

The influence of social capital on the business performance of women-owned SMEs: The mediating effect of entrepreneurial orientation

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Keywords

Social Capital, Entrepreneurial Orientation, Business Performance, Women-owned SMEs, Entrepreneurship, Small and Medium-sized Enterprises

Abstract

This conceptual paper examines the importance of the three dimensions of social capital to the performance of women-owned Small and Medium-size Enterprises (SMEs) mediated by the effect of Entrepreneurial Orientation (EO). The social capital will be measured using structural, relational and cognitive aspect, and the proxy of EO is proactiveness, innovativeness and risk taking. The respondents of this study were the women entrepreneurs in Sabah, Malaysia. This paper highlights the need to promote social capital and entrepreneurial orientation as a way of improving women-owned SMEs performance.

Introduction

Women-owned Small and Medium-sized Enterprises (SMEs) are one of the fastest growing entrepreneurial populations in the world (Brush & Cooper, 2012). Based on the Global Entrepreneurship Monitor (GEM) Women's Entrepreneurship Report 2016/2017, it was projected that in year 2016, there are 163 million women starting or operating new businesses in 74 economies around the world. Out of which, an estimated 111 million have established their businesses in the market. This proves that women entrepreneurs all over the world contributes to the growth and well-being of their societies by providing employment to their communities, incomes for their families and introducing product and services that brings new value to the world around them. Besides, the World Bank shows that women entrepreneurs contribute substantially to economic growth and poverty reduction even though they are limited by lack of capital and social constraints (GEM 2016).

It is widely accepted that entrepreneurship is a catalyst to economic development in all countries around the world including developing countries like Malaysia. Although women entrepreneur's plays a significant part in the entrepreneurial landscape, their number is still considered small as compared to businesses owned by men (Mutalib, et. al., 2015). This is reflected in the 2016 Economic Census by the Department of Statistics Malaysia, in which out of the 920,624 million business establishments, 186,930 million were owned by the women entrepreneurs representing only 20.6 percent of the total business establishment in year 2015. Even though the number of women entrepreneurs is still considered small, it is however encouraging to observe that women no longer adhere to the stereotype that only men can be the breadwinner in the family (Fabeil, Toh, and & Sung, 2017).

The Gender - Global Entrepreneurship and Development Index (GEDI) in its 2013 Executive Report found that globally, women face constraints in terms of access to resources, which continues to affect women's ability to start and grow businesses as compared with their male counterpart. This is also supported by study by Bahari, et al. (2017) who found that women may not engage in entrepreneurship to the same extent as their male counterpart because of different access to various forms of capital. While other researchers insisted that the main differences between man and woman entrepreneur are the level and extent of their networking strategy (Greguletz, et. al., 2018 and Shim & Eastlick, 1998). According to Greguletz, et. al. (2018), work-family conflict and homophily acts as a barrier to women's effective networking, especially in terms of accessing networks. In addition, women's personal hesitation due to their inclinations to avoid taking advantage of their social networks and underestimating their own value

in professional contexts are the reasons why women build fewer effective networks than men. Besides, women entrepreneurs are also found less likely than men to personally know someone who started their own business (Koellinger, Minniti, and Schade, 2013). Women entrepreneurs also tend to spend less time developing and maintaining contacts due to family responsibilities (Munch, McPherson, and Smith-Lovin, 1997; Cromie and Birley, 1992) and often prioritise networks emanating from family and friends over professional networks (Orhan, 2001). Besides, some studies also found that compared to men, women entrepreneurs exhibit different entrepreneurial behaviour or entrepreneurial orientation dimensions in pursuing their business successfully (Nasip, Fabeil, Buncha, Nga, Hui, Laison, & Jr, 2017). Given the unique nature of women entrepreneurs when considered in relation to their male counterparts, investigating factors specifically affecting their performance represents an important area of research (Alliance, 2016). The general argument is that more resources accrue to entrepreneurs that are better connected (Hoang and Antoncic, 2003).

