MODERATING EFFECT OF ENTREPRENEURIAL NETWORKING ON THE RELATIONSHIP BETWEEN ACCESS TO FINANCE AND PERFORMANCE OF MICRO AND SMALL ENTERPRISES

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ABSTRACT

The study aim to find the impact of access to finance for improving the performance of MSEs in Punjab, Pakistan. The researchers also try to further estimate the moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs in Punjab, Pakistan. Survey research was employed to collect the data. The data for the study was collected with the help of a questionnaire adapted from the past studies. The reliability of the instrument that was used to collect data was ensured through Cronbach's alpha and composite reliability. After ensuring the reliability of instrument, structural equation modeling was conducted by using PLS-3. The results of the study supported the arguments raised in the study that there is a positive relationship between access to finance and performance of MSEs in Punjab, Pakistan. The results also supported the argument of moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs in Punjab, Pakistan. The explained variation calculated through R2 has also shown that the overall model is explaining 47.1 % variation in the performance of MSEs in Punjab, Pakistan.

INTRODUCTION

Micro and Small Enterprises (MSEs) play a significant role in the economic development of any growing economy (Ghalib, Malki, & Imai, 2011). In the current era MSEs are considered as vehicle for entrepreneurship having significant contribution towards socio-economic stability and poverty alleviation which is the major issue of growing economies (D'Este, Mahdi, Neely, & Rentocchini, 2012). MSEs act as training center for entrepreneurs. Therefore, the importance of SMEs cannot be ignored (Qureshi & Herani, 2011).

More than 99.7% of enterprises in the world are MSEs (Abe, Troilo, Juneja, &

Narain, 2012). The contribution of formal MSEs towards GDP is 16% in low income countries and 51% in high income countries (Aslam, 2013), likewise, the contribution of informal MSEs towards GDP is 13% in low income countries and 47% in high income countries. Their contribution in employment generation can be recognized from the fact that MSEs in low income countries provide employment to 78% workforce and MSEs in high income countries provide employment to 66% workforce (Aslam, 2013).

Economic development of Pakistan is highly dependent on MSEs (Qureshi & Herani, 2011). In Pakistan there are almost 3.8 million micro, small, and medium enterprises (MSMEs) and out of these, 2.66 million (70 percent of the total) are MSEs (Aslam, 2013) contributing 30% to the GDP of the country. In actual practice majority of the enterprises in Pakistan fall under the classification of MSEs (Aslam, 2013). Their importance can be recognized from that fact that MSE provide 70% employment to total industrial labor force (Hussain & Yaqub, 2010).

Despite significant contribution of MSEs in the economic development of any country the sector is continuously deteriorating in Pakistan. Its growth rate of less than 10 percent (Ejaz & Ramazan, 2012; Kausar, 2013) compared unfavorably to that in India where the rate is 43.72 percent (Vasu & Jayachandra, 2014). Economic survey of Pakistan has shown that there is a continuous decline in the growth rate of MSEs. In 2009 the growth rate was 8.6% which has reached 8.4% in 2014 (Wasti, 2015). For a country like Pakistan it should be minimum above 10%. The critical factor behind such a poor growth are lack of access to finance, lack of entrepreneurial orientation, lack of entrepreneurial networking, and lack of government support for the sector.

The major issue as mentioned above is lack of access to finance which is considered as a tool to enhance growth of MSEs (Aftab & Naveed, 2013; Ahmad, 2011; Anis & Mohamed, 2012). Newman, Schwarz, and Borgia (2014) highlighted that access to finance provided by Microfinance Institutions (MFIs) boosts performance of MSEs. But Maldonado and González-Vega (2008) have shown that MFIs have a negative impact over the performance of MSEs because of high interest rates. According to Baron and Kenny (1986) if there are inconsistencies in results, then there is some other factor that is effecting the relationship. As there are contradictory results, therefore, it seems that there is some other factor which influence the relationship between access to finance and performance of MSEs, which is acting as moderator. According to Aftab and Naveed (2013) entrepreneurial networking also plays a significant role for the performance of MSEs. As entrepreneurial networking alone has no impact over performance, thus, it seems that it only influences the relationship between access to finance and performance. Therefore, along with access to finance entrepreneurial networking has a moderating impact on performance of MSEs (Kheng, 2012). Information, moral support, and infrastructure facility are the major supports that micro and small entrepreneurs receive from their personal and business networks. Entrepreneurial networking provides major

role in provision of moral support, information, and infrastructure facility to MSEs especially in the developing countries like Pakistan. Entrepreneurial networking include network tie which helps firms in grasping the opportunities and normalizing threats. Therefore, there is no harm is saying that larger the network of an entrepreneur better the performance (Hussain, Farooq, & Akhtar, 2012).

To the best of the researcher's knowledge, the relationship between access to finance and performance of MSEs, with a moderating impact of entrepreneurial networking has not received any empirical evidence in literature whereas it is suggested by Haider, Asad, and Almansour (2015). This shows that a major gap exists in literature which needs to be covered by empirical research. Therefore, there is a need to empirically test the moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs in Punjab, Pakistan.

