

The Roles of Microfinance Factors Aligning with Business Success: A Case Study of Women Entrepreneur

Mohamad Hanif Baharudin, Mohammad Ikram Ramzi, Wan Mohamad Firdaus Wan Mohamad, Ahmad Mudzfir Zubir, Mohamad Sayuti Salleh

Faculty of Business and Management, Universiti Teknologi Mara, Kelantan, Malaysia

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v14-i9/22160> DOI:10.6007/IJARBSS/v14-i9/22160

Published Date: 12 September 2024

Abstract

The Malaysian government are in recognition of potential contribution to the country's economy with the commencement of woman participation in business, despite the low rate of women's entrepreneurship. This can be substantiated by the different and myriad forms of support and assistance provided by the administration to nurture the sector. Encompassing various focuses, they include the materialization of national policy that spurs women's economic involvement, availability of business advice, and access to financial funding and entrepreneurial skill development. These initiatives are all targeted towards reducing barriers and obstacles hindering women from becoming a successful entrepreneur. The journey towards business success among these women entrepreneurs, especially those from developing countries, may be further complicated by the lack of competencies and the need for continuous assistance. Thus, this study is aiming to examine the role of microfinance factors (credit, saving, training and social capital) aligning with women business success. Microfinance dimensions are credit and saving, and social capital and training. Structural Equation Modeling (SEM) will be employed as the main statistical technique in this study. A total of 392 women entrepreneurs under the microfinance's scheme have been involved in this study. Lastly, this study will contribute towards the development of literature review related to the favourable outcome for women entrepreneurs.

Keyword: Microfinance Factors, Business Success and Women Entrepreneurs.

Introduction

The importance of women entrepreneurship to a nation and its economy is undeniable, especially due to their contributions towards economic development and poverty alleviation (Carter & Wilton, 2006). Furthermore, they also play as an important role for the economic development of families and communities. However, such development and growth in developing countries have generally been hindered by various barriers, such as

unemployment, low family income, poverty and inequity. Such obstacles have prompted a majority of these women to become involved in business activities so as to support their household. According to Ekpe, Norsiah, & Razli (2010), their study on the roles of microfinance factors on women entrepreneurs' performance in Nigeria has concluded that women involvement in entrepreneurship is the best strategy towards alleviating poverty in Nigeria. This is explained by how women are the people hit hardest in unemployment and poverty.

In Malaysia, the government's objective of wanting to establish rapid growth of women entrepreneurs is a high priority, while the long-term sustainability and survival of business are also given similar importance. Malaysian government actively promotes women's involvement in entrepreneurship with the aim of stimulating the country's economy. The Institute of Strategic and International Studies (ISIS) Malaysia has revealed that their study in 2014 has displayed the need for a bridge and assistance that will improve the viability and success of women entrepreneurs. Such bridging may be translated into various kinds of support, such as financial assistance for working capital, training, skills, risk taking advocacy, coaching, innovation encouragement, and recognition for women to enhance their business. It has been suggested that the formation of various agencies and associations for the cause are insufficient and not continuous; they include National Association of Women Entrepreneurs of Malaysia (NAWEM), USAHANITA, and Federation of Women Entrepreneur Association Malaysia (FEM) (Zamberi & Xavier, 2012). Therefore, microfinance is a viable source of continuous assistance towards supporting women entrepreneurs until their success.

Microfinance is a financial innovation, which allows the development of a win-win situation that enables high-risk individuals to obtain funds via highly profitable microfinance institutions (MFIs) (Sibieude, & Lesueur, 2012). Developing countries, which includes Malaysia, will undoubtedly benefit from an unlimited women's access to microfinance; it empowers them into significantly contributing towards family income, the household's well-being and more forward changes from gender inequality (Biswas & Hassan, 2009). This is paralleled by a study by Tata & Prasad (2008), which has revealed that women micro-enterprises' performances can be affected elements like member bonding, motivation and opportunities of engaging in collaborative exchanges, appropriate training and mandatory saving. Therefore, this has substantiated the importance of microfinance programs in pushing forward women entrepreneurship, especially in developing countries bogged by limited access of credit and other opportunities.