According to Nahapiet and Ghoshal (1998), social capital comprises the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital is considered as essential to a firm's success as it allow the firm to develop a competitive advantage through various mechanisms. For instance, Adler and Kwon (2002) founds that personal networks are a source of resources which assist entrepreneurs to identify opportunities (Bhagavatula, Elfring, van Tilburg, and van de Bunt, 2010), organise resources (Batjargal, 2003) and build legitimacy for their business (Elfring and Hulsink, 2003). Research also associate the degree of advancement of the entrepreneur's social capital to the course of opportunity discovery and exploitation (Manev, Gyoshev, & Manolova, 2005). Social capital expedites the access to information, and when entrepreneurs have prior information, they are more likely to discover and take advantage of entrepreneurial opportunity (Shane and Venkataraman, 2000). Networking with resource providers facilitate the acquisition of resources and enhance the probability of opportunity exploitation (Davidsson and Honig, 2003). Therefore, this study imply that women-owned SMEs may possess unique entrepreneurial orientation dimensions (proactiveness, innovativeness, and risk taking) that enhance their business performance through network affiliations for some aspects of social capital (structural, relational and cognitive) which may influence their business performance.

The subsequent parts of the paper are organized as follows: - the next section describes the relevant literature while Section 3 describes the methodology used in the research. Finally, the last section discusses and concludes the research.

Literature Review

In Malaysia, the National SME Development Council categorized SME's based on two criteria, namely sales turnover and employment. Table 1 below summarise the different category of SME's for each specific sector.

Table 1: Definition of SME's by category

Size	Micro		Small		Medium	
	Sales Turnover	Employees	Sales Turnover	Employees	Sales Turnover	Employees
Manufacturing	<RM300,000	< 5 employees	RM300,000 to < 15 million	5 to < 75 employees	RM15 million to < 50 million	75 to < 200 employees
Services & other sectors			RM300,000 to < 3 million	5 to < 30 employees	RM3 million to < 20 Million	30 to < 75 employees

Note: < is less than
≤ is not exceeding

Source: SME Annual Report 2017/18

Based on the SME Annual Report 2016/17, women-owned SMEs are defined as women holding a minimum of 51 per cent of the equity, or the Chief Executive Officer or Managing Director shall be a woman which owns at least 10 per cent of the equity. In year 2015, women-owned SMEs accounted for about 20.6% of total SMEs in Malaysia. That is, an increase of 46.7%, from the one recorded in year 2010. In

terms of breakdown by sectors, majority 92.7% of women-owned SMEs are engaged in the services sector, followed by the manufacturing sector (5.1%).

Most empirical researchers have varied definition and measurement of business performance. Business performance can be estimated in term of subjective and objective measurements. Generally, there are three types of indicators used in assessing business performance which includes growth, profitability and market share as expressed by either financial or non-financial indicators (Nasip et. al., 2017). According to Covin and Slevin (1991), entrepreneurial firms are more focused on its profit margin and growth rate which can be estimated by financial indicators of return on investment and sales growth. Wiklund (1999) further added that both financial and non-financial aspect of performance complement each other and indicate the actual performance of business. Hence, measurement of business performance shall not focus on financial aspect only while neglecting the other measures that indicate the business success as well. Despite various definitions of business performance in the literature, this study will be considering business performance as success from an economic point of view since business performance is generally measured from the economic perspectives of increase in profits and/or growth in sales or employees (Buttner & Moore, 1997).

Social Capital Theory

It is widely acknowledged in the literatures that social capital provides a valuable source of information benefits that is, “who you know” affects “what you know” (Nahapiet and Ghoshal; 1998). The theory of social capital describes how structural and social interaction and cooperation shape the social capital which eventually affects business performance (Mamun*, Muniady, Permarupa, Zainol, Nawi, & Malarvizhi, 2016). Taylor, Jones, and Boles (2004) defined social capital as the productive value that accrues to individuals and groups because of the social network relations amongst them. While, Nahapiet and Ghoshal (1998) describe social capital as comprises of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. That is, social capital represents the capability to access resources via social connections (Manev et al., 2005). Social capital plays a significant role in entrepreneurial activities since it is considered as a socio-economic process which depend on the circumstances and social context from two points of views; firstly, entrepreneurs are considered as products of their social environment. Secondly, entrepreneurship is a social activity and existence, or lack of social ties and connections affects the nature of businesses (Anderson and Miller, 2003). According to Galaskiewicz and Zaheer (1999), social capital that is embedded in entrepreneurs’ external connections is considered as unique resource, which is invisible to competitors, and difficult to imitate.

