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Combination of Microcredit and Micro-Training with Mediating Role of Formal Education: A Micro-Enterprise Success Formula

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ABSTRACT

Purpose: The purpose of this study is to develop a distinctive formula (framework) for micro-enterprise success. As the success of micro-enterprise is under debate from many decades, however, the researchers and entrepreneurs are unable to find the unique factor to develop a comprehensive framework.

Design/Methodology/Approach: The current study is based on conceptual framework. Prior studies are used to develop the framework and hypothesis. Moreover, conclusion is based on literature review.

Findings: It is investigated that, microfinance factors (i.e., micro-credit and micro-training) has a positive relationship with micro-enterprise success. However, among all other microfinance factors (i.e., micro-saving, micro-insurance, social capital), micro-credit and micro-training have relatively higher effect on microenterprise performance followed by a level of education. Moreover, it is found that education mediates the relation between microfinance factors and micro-enterprise success.

Implications/Originality/Value: This study contributed to the body of knowledge by developing a micro-enterprise success formula for researchers and entrepreneurs, which ultimately improve the performance of micro-enterprises. Hence, the current study is beneficial for microfinance institutions and other practitioners to enhance micro-enterprise success.

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1. Introduction

There is a genuine problem with the term “success”, and it has different interpretations as well as perceptions in the small firm sector (Beaver, 2002, p. 98). The subject of micro-enterprise success is more popular among business researchers and entrepreneurs; each wants to explore definitive formula for success (Beaver, 2002). Success is frequently viewed by profitability; however, it becomes more complicated when trying to explore different success factors. For the success of micro-enterprise, microfinance institutions provide financial and non-financial services. Financial services include credit, saving, insurance and payment services to eligible candidates (Ledgerwood, 2000). Microfinance institutions are also providing non-financial services (Robinson, 2001). These services include training and skill development programs for micro-enterprise success.

It is important to identify the measure of success which is still undefined, but there are some general factors which influence the business success (Alsbury, 2001). Previous research studies on the relationship of different success factors and small business success are missing by the comprehensive framework and small business owners are aiming to find out the management strategies, personal characteristics and business objectives, linked most closely to small business success (Gadenne, 1998).

Additionally, suggested from literature, there is a need to study on credit, jointly with training on entrepreneurship in developing countries, as in low-income countries women lack educational level (Harrison & Mason, 2007; Ibru, 2009; Peter, 2001; Tazul, 2007). It is suggested from the literature that training and credit should go together, it does not matter whether training is little or more (Ibru, 2009; Kuzilwa, 2005). According to the literature, without training, microcredit cannot be an effective tool for poverty alleviation (Adams & Von Pischke, 1992; Imai, Arun, & Annim, 2010). By taking microcredit from microfinance institutes, poor people start microenterprises, but they need training to run these microenterprises. As Bernard, Kevin and Khin (2016) described that poor people start microenterprises through microcredit and run efficiently by getting training. Therefore, a combination of micro-credit and micro-training is adopted in this study to develop a framework for micro-enterprise success. Hence, the framework of the current study will follow the literature.

Nonetheless, micro-credit and micro-training are also not sufficient for small business success, but it also needs formal education for entrepreneurs. As mentioned, microcredit is not sufficient for success, but it also needs certain educational level (Atmadja, Su & Sharma, 2016). Because education increases the performance of micro-enterprises (Copestake, Bhalotra, & Johnson, 2001; Leach & Sitaram, 2002) and micro-credit is an initial invested capital with has a positive linkage with venture survival (Cooper, Gimeno-Gascon, & Woo, 1994). However, the literature shows that education has a mediating role among microfinance factor (e.g., micro-credit, micro-training) and micro-enterprise success. Literature indorses that training and education have a positive influence on enterprise performance (Akanji, 2006; Cheston & Kuhn, 2002; Kuzilwa, 2005). Therefore, there is a significant relationship between training and enterprise performance, education and enterprise performance. As competencies are not given by birth but through education (Lans, Hulsink, Baert, & Mulder, 2008). That is why education is vital to better learn from training and proper use of microcredit. That is the reason, micro-credit and micro-training have a significant relation with education. Hence, according to the Baron and Kenny (1986), education could be used as a mediator between microfinance factors (i.e., micro-credit, micro-training) and micro-enterprise success.

