SOCIAL CAPITAL AND THE MEDIATING EFFECT OF COMPETITIVE ADVANTAGE ON THE PERFORMANCE OF WOMEN-OWNED ENTERPRISE

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Social Capital and the Mediating effect of Competitive Advantage on The Performance of Women-Owned Enterprise

by

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A thesis submitted in fulfilment of the requirements for the degree of Master of Entrepreneurship

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Modal Sosial dan Kesan Pengantara Kelebihan Daya Saing keatas Prestasi Perusahaan Milik Wanita

Abstrak

Social Capital and the Mediating effect of Competitive Advantage on the Performance of Women-Owned Enterprise

Abstract

Entrepreneurship and social capital is hard to be separated as entrepreneurial activities are embedded in networks of social relationship. This study is motivated by the inconclusiveness of social capital research in developing countries and how it affects the performance of micro-enterprise owned by women entrepreneurs. This study used social capital theory as a base and examined how social capital as an independent variable effects competitive advantage, which is the mediating variable and micro-enterprise performance which is the dependent variable. The present study looked into the formation of social capital and how it affects competitive advantage and micro-enterprise performance, and the mediating effect of competitive advantage between social capital and micro-enterprise performance. This study used a cross-sectional design and quantitative data was collected through structured interview from randomly selected 417 women micro-entrepreneurs in Peninsular Malaysia, who are listed in SME Corporation. Data was analysed by using SPSS and the hierarchical and measurement model was tested using partial least squares (PLS) technique. The findings suggest that all three dimensions (i.e., relational, cognitive and structural social capital) have a significant positive effect on the formation of social capital. Among the three dimensions of social capital, structural dimension which includes network density and ties has the biggest effect on social capital formation. Social capital is proved to affect competitive advantage and micro-enterprise performance positively and is significant. Baron and Kenny (1986) approach proved that competitive advantage partially mediates the relationship between social capital and micro-enterprise performance. This study provides empirical evidence on the effects of social capital on competitive advantage and micro-enterprise performance thus proving how important is social capital to women micro-entrepreneurs. Women entrepreneurs should focus on improving their social capital by building trust and quality relationship; investing time in building network and understanding values and norms among key business players. Government and development agencies aiming to improve women involvement in entrepreneurship and economic development should work towards creating industry specific platforms for women entrepreneurs. Through these platforms, micro-entrepreneurs would be able to share and receive ideas and experiences. It further allows building of trust, networks and understanding. This study recommends future researchers to test the model used in this study in different settings and backgrounds to provide empirical verification in predicting competitive advantage and firm performance.
CHAPTER 1

INTRODUCTION

1.1 Background of Research

Women entrepreneurship is acknowledged as the main contributor of employment and innovation creation. At the same time, women’s participation in economic activities paired with ownership and control of productive assets speeds up development process, reduces poverty and inequalities, and improves the overall well being of children (OECD, 2013). It is found that women are the missing dimension in the success of the Millennium Development Goals (MDGs) where their control over resources, decision making power, and physical security is relevant to ensure the success of MDGs (OECD, 2010).

The importance of women is evident through their participation in education and entrepreneurship. In the education sector, women are increasingly enrolling into universities and graduate schools proving the growing talent pool, which is a big opportunity for business and development (Sylvia and Ripa, 2011). In the business world, women are starting up businesses at a faster rate compared to male-owned business start-ups, and there is no evidence that female-owned businesses fail at a faster rate. In emerging markets, women owned Small and Medium Sized Enterprises (SMEs) range between 31 to 38 percent of the formal SMEs (OECD, 2012).
However, their participation in entrepreneurship and entrepreneurial related activities range around 1.5 percent to 45.4 percent across the globe (Georgeta, 2012). Women’s role in entrepreneurship is important for business and development. It has been proven that women-owned businesses contribute to the world economy and is growing with time. They equally contribute to employment creation and economic growth potential (Odebrecht, 2013). Lagarde (2013), the Managing Director of the International Monetary Fund claimed that “when women do better, economies do better”.

In the South East Asian context, women are independent and 18 to 30 percent of them are self employed (Lee, 1997). For example, women from Japan, South Korea, Vietnam, and Malaysia have been active in business activities for centuries; through their economic activities, they have played a central role in bringing changes to the regulation of the economies, the job market, consumer behaviour, and have caused a significant effect on the economic development. They have always been in the position of making managerial decisions on matters regarding production and sales (Debroux, 2013).

