

# EFFECT OF SOCIAL CAPITAL ON WOMEN MICROENTERPRISE PERFORMANCE IN KELANTAN: A CONCEPTUAL FRAMEWORK

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**Abstract** - This study is aimed at determining the influence of social capital on women micro-enterprise performance in Kelantan State of Malaysia, so as to enable Malaysian government determine what area to focus in redesigning enterprise development programs, and what strategies to develop in enhancing the ability of women entrepreneurs to benefit from their social capital and improve business performance. Also, the moderating effect of attitude on the relationship between social capital and women micro-enterprise's performance is assessed. The study employs a cross-sectional survey design, with simple random sampling, to collect data from 385 women entrepreneurs in Kelantan (women entrepreneurs who belonged to any loan group and those who did not). Descriptive statistics and hierarchical regression will be used to analyze data.

**Keywords:** Social capital, attitude, micro-business performance, Malaysian women

## 1. Introduction

The main objective of this study is to examine the influence of social capital on women micro-enterprise's performance in order to increase business performance and the welfare of low-income, local women at Kelantan State of Malaysia. It has been argued that micro-enterprise development, especially among poor women, could reduce poverty and provide economic empowerment among women through income generation, improvement in household and community, self-esteem and efficacy (Al-Shami et al., 2014).

Kelantan was studied because it is one of the local, indigenous States in Malaysia, and a custodian of Malaysia's cultural heritage; whose economic development is still at very low ebb (Statistics Department, June 2009).

Women micro-enterprises were chosen because in most developing countries, micro-enterprises are owned and run by women (Sharma et al., 2012) as a means of survival

(Selamat et al., 2011), and their contribution to the economic wellbeing of their families, communities and countries is noticeable. It was also reported that about 88% of women-owned businesses in Malaysia are micro-enterprises (SME Annual Report, 2011).

Micro-enterprises help to create wealth and reduce unemployment (Nordin et al., 2011; Osman et al., 2011; Salwa et al., 2013); creativity and innovation, and increase total production (GDP) of a nation (Mahmood & Hanafi, 2013; Mahajar & Yunus, 2012). However, literature supported the fact that women enterprises performance are low due to gender-related discriminations especially in developing countries (May, 2007; Roomi & Parrot, 2008), yet women contribute to the economic development of their countries through their greater involvement in credit schemes and job creation through micro-enterprises and SMEs (Osman et al., 2011).

It is also discovered that the government's traditional enterprise development aids, in form of micro-credit and short business training, is ineffective in many developing countries due to mismanagement of funds, and lack of other non-financial aids such as social networks which could provide awareness and build self-confidence among the women, so as to achieve business performance (Basargekar, 2011). These obstacles led to low business performance of women entrepreneurs (Nordin et al., 2011).

There exist several studies on the relationship between micro-finance factors and micro-enterprise performance globally (Kim & Sherraden, 2014; Stohmeyer, 2007; Eversole, 2009; Ojo, 2009; Khan et al., 2013) and specifically in Malaysia (Aziz et al., 2012; Al-Mamun, 2010; Paul et al., 2013). However, there is paucity of studies that measured social capital and women micro-enterprise performance, especially in Kelantan (e.g Aziz et al., 2012). Also, there exists scarcity of studies that examined the moderating influence of attitude on the relationship between social capital and micro-enterprise performance, especially in Malaysia (e.g Ekpe et al., 2012). Therefore, this justifies the need for this present study to examine the influence of social capital on micro-enterprise performance among women entrepreneurs in Kelantan, with attitude as a moderating factor.

It is also observed, and studies have equally confirmed, that Kelantan is one of the six poorest States in Malaysia (Statistics Department, 2009) and the performance of micro-enterprises in Kelantan is low compared to other States such as Selangor and Johor, yet the importance of micro-enterprises in the economic development of any community, state or country is replete in literature. Studies have agreed that micro-enterprises could help develop the economy of any community, state or country through job creation (Kim & Sherraden, 2014; Nordin et al., 2011). Arguably, this low enterprise performance and slow economic development could be one of the factors that make the people of Kelantan poor. The issue is: why this low enterprise performance in Kelantan?