In Malaysia, there are four prominent microfinance institutions (MI), which are: Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM), People's Credit Cooperation (KKR) and the Economic Fund for National Entrepreneurs Group (TEKUN). AIM and YUM both have been established in 1987 and developed according to the Grameen Bank framework, while KKR in 1974 and TEKUN in. AIM is a non-government organization (NGO), in contrast with YUM and TEKUN, which are agencies under the Ministry of Agriculture and Agro-based Industry Malaysia. Furthermore, People's Credit Cooperation (KKR) is a credit union or co-operative that is a possession of rubber plantation workers. Nevertheless, AIM is the most recognizable microfinance institution in Malaysia compared to the others. So, in this study, the unit of analysis is women entrepreneurs under scheme's Amanah Ikhtiar Malaysia (AIM).

Literature Review*Defining the concept of Business Success*

Success can be achieved in many different ways, and are of importance for businesses or organizations alike. According to Gorgievski et al (2011), it is the outcome of attaining objectives and goals in life. In the context of business, success is a crucial element in management despite not being explicitly stated, whereby success or failure can be labeled as actions or endeavor for either good or bad management. It is commonly used to describe business performance.

Islam, Khan, Obaidullah and Alam (2011), have highlighted the lack of specific and universally accepted description of success, allowing its interpretation in various ways. Nevertheless, it can generally be categorized into two different domains, either financial vs. other success or short- vs. long-term success. The concept itself can be reflected by different elements, such as profit, survival, return on investment, employee roster, happiness, sales growth, reputation, and more. Therefore, the different possible identification and meaning for success is according to different people.

Measurement of entrepreneurial success by Rhodes and Butler (2004), has recommended the financial approach, using elements of income, profit, return on asset, return on investment and asset owned. Other researchers have also studied the topic further according to each elements, specifically income (Haber & Reichel, 2005), profit (Orser, Hogarth-Scott, & Riding, 2000), return on asset (Masuo, Fong, Yanagida, & Cabal, 2001), asset owned (Norma & Jarita, 2010), return on investment (Gadenne, 1998), and more. Meanwhile, Walker and Brown (2004), have indicated the measurement of “non-financial success” according to overall satisfaction towards goal achievement, especially relevant to micro and small business. Hence, this study is focusing on non-financial approach as a measurement of success, as supported by (Lumpkin & Dess 1996; and Noor Hazlina 2007).

Microcredit and the Success of Women Entrepreneurs

The theory of microcredit according to Al-Shami et al (2014), is referring to the small amount of loan given to low income people, specifically women, to generate income through entrepreneurship. Its significance can be interpreted from different perspectives; in terms of people empowerment, it empowers the “weak” through enabling them to generate their own income and work. Haile, Bock, and Folmer (2012), have also commented that for Ethiopian women entrepreneurs, credit allows them to hone their decision-making capabilities and generate income. Another aspect of microcredit importance is regarding sustainability of life as it enhances the wellbeing of the poor and alleviates poverty. Garikipati (2008), and Nader (2008), have indicated respectively that micro “credit” allows those with low income to improve the quality of their lives, gain assets, enhance children’s education and maintain good health condition. Meanwhile, Al-Shami et al (2014), has studied the effect of microcredit in Malaysia and revealed that it will enhance an entrepreneur’s income, increase their assets and improve their quality of life.

Moreover, micro loan is a tool that enhances economic growth by promoting start-up businesses, which will subsequently create job opportunities and alleviate poverty. As per Al

Mamun et al (2012), Ahmad (2012), and Burjorjee and Jennings (2008), microcredit is essential for business growth and has a significant effect (positive) on women entrepreneurs by stimulating new business formation and alleviating poverty. Although there are different opinions regarding the topic, its role remains the same: providing microcredit for women entrepreneurs especially, who run their own small businesses (Al-Shami et al., 2014).

Nowadays, researchers and scholars from various disciplines have acknowledged the importance of microcredit towards people' performance, which includes pay back flexibility (e.g. loan size, interest charge). According to Al-Shami et al. (2014), pay back loan policy are important to financial and non-financial institutions as those with loan income are feared to lack the ability to manage their loans, subsequently posing high risks. Rutherford, Sinha, and Acnabin (2003), have further emphasized that repayment flexibility and rescheduled loan pay back have been considered in the Grameen Bank model so as to solve borrower's inability to pay back loan and ease the process of getting one. This is evidenced from Yeboah (2010), who has indicated that role of loan flexibility is significantly affecting individual's well-being and businesses success.