Particularly in Japan, women were involved in decision making up to the highest levels in family-owned textile industry that prevailed in the Japanese economy until the First World War where post-war emphasis was on heavy industry (Komori, 2006). The same goes for Malaysian women and their role in economic activities; their role has been significant in regional trade until the colonization period (Dana, 2007). In countries like Malaysia, Japan, Korea, and
Vietnam, women have started to show their strong presence in the service and manufacturing industries such as education, food, craft, personal services, clothing, and in all the sectors with low entry barriers. Leaving Vietnam women behind, Malaysian, Japan and Korean women have started to be involved in marketing, real estate, legal, financial, and information technology sectors, which are considered value added services. Only in Korea, women have created a strong and growing business with export capabilities in high tech industries, particularly in the software sector (SMBA, 2007).

Malaysian entrepreneur’s population grew from 1.2 million in 1982 to 2.2 million in 2008. Out of this, 13.1% or slightly more than 288,000 are women. Even though there are more male entrepreneurs, but the recent year from 1990 until 2008 has given way to many women entrepreneurs (Department of Statistic, 2009) and women are being more recognized as successful entrepreneurs, which is supported by the rising number of businesses owned by women globally.

In Malaysia, 49 percent of the total population is women (Department of Statistics, 2012). The said 288,000 women entrepreneurs actively engage in entrepreneurial activities and own 19.7 percent of the total Malaysian SMEs. 91.7 percent of them are involved in the services sector and a small portion of them (6.9 percent) are involved in manufacturing. The balance (1.4 percent) are active in the mining, agriculture, and construction sectors (Department of Statistics, 2012). This shows active participation of women in entrepreneurship considering 99 percent of businesses in Malaysia are SMEs and contribute to 31
percent of the national GDP. Prior to this, Malaysian women have even played a significant role during the recession periods by contributing to the economic development and stabilising the economy (Ndubisi and Kahraman, 2006).

Increase in the level of education among women and government initiatives, such as SMIDEC or now known as the SME Corp has given the opportunity for women to become entrepreneurs. The Malaysian government is serious in developing women entrepreneurs in the country; through the Center for Instructor and Advanced Skills Training, these women entrepreneurs were given skills and also entrepreneur development trainings so that they will be able to improve and seize the opportunities from the job market. For business start-ups, a total of RM 65 million was given to 6,000 women entrepreneurs through the Small Entrepreneur Fund (EPU, 2001).

Moreover, women in Malaysia compared to other developing ASEAN countries have a better opportunity of pursuing a higher education, which leads to good employment opportunities while having significant rights. This may have led to their involvement in entrepreneurship where Malaysian women are considered to be confident, independent, ambitious, tech savvy, and ready to take risks. 44 percent of Malaysia women professed that they do have the desire to be self-employed and the numbers might grow over time (Hamisah, 2002).

To promote a sustainable economy, the Malaysian government has been emphasising entrepreneurship through SMEs. To strengthen and promote SMEs in the economy, SME financing fund was established with a RM 2 billion
Shariah-compliant fund. This is done through 13 Islamic banks throughout the nation and includes 2 percent profit rebate.

The former Malaysian Prime Minister, Tun Dr. Mahathir bin Mohamad even mentioned that entrepreneurs need to be put into a conducive environment, in order to initiate this, in the 4th Global Entrepreneurship Summit; Malaysian Prime Minister Najib Razak announced the setting up of the Malaysian Global Innovation and Creativity Centre (MaGIC) to house and to empower entrepreneurs.

To facilitate the financial aid, the government has set up a special monitoring unit under the SME Corp. Malaysia. Through this, they have come up with initiatives such as the Tea Talk with Business Personalities, Regional Workshops for Women Entrepreneurs, National Women Entrepreneurs Award, and even their own Conventions (Portaluat.miti.gov.my, 2009). This is the way that the government is trying to create a platform to create a proper network among local women entrepreneurs.

On top of that, under the supervision of the Malaysia External Trade Development Corporation (MATDARE), 48 women entrepreneurs were given assistance since 2005 to engage in exporting activities, and in 2012, the Women Development Department, which comes under the Malaysian Ministry of Women, Family and Trade spent RM 3.2 million to provide women entrepreneurship development programs (Portaluat.miti.gov.my, 2009). It is evident through past and future initiatives that the Malaysian government is trying to foster entrepreneurship and women entrepreneurship by giving
financial assistance and building proper networks. Even though the network and the relationships built through it are important in entrepreneurship, empirical evidence based on those factors are very limited in the Malaysian context.

Simoni and Labory (2006) suggested that entrepreneurial activities do not take place in a vacuum; it is embedded in networks such as the social relationship. To facilitate this, the Malaysian government created a proper platform for women entrepreneurs to build networks and facilitate the exchange of information, which are accomplished through various women entrepreneur and industry associations. This form of norm, networks, and the relationships created from the social structure are also known as social capital (Putnam, 1995).

