen, Elam, Langowitz & Dean, 2008; Brana, 2008; Lans, Hulsink, Baert & Mulder, 2008; Majumdar, 2008; Roslan & Mohd, 2009; Salman, 2009; Shane, 2003; Tata & Prasad, 2008). As such, there is a positive relationship between micro-credit and opportunity for entrepreneurial activity. Credit was found to have positive effect on opportunity for entrepreneurial activity in Nigeria (Akanji, 2006), France (Brana, 2008), UK (Carter & Shaw, 2006) and USA (Shane, 2006). We therefore hypothesize that:

H2: Credit is positively related to opportunity for entrepreneurial activity of women entrepreneurs.

Opportunity for entrepreneurial activity, in terms of new business or business expansion, acts as a link between micro-credit and women entrepreneurs' performance. It is reported that micro-credit create opportunity for entrepreneurs to generate income (Brana, 2008). The discovery of business opportunity and the decision to exploit the opportunity leads to a search for external funds, and the acquisition of such funds again creates opportunity for entrepreneurial income-generating activity (Shane, 2003). Proper application of the resources could lead to business performance (Koontz & Weihrich, 2006; Shane, 2003). Therefore we hypothesize that:

H3: Opportunity for entrepreneurial activity mediates the relationship between credit and women entrepreneurs' performance.

H4: Opportunity for entrepreneurial activity is positively related to women entrepreneurs' performance.

Underpinning Theory

This research is underpinned on the Entrepreneurship Theory of Shane (2003). The theory consists of opportunity discovery, evaluation of the opportunity and the decision to exploit the opportunity. Others elements of the theory include self-employment, business operation and performance. The theory highlighted four operational measures of performance which are survival, growth, profitability/income, and experiencing initial public offering.

Survival refers to continuation of entrepreneurial activity while growth refers to increase in the venture's sales and employment. Profitability refers to new surplus of revenue over cost while experiencing initial public offer refers to the sale of stock to the public (Shane, 2003). Opportunities are created by the institutional or external environment for those entrepreneurs who could identify them to start or improve their businesses and subsequently, their welfare (North, 1990; Shane, 2003). Entrepreneurs' ability to identify and tap such opportunities differs between entrepreneurs. It also depends on their ability to access information and willingness to act upon the information in terms of risk; that is their attitude (Shane, 2003). Individual attributes affect discovery of entrepreneurial opportunity. It is made up of psychological and demographic factors such as motives, attitude to risk, education and training, career experience, age and social status. Changes in business environment such as economic, financial, political, legal, and socio-cultural factors also affect discovery of opportunity. For example, income level of the entrepreneur, capital availability, political stability, laws concerning private enterprise and property rights, and desire for enhanced social status by the entrepreneur could affect discovery of entrepreneurial opportunity.

Type of industry also affect opportunity discovery. Industrial sectors such as distribution, manufacturing, agriculture, catering, and business services are more attractive to entrepreneurs (Brana, 2008; Carter & Shaw, 2006; Gatewood et al., 2004; Riding, 2006; Shane, 2003; Stohmeyer, 2007). The concentration of industries in a particular location could also influence discovery of entrepreneurial opportunity by those in that location (Shane, 2003).Evaluation of the identified opportunity is another stage in the entrepreneurial process, and appropriate decision at this stage leads to the decision to exploit the opportunity (Shane, 2003).

The decision to exploit the opportunity depends on the intention of the entrepreneur, and the appropriate measure of entrepreneurial decision-making is intention which leads to recognition of entrepreneurial opportunities (Shane, 2003). Exploitation of the opportunity depends on the entrepreneur's level of education, skills or knowledge acquired through work experience, social networks, credit, and cost-benefit analysis of the business (Shane, 2003). The decision to exploit the opportunity leads to the quest for micro-finance; that is acquisition of resources. Acquisition of resources could also lead to opportunity for entrepreneurial activity; that is new business or business expansion. The appropriate use of the acquired resources in terms of business strategy and organizational design could lead to profit performance (Brana, 2008; Koontz & Weihrich, 2006; Salman, 2009; Shane, 2003). However, environment plays greater role in opportunity exploitation than individual attributes (Kuzilwa, 2005).

Conceptual Framework

The focus of this study is to examine the relationship between micro-credit and women entrepreneurs' performance. The conceptual framework for this study is as shown below.

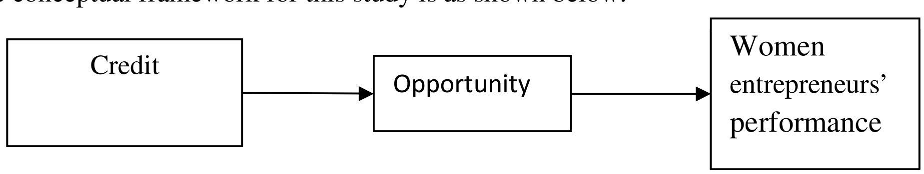

Figure 2.1 Conceptual Framework
Source: Author.

Operationalization of Variables

In line with established literature, credit was measured in terms of loan size and use of loan (e.g. Kuzilwa, 2005; Lakwo, 2007; Peter, 2001). Opportunity for entrepreneurial activity was measured in terms of new business or business expansion (e.g. Shane, 2003; Tata & Prasad, 2008). While women entrepreneurs' performance was measured in terms of change in net profit, output, investment, and number of employees (e.g. Kuzilwa, 2005; Reavley & Lituchy, 2008).

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