As the subject of small business success is more popular among business researchers and entrepreneurs, each wants to explore definitive formula for success (Beaver, 2002), that is why main objective of this research study is to develop a success formula (framework) for micro-enterprise success. To achieve the primary objective, study has also following sub-objectives:

1. Joint effect of micro-credit and micro-training on micro-enterprise success.

2. Role of education to enhance the joint effect of micro-credit and micro-training on micro-enterprise success.

Figure. 1: Theoretical framework

2. Literature Review and Hypotheses Development

Microfinance institutions should provide entrepreneurial training prior to the provision of micro-credit to selected clients for extension or initiation of micro-enterprise because most of the clients initiated businesses, but they could not efficiently run due to lack of management skills (Naeem et al., 2015). Therefore, micro-credit itself is not enough for micro-enterprise success. Training is crucial for better utilization of micro-credit, and it is an essential factor for entrepreneurs to run micro-enterprise effectively. Meanwhile, education is also vital for problem-solving ability, decision making, and teamwork skills (Fuente & Domenech, 2006; Magoutas et al., 2012; Switzer & Huang, 2007). Hence, micro-enterprise success formula heavily based on micro-credit, micro-training, and education.

2.1 Education and Micro-Enterprise Success

In the advanced competitive business environment, innovation and specialized knowledge playing a vital role towards growth and competitive edge (Mamun, 2016). Therefore, new knowledge creation through innovative methods implementation creates competitive advantage (Magoutas, Papadogonas & Sfakianakis, 2012). But the role of education is much crucial, as education is an important factor for innovation and research. Meanwhile, specialized knowledge improves problem-solving ability, decision making, and teamwork skills (Fuente & Domenech, 2006; Magoutas et al., 2012; Switzer & Huang, 2007).

More specifically, education is a vital factor for women micro-enterprise (Chirwa, 2008). Micro-entrepreneurs level of education was investigated predictor for enterprise performance because educated owner or manager can make decisions more efficiently as compared to others (Read, Song & Smit, 2009). Therefore, education is an important contributor to micro-enterprise success. According to Berry (1996), both general and special management education contributes to the success of the enterprise.

2.2 Micro-Credit and Micro-Enterprise Success

Literature provides the evidence that sufficient credit aids entrepreneurship performance (Gatewood et al., 2004; Lakwo, 2007; Martin, 1999; Olo, 2009). In result, credit provides assistance to entrepreneurs, especially women and it is often seen that it increases income, investment, output and welfare of entrepreneurs (Kuzilwa, 2005; Lakwo, 2007; Martin, 1999; Peter, 2001).

Credit has a positive impact on performance across the world. A research study in Kenya shows that credit has a positive effect on business performance (Peter, 2001). It also has a positive impact on income as well as the wellbeing of women in Uganda (Lakwo, 2007). In Nigeria, both credit and saving have positive consequences on performance (Olo, 2009). The positive impact of credit and training has also seen in Tanzania (Kuzilwa, 2005). Therefore, credit has significant positive linkage with micro-enterprise success. But economic performance mainly depends upon human capital which achieved through education (Streletzki and Schulte, 2013).