Again, despite the various government enterprise development programs aimed at developing micro-enterprises in Malaysia especially women (e.g Amanah Ikhtiah Malaysia, TEKUN), yet micro-enterprises especially in Kelantan are not vibrant or active. Even, some

of the existing ones have failed in loan repayment (AbdulJamak, 2011). What could be the reason for this low performance? Could it be lack of social capital? Could it be the attitude of women entrepreneurs towards social capital as an aid to enterprise performance? Therefore, this study examines the influence of social capital on micro-enterprise performance in Kelantan, with attitude as a moderator.

## **2. Literature Review**

### **2.1 Women Micro-Enterprise Performance**

Women micro-enterprise's performance refers to the business performance of women entrepreneurs, and their performance is best understood based on performance measures. Micro-enterprise performance has been operationally defined based on their unique characteristics such as small size, and inability to keep accurate accounting records especially in developing countries. For instance, micro-enterprise performance was defined as net profit (Cheston & Kuhn, 2002; Eversole, 2009; Shane, 2003). It was also defined as net profit, change in output, change in investment, and change in employment (Kuzilwa, 2005). This study defined micro-enterprise performance in line Kuzilwa (2005).

### **2.2 Social Capital and Women Micro-Enterprise Performance**

Lack of consensus exists among scholars in the definition and measurement of social capital (Dah & Zolnik, 2011). It has been defined differently by different authorities; some of which are based on different types, features and functions (Tundui & Tundui, 2013). One of the definitions indicated that social capital consists of informal networks of friends, family, relatives, work groups and clubs or associations that yield value to micro-enterprise in terms of information, self-confidence and professional advices (Kim & Sherraden, 2014).

This study was tied to Social Network Theories (Bourdieu, 1985; Coleman, 1990; Portes, 1998) which agreed that social networks could provide economic benefits and resources to the group members, depending on their ability to access those resources.

Though no consensus exists among scholars on the operational definition of social capital, this study adopted the structural dimension of social capital in terms of network diversity, network size, and relationship strength or bonding in line with recent studies (Khan et al., 2013; Kim & Sherraden, 2014; Tata & Prasad, 2008; Wu, 2008).

#### **2.2.1 Network Diversity**

This refers to the number of social groups a person belongs to. An entrepreneur who belongs to diverse social groups such as the family, work group, community association

and religious groups has wide network range. It was discovered that men had wider network diversity but lower network ties than women. Such wider networks helped them to access credit and market information faster than women (Allen, 2000; Tata & Prasad, 2008).

### **2.2.2 Network Size**

This is the number of members in a social group, and the smaller the number, the stronger the network ties (Allen, 2000). Women entrepreneurs normally form single-gender groups due to demographic and cultural constraints such as educational levels and traditions, especially in developing countries, which limit their ability to have equal access to social capital necessary for business (Tata & Prasad, 2008). Strong social ties among women entrepreneurs' networks was positively related to business start-up but negatively related to business revenue and survival (Kim & Sherraden, 2014).

### **2.2.3 Network Strength (Bonding)**

This refers to the level of closeness or ties existing within a social group among the members; which could be assessed by the frequency of their meetings or interactions. Women entrepreneurs have closer ties or longer relationship than men due to the equality of relationship among the group members which helps to sustain the group (Gine & Karlan, 2009; Mkpado & Arene, 2007; Mohamed et al., 1997; Olomola, 2002; Tata & Prasad, 2008). For example, Chan and Foster (2001) found that reliance on bonding social capital (strong ties from spouses, parents, friends, relatives, and business partners) had significant positive influence on women enterprise owners than men, in Hong Kong.