Social Capital and the Success of Women Entrepreneurs

Social capital is a key element in start-ups and growing businesses. Also, social capital is central to entrepreneurial success (Lindvert, Patel, & Wincent, 2017). Most works generally regard social networks as a bigger chunk of social capital while others use them interchangeably, but the primary idea remains that it requires having the right contacts in different places for accessibility to timely information and beneficial resources (Lawal, Omonona, Ajani & Oni, 2009; Olomola, 2002; Shane, 2003).

In developing countries, social capital is a topic of interest that has yielded positive effect on business performance (Brata, 2004; Lawal et al., 2009; Mkpado & Arene, 2007; Olomola, 2002). It is resources that can be accessed by entrepreneurs via personal networks (Adler & Kwon, 2002), allowing them to identify opportunities (Bhagavatula, Elfring, van Tilburg, & van de Bunt, 2010), mobilize resources (Batjargal, 2003), and ensure the legitimacy of their operations (Elfring & Hulsink, 2003). Nevertheless, not much is known regarding the social capital-performance link in the context of SMEs (Maurer & Ebers, 2006; Stuart & Sorenson, 2007). Maclean (2010) asserts that, development results through a role of social capital will allow entrepreneurs to coordinate their actions and achieve in their business.

Accordingly, Putnam (1995) also has defined social capital as "the features of social organization like networks, norms and trust that facilitate coordination and cooperation for mutual benefit, enhancing the benefits of investment in physical and human capital". At the same time, Fukuyama (2002) has described "networks" further as "local clubs, temple associations, work groups and other forms of association beyond the family and kinship group," and also "large, publicly owned corporations". Therefore, previous works have suggested that a role social capital will generate more impact towards firm growth or business success.

Saving and the Success of Women Entrepreneurs

Akanji (2006), and Mkpado and Arene (2007), have respectively outlined the main role

played by savings as an insurance for loans, as women entrepreneurs generally lack any physical collaterals. As it spurs discipline and the habit in such population, it serves as a good way to create future resources for business and family use alike, and also acting as fund pool for micro-finance institutions (Akanji, 2006; Mkpado & Arene, 2007). Such services remain a good mechanism for liquidity management due to their accessibility to cash, security and its divisibility. It is a service as necessary as credit service to women entrepreneurs, and evidenced by their willingness to pay for a high interest rate (Akanji, 2006)

Meanwhile, Al-Shami et al (2014), has reaffirmed savings as an importance source of microfinance, which can be gained easily at a lesser price, while any small amount of withdrawals from a saving account does not pose a liquidity risk compared to large savings. Moreover, deposit-taking is also a good indicator for strong market demands, spurring microfinance institutions to constantly improve their services. Nevertheless, it is also important to those with low income as it minimizes the financial risk associated with lending and allows them to maintain a sustainable fund source (Ledgerwood, 1999; Robinson, 2001). Additionally, Brannen (2010), has also remarked that microfinance institutions in Tanzania have generally served savings services that can improve borrower's wellbeing.

Training and the Success of Women Entrepreneurs

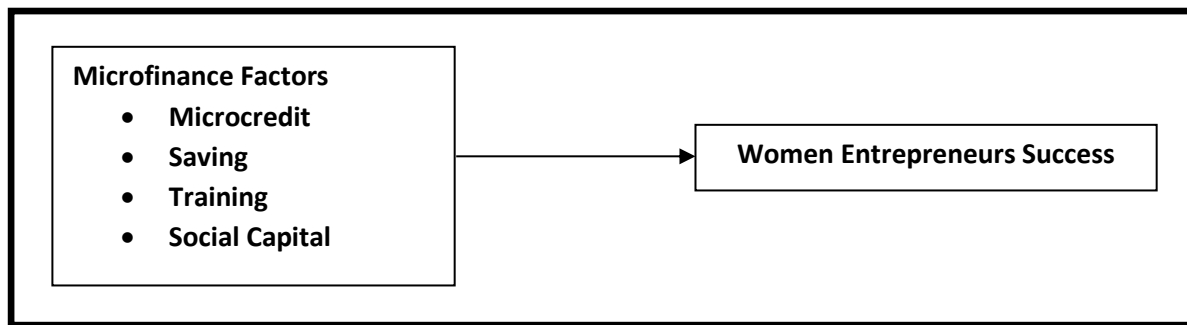
Al-Shami et al (2014), has highlighted the abundant amount of studies in microfinance that have supported the importance of non-financial (training) services towards borrower's income and business performance. Karlan and Valdivia (2011), in return has vouched the necessity of entrepreneurial training that banking programs host in Peru towards their borrower's business knowledge and capacity.