There are three dimensions of social capital that is, i) relational which focused on the development and types of personal relationship through a chain of interactions. It also covers the characteristics and qualities of individual relationship, ii) structural which concerns the properties of the social system and of the network of relations. It assesses whether there exist network ties between units, how does it look like, and how dense is the hierarchy of the network structure as well as the connectivity of the linkages, iii) cognitive which refers to the shared representations, interpretations, and systems of meaning among parties. It facilitates mutual understanding of goals and provide a proper method to interact with others (Nahapiet and Ghoshal, 1998).

Resource Based View Theory

The resource-based view (RBV) theory states that firms’ performance will improve due to capitalizing its resources which are rare, valued and difficult to replicate and substitute (Barney, 1991). This theory is premised on the strategic importance of a firm’s resources and capabilities (Brush and Chaganti, 1999). The RBV views a business as a collection of resources, whose features considerably affect its competitive advantage and consequently performance (Barney, 1991). According to this theory, the performance of a firm is best explained in terms of the resources, skills and assets it possesses (Lerner and Almor, 2002).

Entrepreneurial orientation may also contribute to performance by enhancing a firm’s capability to recognize innovative opportunities which may offers profitable returns, secure first-mover advantage and target premium market segments (Lumpkin and Dess, 1996; Wiklund and Sheperd, 2005). Nonetheless,

literature also shows that firms may not often be able to translate an entrepreneurial orientation into enhanced performance due to a lack of strategic resources (Hitt, Bierman, Shimizu, and Kochhar, 2001).

The Effect of Social Capital on EO and BP

Social capital helps entrepreneurs to identify opportunities (Bhagavatula et al., 2010), organise resources (Batjargal, 2003), improve social entrepreneurship (Mair and Marti, 2005), build legitimacy for their business (Elfring and Hulsink, 2003), lead to an entrepreneurial orientation (EO) in a firm (De Clercq, Dimov, and Thongpapanl, 2013) and facilitate access to financial and useful information (Omrane, 2015) which eventually will lead to improve business performances. Indeed, social capital plays a vital role to facilitate value creation, competitive advantage, knowledge sharing, and acts as a management tool for fulfilling firm's goals more effectively and with less cost (Abili and Faraji, 2009). This article focuses on the work of Nahapiet and Ghoshal (1998), in which it refers social capital in three main aspects that is, relational, cognitive, and structural dimension.

A study on the relationship amongst the above three dimensions of social capital by Carey, Lawson, and Krause (2011) indicates that structural dimension enhances trust and reciprocity in relational dimension, while cognitive dimension influences the level of relational dimension. Besides, the study also found that in the context of buyer innovation improvements, the relational dimension mediates the relationship between cognitive dimension and firm performance, and relational dimension partially mediates the influence of structural dimension on firm performance. In this study, the three dimensions, namely structural, relational and cognitive aspect were used to measure social capital. These dimensions have a positive impact on EO and FP. Therefore, it can be hypothesized that:

Hypothesis 1: There is a positive relationship between social capital and women-owned SMEs business performance.

The Mediating Effect of EO

Entrepreneurial orientation (EO) refers to "processes, practices, and decision-making activities that lead to new entry" (Lumpkin & Dess, 1996). There are three dimensions of EO which has been used consistently in the literature namely i) proactiveness which indicates the managers' vision regarding future wants and needs in the market (Shane & Venkatraman, 2000), ii) innovativeness which refers to the firm's efforts to experiment with and develop new products and services designed to meet present or future market demands (Lumpkin & Dess, 1996), and iii) risk taking which represent the behaviour of the manager with regards to the money, effort and time invested even before financial returns are realized (Venkatraman, 1997). Such three dimensions have been noted as the essential dimensions of entrepreneurship and being considered to give greatest impact in firm's growth (Miller, 1983; Lumpkin & Dess, 1996). Therefore, pro-activeness, innovativeness, and risk taking are the dimensions in EO that will be used in this study.