The above trend in literature has proved a composite effect of social capital on micro-enterprise performance in many countries of the world. We, therefore, hypothesized that:

*H1: Social capital is positively related to women micro-enterprise performance.*

## **2.3 Attitude towards Social Capital (the moderator)**

Given the above trend in literature, it is arguable that women entrepreneurs' ability to make use of social capital to achieve business performance depends on their attitude towards social capital. Therefore, attitude towards social capital could moderate the relationship between social capital and women micro-enterprise performance. This attitude depends on the women's appraisal of the possible effect of belonging to several social groups on business performance through information and resources access (Cheston & Kuhn, 2002; Fernando, 2006; Karnani, 2007; Tata & Prasad, 2008). While some studies have shown that most women entrepreneurs are ignorant of the role of social capital on enterprise success and therefore show negative attitude towards it (e.g Aziz et al., 2012; Fernando, 2006),

several other studies have shown that women entrepreneurs are aware of the role of social capital on enterprise performance and therefore show positive attitude towards it (e.g Asikhia, 2009; Khandker, 2001; Manev et al., 2005). Therefore, in line with Baron and Kenny (1986), this inconsistency in results calls for a moderator. The study, therefore, hypothesize that:

*H2: Attitude moderates the relationship between social capital and women micro-enterprise performance.*

The Conceptual Framework for this study is as shown in Figure 1.

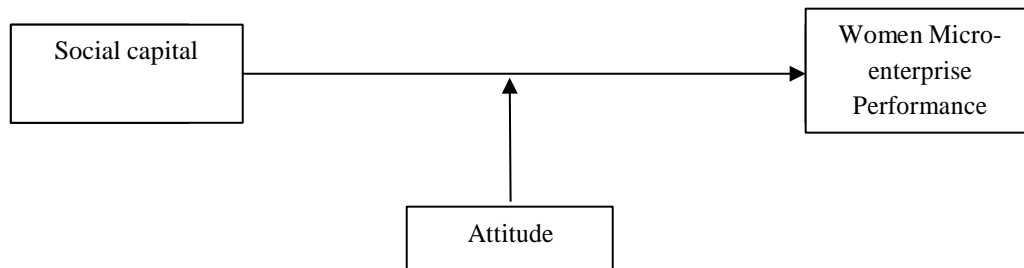


Figure 1: The Conceptual Framework

## 3.0 Methodology

### 3.1 Survey Procedures

The study covered 2014-2015. The study employs a cross-sectional survey design with simple random sampling to collect data from 385 women entrepreneurs in Kelantan State of Malaysia. Questionnaires will be distributed among women entrepreneurs who belonged to any loan group and those who did not. The unit of analysis (respondents) will be women entrepreneurs in Kelantan who belonged to micro-credit groups and who have minimum three (3) years business experience. This is because most literature evidence supports the fact that a minimum of three (3) years business experience is sufficient to assess an entrepreneur (Allen et al., 2008; Antoncic, 2006; Carter & Shaw, 2006; Harrison & Mason, 2007; Kuzilwa, 2005; Salman, 2009). However, an external controlled group consisting of women entrepreneurs who did not belong to any loan group but who had received loan and training will also be studied. This is because, though they may have negative attitude towards social capital, they could possibly be motivated to succeed by other factors. The study focused on women entrepreneurs in Kelantan whose activities and features are homogenous throughout the country; therefore, the result is appropriate for generalization.

The number of women entrepreneurs in Kelantan was not certain. This is in line with previous authors who discovered that the number of women entrepreneurs in developing

countries is difficult to assess due to lack of data-bank and non-registration of some women entrepreneurs, as well as lack of proper street addresses (Kuzilwa, 2005; Lakwo, 2007). The sample size for this study was determined through Cochran (1963) formula, for infinite population, cited in Israel (1992). This was at 95% confidence level and  $\pm 5\%$  precision. Therefore, the sample size for this study will be 385 women entrepreneurs in Kelantan, made up of 70% of those who had loan groups and 30% of those who did not. Data will be analyzed using descriptive statistics, t-test statistics and hierarchical regression methods.

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