The term social capital was first used by Hanifan L.J (1916) to suggest that community involvement can impact the quality of schools. Through various researches, Robert Putnam detailed that communities with a high level of civic engagement and social interaction have better means of governance, democracy, and economy (Putnam, 1995, 2000, 2002; Putnam, et al., 1993). The World Bank defines social capital as “the groups, networks, norms, and trust that people have available to them for productive purposes” (Grootaert, Narayan, Jones, and Woolcock, 2004).

Apart from the general terms and definition, social capital is associated with economic contribution and entrepreneurial success. Social capital gives opportunity for entrepreneurs to gain economic benefits by compensating for asymmetrical information and by reducing transaction cost through social and
economic interaction (Svendsen 2003). Entrepreneurs are needed to have some prior knowledge, information, and resources such as capital, skills, and labour to start their entrepreneurial venture (Gabbay and Leenders 1999). These resources are polished through access to contacts, by joining groups and networks, and meeting people who could later contribute to the growth of the venture (Cooper et al. 1995; Hansen, 1995). Apart from that, social capital facilitates the access to financial suppliers. It serves as a platform where resources exchange, particularly knowledge, triggers value creation (Brush et al. 2002).

Social capital serves a high purpose for entrepreneurs and it is a particularly crucial capital for women entrepreneurs. Formal and informal social capital not only determines but also enhances the expansion and growth of women-owned businesses (Kickul, Gundry, and Sampson, 2007). Social capital is the answer to challenges faced by women entrepreneurs such as obtaining initial business capital, issues pertaining to financial management, and to develop an effective marketing and advertising campaign (Hisrich and Brush, 1983; Pellegrino and Reece, 1982). Social capital is indeed an important factor contributing to the growth of women entrepreneurs.

It is noted that social capital provides access to resources far from its reach if it operates in isolation, and Chrisholm and Nielsen (2009) categorized social capital as a collection of resources which leads to a competitive advantage and provides a better return to firms. Competitive advantage, as defined by Porter (1985), is the result of value created by firms for their customers. Hall (1990) mentioned in his study that competitive advantage is made up of three
dimensions; hard to imitate, long endurance, and being identical. It is recommended for business entities that produce goods or offer services to consider the concept of competitive advantage for survival and profit.

The groundbreaking contribution to the literature of social capital and growth height during the 1990s is from the study entitled *Making Democracy Work* by Putnam et al. (1993). In this study, the authors found a positive and significant correlation between economic performance and social capital where the latter is measured by indicators such as the number of voluntary organisations, the number of newspapers’ readers, voter turn-out at polls, and civic retardants. Following that, Helliwell and Putnam (1999) used the same indicators of social capital to show that there is a positive impact on the long run of economic growth in the Italian provinces.

Knack and Keefer (1997) and La Porta et al. (1997) again tested Putnam’s hypothesis using a set of data from the World Value Survey (WVS) where the level of trust in each sample country was used to measure social capital. Knack and Keefer (1997) found that civic norms and trust are positively and significantly correlated with economic growth among the 29 countries used as sample. La Porta et al. (1997) found that the level of trust in people is positively correlated to revenues of the 20 biggest firms as a percentage of GDP per capita. Zak and Knack (2001) repeated Knack and Keefer’s (1997) research by adding more countries and found that in a country with effective and well operating institutions, the level of trust was high as well.
Competitive advantage is linked to firm performance. In a recent study by Mohebi and Farzollahzade (2014) based on pottery SMEs in Iran, it was found that competitive advantage positively influenced business performance. It was also noted that a business network has a positive effect on competitive advantage. Another study (Meutia and Ismail, 2012) which looked into entrepreneurial social competence, business network, competitive advantage, and business performance of SMEs found that business networks positively affect competitive advantage and competitive advantage positively affects business performance. The findings of Mohebi and Farzollahzade (2014) and Metiu and Ismail (2012) supported by Barney (1991), where resources based theory explains that intangible assets will affect competitive advantage and business performance.

1.2 Problem Statement

Entrepreneurship is a complex concept which many scholars from the field of psychology, sociology, and economy have tried to define. However, the important fact is that entrepreneurship plays a major role in “maintaining a country’s international competitive power, economic development, employment and standard of living” (Kjeldsen and Nielsen, 2000). It has also become the push factor for economic and social development throughout the world (Audretsch, 2003). In Malaysia, entrepreneurs through SMEs account for 99.2%
of total businesses and have provided 5.6 million employments since the year 2000 (Central Bank of Malaysia, 2007).

Based on the importance of entrepreneurship which contributes to the economy and development of a country, research focusing on why a business fails to take off or does not sustain based on factors such as access to finance is well established. Apart from that, the difference between men and women in starting and building a business is another area of focus in entrepreneurship (Buttner and Rosen, 1998). However, research focusing on women owned business and what affects them are still minimal (Hanafi, 2012).