Meanwhile, Hamdan and Hussin (2012), have recommended that those signed up with Malaysian microfinance institutions should be involved in entrepreneurial and business skills trainings before opting to run their own micro businesses. Similarly, Rugimbana, Mensah, and Benedict (2010), have also reaffirmed the importance of training in South Africa towards increasing SMEs' capacity for employment creation and development, asserting its effectiveness if combined with microfinance service.

Additionally, Parvin, Rahman, and Jia (2012), have offered an observation that in Bangladesh, women are driven to micro entrepreneurship with the availability of skill training, accessibility to credit, and accessibility to information and developmental organization.

Conceptual Framework

In this study, the conceptual framework has been devised according to knowledge gaps, especially with regard to microfinance factors and women business success. The proposed framework has put forward four domains of microfinance factors (microcredit, training, saving and social capital) adopted by Ekpe et.al, 2010 as the independent variable, while the dependent variable is women business success. The primary objective for any business is attaining success, whereas the main outcome is the establishment of a dimensions in microfinance with predictive validity.



Discussions and Conclusions

Recently, increased emphasis has been placed on the critical role of women entrepreneurs and its impact on SMEs and national well-being. Malaysian Government's objective of wanting to see a rapid growth in the number of women entrepreneurs is a high priority, the long term sustainability and survival aspects of the newly created business ventures are also important. Malaysian government actively promotes women's entrepreneurship as an effective instrument for accelerating economic growth. The Malaysian government also understands and at the same time recognizes that the role of woman entrepreneurs reflects Malaysia's economic dynamism.

In general, the relevance of microfinance factors is vital role in helping women entrepreneurs to become success. Microfinance institutions are focused on women, especially with the clear goal of female empowerment. This empowerment as the process that allows women entrepreneurs to acquire the ability of making strategic life choices, after being previously denied such opportunity. The role of microfinance is not limited to intervening and allocating resources, which allows women the access and future claims for material and social resources both; it also offer help and services in other associated processed. Women will therefore be counseled in the course of decision making, negotiations, deception and manipulation, which will inevitably result in outcomes of well-being.

For future research, the present study should also be viewed for any research limitation for example utilizing only women entrepreneurs as the sample has limited the generalizability of this finding to other entrepreneurial populations. Therefore, further work is required to consider a bigger and more general entrepreneurial population, such as youth, men, and more.