The study will focus on Punjab, Pakistan; and will concentrate on the moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs. Access to finance is independent variable and performance of MSEs is the dependent variable, whereas, entrepreneurial networking is moderating variable. Urban entrepreneurs will be chosen according to the type of industry preferred by MSEs. Most entrepreneurs are engaged in garments stitching, food retailing, personal services, distributive trade, and knowledge services. Such businesses are active in the urban

centers of Punjab, Pakistan. This study will focus on service sector manly involved in garments and food providing industry because their proportion is maximum in the sector.

LITERATURE REVIEW

Significance of access to finance cannot be ignored for attaining high performance of MSEs. MSEs get financing through MFIs. According to the State Bank of Pakistan enterprises employing less than 10 employees are considered as micro enterprises, whereas enterprises employing 10 to 20 employees are considered as small enterprises.

In fact majority of the MSEs are not registered in developing countries, so very little is known about them (Ekpe, 2011). Commonly financial measures are used to measure performance but the owners of MSEs do not keep formal accounting records so it is difficult to get the appropriate measure for measuring performance (Adekunle, 2011). Financial resources, entrepreneurial orientation, market orientation, technological resources, government support, entrepreneurial networking and information resources significantly influence performance (Jasra, Khan, Hunjra, Rehman, & Azam, 2011). Microfinance has also a major impact on performance of MSEs (Ejaz & Ramazan, 2012). Among all issues access to finance is considered as the top most issue by many researchers (Adekunle, 2011; Aftab & Naveed, 2013; Babajide, 2012; Mochona, 2006; Ekpe, Mat, & Razak, 2011). Because of lack of access to finances MSEs fail to expand beyond a certain level. Thus, it would

be right to say that performance of MSEs has major issue because of lack of access to finance especially in the developing countries. Similarly, very few MSEs survive for more than five years (Ahmad, Pirzada, & Khan, 2013). According to Rabbani and Moossa (2014) 23.7% MSEs fail within the first two years and 52.7 fail to continue their operations in first four years. Only 19% MSEs survive for more than 25 years (Naqvi, 2011).

The government support towards MSEs is minimal because of informality. Then government fails to develop policies for them because majority of the MSEs are not registered, and it also cause them problem in accessing finance. MFIs require certain formalities which these MSEs do not fulfill (Ejaz & Ramazan, 2012).

The major reason as identified above access to finance is provision of credit and savings facility. MSEs in developing countries fail to get the ease of financial services like; credit, deposits, and insurance. Financial access promotes new and existing MSEs (Aftab & Naveed, 2013). It also helps in enhancing the income of those who are at the bottom line, thus, helps in poverty reduction as well (Durrani, Usman, Malik, & Ahmad, 2011).

Therefore, there is no harm in saying that lack of access to finance is the major obstacle behind performance of MSEs (Agier & Szafarz, 2013). Literature on performance of MSEs has shown that MSEs with easy access to finance perform better as compared to those that fail to access financial institutions (Mkpado & Arene, 2007).

Services of MFIs significantly influence the performance of MSEs (Thio, Megananda, & Maulana, 2006). Despite the fact that borrowers have shown dissatisfaction because of lengthy procedure of credit processing but still clients have shown advantages of MFIs, as they provide access to finance which enhances their performance (Mochona, 2006). In Pakistan, Aftab and Naveed (2013) have highlighted the positive impact of access to finance over the performance of MSEs, but they also claimed that increased amount of access to finance has undesirable consequences. Contrary to this Babajide (2012) found no impact of access to finance on performance of MSEs, the author claimed that location and size of the business matters a lot.

From the above mentioned expression regarding performance and access to finance, it can be observed that there are certain researchers who have shown contradictory results. Therefore, a moderating variable has been added which is entrepreneurial networking. The literature shows that entrepreneurial networking provides social capital which helps in enhancing the performance of MSEs (Allen, 2000). Entrepreneurial networking supports businesses to perform better (Durrani, Usman, Malik, & Ahmad, 2011). Entrepreneurial network has two broad types; personal network and business network. Personal network include; friends, family, relatives etc. whereas, business network include; suppliers, buyers, competitors, government etc. Out of all the supports that entrepreneurs get through their network, moral support (Stam, Arzlanian, & Elfring, 2014), infrastructure facility (Stuetzer,

Obschonka, Brixy, Sternberg, & Cantner, 2014), and information resources (Prashantham & Dhanaraj, 2010) are most important. In Pakistan, the owners of MSEs have limited networking (Hussain & Yaqub, 2010). Empirical studies have indicated that personal entrepreneurial networks (family, friends and colleagues) are more critical during the early stage of new venture (Hite, 2005). Whereas, business networks enhances growth later on.