Research on this theme is well covered in the developed countries but the same issues are potential areas of study in developing countries where focus must be given to issues and barriers faced by women entrepreneurs (Brindley, 2005).

Following this, policymakers and scholars have started to accept that social capital is valid and relevant in adding value to communities and people. Thus, policymakers are finding ways to utilize the positive vibe of social capital to benefit communities and individuals in the economic sense. However, the gap remains where there is not much knowledge explaining social capital and its impact on entrepreneurship (Gailey, 2010).

Apart from that, researches by Tsai and Goshal (1998), Hoang and Antoncic (2003), and Casson and Giusta (2007) have repeatedly discussed the importance of networks in promoting entrepreneurship, but there is not much literature concerning the contribution of networks linked to business
sustainability (Tsai and Goshal, 1998). Even if there are studies on entrepreneurship and network, it is limited to a single industry (Schilling and Phelps, 2007) and the manufacturing industry seems to be the favourite (Park, Shin and Kim, 2010).

Social capital researches are full of limitations in developing countries. Generally, ‘membership in formal associations’ are used to measure social capital. Krishna (2008) argues that membership in formal association is time and cost, which keeps entrepreneurs away and suggests that informal associations and groups be included as a measure in developing countries. Even though there have been useful social capital studies carried out in developing countries, it has been just among Microfinance Institutions’ (MFI) clients measuring trust, reciprocity, and social cohesion (Ahlin and Townsend, 2007).

Contradicting research findings are common in social capital and entrepreneurial performance studies. Park and Luo (2001) and Anderson et al. (2002) showed that there are significant positive relationships between social capital and entrepreneurial performance, but on the other hand, Rowley et al (2000) found no significant positive relationships between social capital and entrepreneurial performance. The situation remains the same with little consensus concerning social capital and entrepreneurial performance (Maurer and Ebers, 2006; Stuart and Sorensen, 2007).

Competitive advantage is regarded as crucial in the recent decade. Academicians and practitioners have been focusing on characteristics that are specific to firms, how they add value to the end consumers, and transferable to a
variety of industrial settings. Competitive advantage is believed to give firms a number of advantages over others such as lower cost structure, superior customer service, and a lower level of wages (Coplin, 2002). Studies have shown that there is a significant relationship between competitive advantage and performance (Ma, 2000; Fahy, 2000; Gimenez and Ventura, 2002; Wiklund et al., 2003; Bowen and Ostroff, 2004).

Fahy (2000) argues that the attainment of a sustainable competitive advantage position can be expected to lead to superior performance, usually measured in conventional terms such as market-share and profitability, i.e. the financial performance measurement approach. In other words, anchoring on the view that competitive advantage and performance are two different concepts and dimensions, firms should focus their managerial strategy towards attaining and sustaining the competitive advantage position over their rivals. Subsequently, such a competitive advantage position will lead to superior firm’s performance.

Firms navigate the competitive landscape competing against networks of firms as opposed to individual competitors (Hitt, Keats and DeMarie, 1998). Firms operating in a network have many more resources that they can access to increase their ability to compete than do single firms operating independently. To be competitive, most firms need additional resources and thus attempt to develop their own networks to gain competitive parity or, more importantly, a competitive advantage. In this competitive environment, firms with social capital have an advantage.
Previous research provides evidence on the relationship between social capital and competitive advantage ((Luthans and Youssef, 2004; Lages et al., 2009; Nahapiet and Goshal, 1998; Westlund, 2006) and the relationship between competitive advantage and business performance (Ma, 2000; Fahy, 2000; Gimenez and Ventura, 2002; Wiklund, Johan and Shepherd, 2003; Bowen and Ostroff, 2004). Social capital and business performance is repeatedly proven to have a relationship (Helliwell and Putnam, 1999); Knack and Keefer, 1997 and La Porta et al. 1997). Implicitly, competitive advantage is in the position to enhance the relationship between social capital and business performance. However, the relationship between competitive advantage and performance is not consistent. According to Ma (2000), there are possibilities that competitive advantage does not result in superior firm’s performance, and there are also possibilities that superior firm’s performance is achieved without attaining and/or sustaining a competitive advantage position.

As a summary, this research focuses on problems pertaining to women entrepreneurs, social capital, competitive advantage and business performance. Though women entrepreneurs are acknowledged as contributor to economic and social progression, research looking into factors that affects women owned business is still minimal (Hanafi, 2012). In the context of social capital, there are limited studies concerning networks and business sustainability (Tsai & Goshal, 1998). Even if there are studies concerning networks and entrepreneurs, it is specific to a single industry (Schilling & Phelps, 2007) and the manufacturing sector seems to be the focus (Park, Shin and Kim, 2010). Apart from