References

- Adler, P. S., & Kwon, S.-W. (2002). Social capital: Prospects for a new concept. *Academy of Management Review*, 27(1), 17-40.
- Ahmad, S. Z. (2012). Microfinance for women micro and small-scale entrepreneurs in Yemen: Achievements and challenges. *International Journal of Entrepreneurship and Small Business*, 16(1), 102–120. <http://doi.org/10.1504/IJESB.2012.046920>
- Akanji, O. O. (2006). Microfinance as a strategy for poverty reduction. *Central Bank of Nigeria Economic and Financial Review*, 39(4), 111–134.
- Al Mamun, A., Adakalam, J., & Abdul Wahab, S. (2012). Investigating the Effect of Amanah Ikhtiar Malaysia's Microcredit Program on Their Clients Quality of Life in Rural Malaysia. *International Journal of Economics and Finance*, 4(1), 192–203.
- Al-Shami, S. S. A., Izaidin, A. M., Nurulizwa, A. R., & Mohd Syaiful Rizal, A. H. (2014). Conceptual framework: The role of microfinance on the wellbeing of poor people cases studies from Malaysia and Yemen. *Asian Social Science*, 10(1), 230. <http://doi.org/10.5539/ass.v10n1p230>
- Batjargal, B. (2003). Social capital and entrepreneurial performance in Russia: A longitudinal study. *Organization Studies*, 24(4), 535-556.
- Bhagavatula, S., Elfring, T., van Tilburg, A., & van de Bunt, G. G. (2010). How social and human capital influence opportunity recognition and resource mobilization in India's handloom industry. *Journal of Business Venturing*, 25(3), 245-260.
- Biswas, K., & Hassan, K. (2009). A Test of Association between Working Hour and Work Family? Conflict? A Glimpse on Dhaka's Female White Collar Professionals. *International Journal of Business and Management*, 4(5), 27.
- Brannen, C. (2010). An impact study of the Village Savings and Loan Association (VSLA) program in Zanzibar, Tanzania. Wesleyan University.
- Brata, A. G. (2004). Social capital and credit in a Javanese village. *University of Atma Jaya, Yogyakarta, Indonesia: Research Institute*.
- Burgoyne, J., & Reynolds, M. (1997). *Management learning: integrating perspectives in theory and practice*. Sage.
- Burjorjee, D., & Jennings, M. (2008). Microfinance Gender Study: A Market Study of Women Entrepreneurs in Yemen. *Sana'a: Social Fund for Development*.
- Carter, S., & Wilton, W. (2006). Don't blame the entrepreneur, blame government: The centrality of the government in enterprise development; lessons from enterprise failure in Zimbabwe. *Journal of Enterprising Culture*, 14(01), 65-84.
- Ekpe, I., Mat, N. B., & Razak, R. C. (2010). The effect of microfinance factors on women entrepreneurs' performance in Nigeria: A conceptual framework. *International Journal of Business and social science*, 1(2), 255-263.
- Elfring, T., & Hulsink, W. (2003). Networks in entrepreneurship: The case of high-technology firms. *Small business economics*, 21(4), 409-422.
- Fukuyama, F. (2002). Social capital and development: The coming agenda. *SAIS Review*, 22(1), 23-37.
- Gadenne, D. (1998). Critical success factors for small business: An inter-industry comparison. *International Small Business Journal*, 17(1), 36-56.
- Garikipati, S. (2008). The impact of lending to women on household vulnerability and women's empowerment: evidence from India. *World Development*, 36(12), 2620–2642. <http://doi.org/10.1016/j.worlddev.2007.11.008>

- Gorgievski, M. J., Ascalon, E. M., & Stephan, U. (2011). Small business owners' success criteria, a values approach to personal differences. *Journal of Small Business Management*, 49, 207–232
- Haber, S., & Reichel, A. (2005). Identifying performance measures of small ventures-the case of the tourism industry. *Journal of Small Business Management*, 43(3), 257-286.
- Hamdan, H., & Hussin, W. S. W. (2012). The importance of monitoring and entrepreneurship concept as future direction of microfinance in Malaysia: Case study in the state of Selangor. *Journal of Global Entrepreneurship*, 3(1), 1–25.
- Haile, H. B., Bock, B., & Folmer, H. (2012). Microfinance and female empowerment: Do institutions matter? In *Women's studies international forum* (Vol. 35, pp. 256–265). Elsevier. <http://doi.org/10.1016/j.wsif.2012.04.001>
- Islam, M. A., Khan, M. A., Obaidullah, A. Z. M., & Alam, M. S. (2011). Effect of Entrepreneur and Firm Characteristics on the Business Success of Small and Medium Enterprises (SMEs) in Bangladesh. *International Journal of Business and Management*, 6(3), 289–299. <http://doi.org/10.5539/ijbm.v6n3p289>
- Karlan, D., & Valdivia, M. (2011). Teaching entrepreneurship: Impact of business training on microfinance clients and institutions. *Review of Economics and Statistics*, 93(2), 510–527.
- Lawal, J. O., Omonona, B. T., Ajani, O. I. Y., & Oni, O. A. (2009). Effects of social capital on credit access among cocoa farming households in Osun State, Nigeria. *Agricultural Journal*, 4(4), 184-191.
- Ledgerwood, J. (1999). „Microfinance handbook; an institutional and financial perspective.“ The World Bank. *Washington DC, USA*.
- Lindvert, M., Patel, P. C., & Wincent, J. (2017). Struggling with social capital: Pakistani women micro entrepreneurs' challenges in acquiring resources. *Entrepreneurship & Regional Development*, 29(7-8), 759-790.
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance. *Academy of Management Review*, 21(1), 135–172.
- Maclean, K. (2010). Capitalizing on Women's Social Capital? Women-Targeted Microfinance in Bolivia. *Development and Change*, 41(3), 495-515.
- Masuo, D., Fong, G., Yanagida, J., & Cabal, C. (2001). Factors associated with business and family success: A comparison of single manager and dual manager family business households. *Journal of Family and Economic Issues*, 22(1), 55-73.
- Maurer, I., & Ebers, M. (2006). Dynamics of social capital and their performance implications: Lessons from biotechnology start-ups. *Administrative Science Quarterly*, 51(2), 262-292.
- Mkpado, M., & Arene, C. J. (2007). Effects of democratization of group administration on the sustainability of agricultural micro credit groups in Nigeria. *International Journal of Rural Studies (IDRS)*, 14(2), 1-9.
- Nader, Y. F. (2008). Microcredit and the socio-economic wellbeing of women and their families in Cairo. *The Journal of Socio-Economics*, 37, 644–656. <http://doi.org/10.1016/j.socec.2007.10.008>
- Hazlina, A., Hasliza, A. H., & Siti Rohaida, M. Z. (2010). Is entrepreneurial competency the silver bullet for SME success in a developing nation? *International Business Management*, 4(2), 67–75.