Most of the studies show that micro-credit has a significant positive relationship with micro-enterprise (Copestake, Bhalotra, & Johnson, 2001; Leach&Sitaram, 2002). However, few studies show the question mark on the effectiveness of micro-credit (Cull, Demirgüç-Kunt, & Morduch, 2009). It is due to the low level of education. As most of the poor people get credit and started micro-enterprise but due to not having enough educational level they cannot run efficiently. As literature proves that, most of the women from developing countries have a low educational level in term of poverty (Porter & Nagarajan, 2005; Roomi& Parrot, 2008). Therefore, due to low educational level, the effectiveness of micro-credit becomes limited. Thus, this study hypothesizes as follows:

Hypothesis 1: Micro-credit has significant positive relationship with micro-enterprise success

Hypothesis 2: Education mediate the relationship between micro-credit and micro-enterprise success

2.3 Micro-Training and Micro-Enterprise Success

Entrepreneurship training need was first recognized in early 1990 (Ladzani and Van Vuuren, 2002). However, very little training offered, and it was confusion about small business training and entrepreneurship training (Nieman, 2000). After that with an increase in time training become the prominent tool to enhance micro-enterprise and adopted by microfinance institutions.

Failure in business is due to the lack of skills (Radipere and Van Scheers, 2005). Microfinance institution's clients are unable to use microfinance factors properly because they do not have uniqueabilities (Karnani, 2007). Business owners have responsibility for acquisition of skills, and they need to learn that how should they learn (Unger et al., 2009). Basically, training addresses the issues relating to small business such as problem-solving, business management, personnelmanagement and time constraint (Perks and Smith, 2008). Nurtures of skills depend upon entrepreneurial training, and it enhances the entrepreneurial performance (Nieman, 2000). Furthermore, generation of new ideas can be affected by training activity (DeTienne and Chandler, 2004). Therefore, training has significant positive linkage with micro-enterprise success. But education also acts side by side with training because formal education is mandatory for practical implementation.

Nevertheless, a certain amount of knowledge is required for success; it does not matter it comes from training or formal education (Aldrich and Martinez, 2001). Education and training have a positive influence on business success (Simpson, Tuck & Bellamy, 2004). Entrepreneurship training is important to promote and enhance the performance of entrepreneurship (Glaub and Frese, 2011). Literature is showing the evidence that training has a positive influence on enterprise performance (Akanji, 2006; Cheston & Kuhn, 2002; Kuzilwa, 2005). But the role of education is unforgettable, as micro-entrepreneurs level of education was investigated predictor for enterprise performance because educated owner or manager can make decisions more effectively as compared to others (Read, Song & Smit, 2009). Thus, it is hypothesized that:

Hypothesis 3: Micro-training has significant positive relationship with micro-enterprise success

Hypothesis 4: Education mediate the relationship between micro-training and micro-enterprise success

3. Conclusion

This study provides a conceptual relationship between micro-enterprise and microfinance services such as micro-credit and micro-training. It is investigated that, microfinance factors (i.e., micro-credit and micro-training) has a positive relationship with micro-enterprise success. However, among all other microfinance factors (i.e., micro-saving, micro-insurance, social capital), micro-credit and micro-training have relatively higher effect on microenterprise performance followed by a level of education. It is found that education mediates the relation between microfinance factors and micro-enterprise success. By playing the role of mediator, education enhances the positive effect of micro-credit and micro-training on micro-enterprise success. Therefore, higher the level of education, higher would be the success of micro-enterprise and vice versa.

Provision of micro-credit after providing the micro-training to the owners or managers of micro-enterprise can be more beneficial for micro-enterprise success. But the role of education is crucial to get a maximum

outcome from micro-credit and micro-training. Hence, a combination of micro-credit and micro-training with some degree of education is a real micro-enterprise success formula.

Future research is required for the better justification of results. This could be done by collecting data from respondents. Other microfinance factors such as micro-saving, micro-insurance and social capital can also be crucial for micro-enterprises success. Therefore these elements can also be used in current framework for future research. Nevertheless, while reviewing the literature, it is observed that vulnerability has an influence on the relationship of microfinance services and micro-enterprise or women-empowerment. Hence, in future research environmental, social, political and economic vulnerability can be used as a moderator between microfinance factors and micro-enterprise success or women-empowerment. Additionally, the combined effect of three types of capital such as financial capital, human capital and social capital on women-empowerment through microfinance institutes is not examined in prior studies.

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