According to Chirico, Sirmon, Sciascia, and Mazzola (2011), EO is the channel in which managers use systems of practices and managerial styles to guide how resources are utilized. Similarly, Covin and Slevin (1991) stated that EO is resource-consuming and the firm's capacity to undertake entrepreneurial orientation hinges on its resources (e.g., social capital) as resources afford bases for any organizational actions (Sirmon, Hitt, and Ireland, 2007). Hence, social capital being one of the unique firm resources, need to be orchestrate and institutionalized into actions in order to enhance firm performance (Brush, Greene, and Hart, 2001). Social capital which hinges on high-quality relational resources that arises from interactions among exchange associates, places a firm in a context that is particularly conducive for generating new ideas and knowledge (e.g., EO), that managers may mobilize to exploit opportunities and enhance firm performance (Nahapiet & Ghoshal, 1998).

Hence, firms with social capital resources have higher propensity to undertake innovative, proactive and risky activities which subsequently results in enhance firm performance (Covin & Slevin, 1991). Thus, it is hypothesized that:

Hypothesis 2: Entrepreneurial orientation mediate the relationship between social capital and women-owned SMEs business performance.

The Effect of EO on Business Performance

There has been extensive research conducted to examine the relationship between EO and business performance however the empirical findings are inconclusive. Some studies supported the facts that EO impact performance positively (Wang, 2008; Davis, Bell, Payne, and Kreiser, 2010; Al-Swidi & Mahmood, 2012; Anderson & Eshima, 2013), while others confirmed that the two variables were not correlated at all (Andersén, 2010; Messersmith & Wales, 2011). In other cases, some even found that the dimensions of EO supported performance partially (Ambad & Abdul Wahab, 2013; Kreiser, Marino, Kuratko, & Weaver, 2013; Musa, Ghani, & Ahmad, 2014). Similarly, studies on the relationships between EO and women-owned SMEs performance showed conflicting results as well (Ali & Ali, 2013, 2014; Hanafi & Mahmood, 2013). Also, there is a little concern on how EO determines the business performance of women-owned SMEs in Malaysia, despite the growing number of women entrepreneurs and the vital effect of EO on their success. Thus, it is postulated that: -

Hypothesis 3: There is a positive relationship between entrepreneurial orientation and women-owned SMEs business performance.

Data and Methodology

This study is to determine the relationship between the constructs of social capital (structural, relational and cognitive) towards the women-owned SME's business performance mediated by entrepreneurial orientation (proactiveness, innovativeness, and risk taking). The population of this study refers to the women entrepreneurs in SME's operating at Kota Kinabalu, Sabah. The sampling frame for this study includes the list to be retrieved or provided by several agencies such as Sabah Women Entrepreneurs & Professionals Association (SWEPA), Sabah Women's Affairs Department (JHEWA) and Kadazandusun Chamber of Commerce and Industry (KCCI).

A set of questionnaires will be distributed through email and personally administered survey. All construct measures in this study will be adopted from existing tested multi-item 7-point Likert scales in previous research. The three dimensions of EO will be adopted from EO scale of Hansen et al. (2011) in which innovativeness and proactiveness were both measured via three-item measures, while risk-taking was assessed via a two-item measure. The measurement of dimension in social capital such as structural social capital will be adapted from Chiu, Hsu and Wang (2006) and Chen (2007), relational social capital will be adapted from Chiu et al. (2006) and Wasko and Faraj (2005), while cognitive social capital will be adapted from Tsai and Ghoshal (1998). Business performance was measured by using questionnaires from Ramayah et al. (2011).

Data analysis will be carried out by using a structural equation model (SEM) which is a form of statistical models that seek to explain the relationships among multiple variables (Hair, Black, Babin, Anderson, and Tatham, 2010) and has become an important tool in applied multivariate analysis for theory testing and causal modelling (Reisinger & Mavondo, 2007). SEM is a statistical technique that combines the aspect of multiple regression and factor analysis to estimate a series of inter-related dependence relationships simultaneously (Hair et al., 2010; Gefen, Straub, and Boudreau, 2000). This enables researchers to answer a set of interrelated research questions in a single systematic and comprehensive analysis by modelling simultaneously the relationships among multiple independent and dependent constructs (Gefen et al., 2000). An overview of the research framework is depicted in the diagram below.