- Norma, M. S., & Jarita, D. (2010). Determinants of economic performance of micro-credit clients and prospect of Islamic microfinance in Malaysia. *ISRA International Journal of Islamic Finance*, 2(1), 113-130.
- Olomola, A. S. (2002). Social capital, microfinance group performance and poverty implications in Nigeria. *Ibadan, Nigeria: Nigerian Institute of Social and Economic Research*, 1-25.
- Orser, B. J., Hogarth-Scott, S., & Riding, A. L. (2000). Performance, firm size, and management problem solving. *Journal of Small Business Management*, 38(4), 42-58.
- Parvin, L., Rahman, M. W., & Jia, J. (2012). Determinates of Women Micro-entrepreneurship Development: An Empirical Investigation in Rural Bangladesh. *International Journal of Economics and Finance*, 4(5), 254. <http://doi.org/10.5539/ijef.v4n5p254>
- Putnam, R. D. (1995). Tuning in, tuning out: The strange disappearance of social capital in America. *PS: Political Science & Politics*, 28(04), 664-683.
- Rhodes, C., & Butler, J. S. (2004). Understanding Self-Perceptions of Business Performance: An Examination of Black American Entrepreneurs. *Journal of Developmental Entrepreneurship*, 9(1), 55-71.
- Robinson, M. S. (2001). *The microfinance revolution: sustainable finance for the poor*. World Bank Publications.
- Rugimbana, R., Mensah, S.-A., & Benedict, E. (2010). Entrepreneurship training and poverty alleviation: Empowering the poor in the Eastern Free State of South Africa. *African Journal of Economic and Management Studies*, 1(2), 138-163. <http://doi.org/10.1108/20400701011073464>
- Rutherford, S., Maniruzzaman, M., Sinha, S., & Acnabin, C. (2003). Grameen II At the end of 2003 A'grounded view'of how Grameen's new initiative is progressing in the villages: Paper written for MicroSave. *Kampala: MicroSave-Africa*.
- Shane, S. A. (2003). *A general theory of entrepreneurship: The individual-opportunity nexus*. Edward Elgar Publishing.
- Stuart, T. E., & Sorenson, O. (2007). Strategic networks and entrepreneurial ventures. *Strategic Entrepreneurship Journal*, 1(3-4), 211-227.
- Zamberi, A., & Xavier, S. R. (2012). Entrepreneurial environments and growth: evidence from Malaysia GEM data. *Journal of Chinese Entrepreneurship*, 4(1), 50-69. <http://doi.org/10.1108/17561391211200939>
- Tata, J., & Prasad, S. (2008). Social capital, collaborative exchange and microenterprise performance: The role of gender. *International Journal of Entrepreneurship and Small Business*, 5(3-4), 373-388
- Walker, E., & Brown, A. (2004). What success factors are important to small business owners? *International Small Business Journal*, 22(6), 577-594.
- Yeboah, E. H. (2010). *Microfinance in rural Ghana: A view from below*. University of Birmingham.
- Yunus, M., Sibieude, T., & Lesueur, E. (2012). Social Business et grandes entreprises: des solutions innovantes et prometteuses pour vaincre la pauvreté? *Field Actions Science Reports. The Journal of Field Actions*, (Special Issue 4).