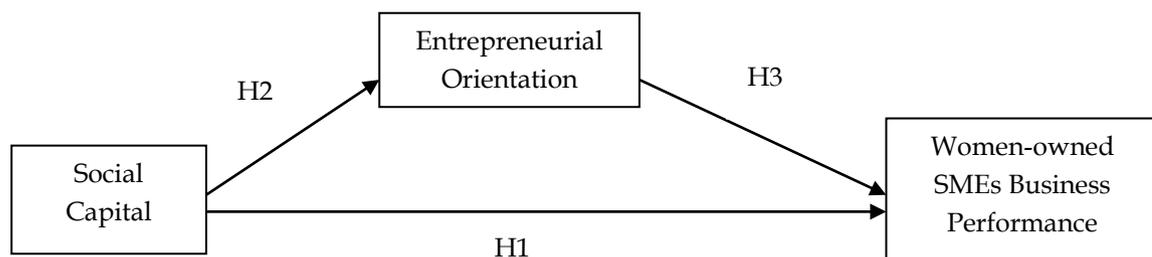


Figure 1: Research Framework

SEM techniques can be considered as the second generation of multivariate analysis (Fornell, 1987) which allows the modelling of multiple independent and dependent constructs simultaneously hence enabling researchers to analyse more complex models as compared with first generation techniques (Gefen et al., 2000). In addition, second generation techniques facilitate researchers to construct unobservable variables (latent variable) through indicators and their measurement error in the same model (Haenlen & Kaplan, 2004; Chin, 1998). The combined analysis of the measurement and the structural model simultaneously with errors of the observed variables enabled a more vigorous analysis of the proposed research model (Bollock et al., 1994).

Discussion and Conclusion

This study will be conducted to gain a better understanding of the relationship between the different dimensions of social capital, entrepreneurial orientation, and business performance. The specific research objectives of this study are a) to examine the relationship between social capital (structural, relational and cognitive) and business performance among women-owned SMEs in Kota Kinabalu, Sabah, and b) to determine how entrepreneurial orientation (proactiveness, innovativeness and risk-taking) mediate the social capital in women-owned SMEs business performance, as well as c) to examine the relationship between entrepreneurial orientation and women-owned SMEs business performance.

There is considerable evidence that supports the idea provision of network development opportunities for women-owned SME's could improve business performance by connecting women to valuable business resources and overcoming inequality caused by structural gender discrimination (Adler and Kwon, 2002; Bhagavatula et al. 2010; Elfring and Hulsink, 2003; Hoang and Antoncic, 2003). Likewise, some studies supported the facts that EO impact performance positively (Wang, 2008; Al-Swidi & Mahmood, 2012). Similarly, there is growing acceptance among scholars that social capital has an impact on the EO which contribute to performance of women-owned SME's (Nasip et. al., 2017; Manev et. al., 2005). By understanding the impact of entrepreneurial orientation dimensions and social capital towards business performance, women-owned SME's can plan their strategy effectively to achieve their business goals. Moreover, there is a need to understand the important roles of each dimension of entrepreneurial orientation such as the proactiveness, innovativeness and risk taking and social capital dimensions, namely, structural, relational and cognitive, in order to enhance the firms' business strategy. This paper strives to provides evidence about what makes women businesses grow successfully. The results are useful to provide insights to the Malaysian government to improve support measures that are specifically tailored to women entrepreneurs by providing the right incentives to their enterprises. Importantly, this study will add to the empirical evidence supporting the theory of social capital as explained by Nahapiet and Ghoshal (1998) in which social capital build from structural, relational and cognitive dimension effect firm performance.

With this study, it is anticipated that women entrepreneurs, and policy makers will put more emphasize on the potential of social capital in enhancing entrepreneurial competencies, which ultimately leads to an enhance business performance among women-owned SME's in Malaysia. Women entrepreneurs have to realize and take advantage of the network ties and network density where knowing the right people among key business players and knowing how to reach them is important, as well as being active in formal and informal networks and having common acquaintances is crucial and will have effect on their business performance.

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