Resource Based Theory (RBT) (Wernerfelt, 1984) supported by the Resource Dependency Theory (RDT) (Pfeffer & Salancik, 1978), provides the theoretical underpinning for this study. Access to finance is a major resource for the MSEs, which is supported by RBV whereas, entrepreneurial network is supported by RDT. Resource-based view is an element used widely to achieve performance, especially when there is the shortage of resource as in case of MSEs (Bradley, Wiklund, & Shepherdd, 2011). The RDT suggests that MSEs require support for better performance (Hillman, Withers, & Collins, 2009). All MSEs are unable to obtain resources, therefore, they search for the support through other links in their network.

Conceptual Framework

From the reviewed literature and the theories that support the argument the following framework is drawn.

FIGURE 1
Conceptual Framework
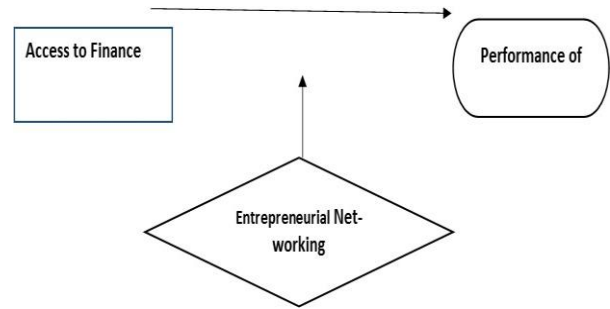
The literature suggests that the role of access to finance helps the MSEs to perform better than those MSEs that have certain issues accessing finance (Mkpado & Arene, 2007; Aftab & Naveed, 2013; Newman, Schwarz, & Borgia, 2014), thus; these studies indicate a positive relationship between access to finance and performance of MSEs. But on the other hand, a few studies refute the existence of positive relationship between access to finance and performance of MSEs (Thio, Megananda, & Maulana, 2006; Mochona, 2006). The literature has also shown that entrepreneurial networking also play a moderating role to strengthen and boost the relationship between access to finance and performance of MSEs (Kheng, 2012; Wales, Patel, Parida, & Kreiser, 2013).

METHODOLOGY

The current study tries to examine the moderating effect of entrepreneurial networking on the positive relationship between access to finance and performance of MSEs. This study falls under the basic research which is of general application. It is an applied research because it has identified a major problem in economic sector of Pakistan i.e. performance of MSEs and has applied existing theories to solve the problem. The nature of the study is cross-

sectional. For conducting research, access to finance is taken as independent variable whereas as suggested by RBT (Basargekar, 2010; Malik, Iqbal, Shaukat, & Yong, 2010; D'Este, Mahdi, Neely, & Rentocchini, 2012), entrepreneurial networking is taken as moderating variable as suggested by RDT (Kheng, 2012; Wales, Patel, Parida, & Kreiser, 2013), performance of MSEs is dependent variable (Tipu & Arain, 2011; Andersona & Eshima, 2013; Aftab & Naveed, 2013).

This study employs a survey research method. Zikmund, Babin, Carr, and Griffin (2012) argued that survey method seeks to elaborate a phenomenon and looks for the causes. Survey method helps to gather data from a large number of respondents. MSEs are the unit of analysis and are represented by owners (Sekaran, 2007). All the MSEs in Pakistan represents the population, but the study is conducted on a province of Punjab because more than 50% of the MSEs are operating in Punjab Province of Pakistan. Secondly Punjab contribute the major proportion of GDP.

The data has been collected through the primary source. The questionnaire was adapted from the previous studies and was mailed to cover the maximum area (Bryman & Bell, 2011). Low response rate was received, but ultimately the target was met. 384 questionnaires were received. A questionnaire along with cove letter and self-addressed stamped envelope were sent to the respondents (Sekaran, 2007). It was important to get sufficient response rate because low response rate may influence the findings (Hussey & Hussey, 1997). The

questionnaire was developed in easy language for the understanding of the respondents. The questions regarding income were deliberately kept at the end because people usually avoid such questions (Cameron & Trivedi, 2013). The questionnaire was based on the previous studies that have been conducted in the similar context. For measuring access to finance, eight items were used, for measuring entrepreneurial networking eight items were used, and for measuring performance of MSEs nine items were used.

Seven points likert's interval scale was used for measurement (Esbensen, Guyot, Westad, & Houmoller, 2002) as it improves the reliability of the measure (Cooper & Schindler, 2006). In the scale '1' refers to strongly disagree and '7' corresponds to strongly agree, whereas, '4' refers to neutrality.

Furthermore, the reliability of the scale was tested to check the usability of the scale. For checking reliability Cronbach's alpha was used. Cronbach's alpha value of 0.6 is considered acceptable (Gardner, 1998).

TABLE 1

Variables	Values
Access to Finance	0.744
Entrepreneurial Networking	0.917
Performance of MSEs	0.868

The calculated values of Cronbach's alpha for all the variables used in the study are quite good and acceptable. This shows that the instrument used was reliable.

The descriptive statistics of the variables have also been calculated. Descriptive were calculated to check that is the data good for structural equation modeling or not because if the value of descriptive analysis is deviated, or the data is scattered then the results of structural equation modeling may not be very useful or reliable.

TABLE 2

Variables	Mean	Std. Deviation	Variance
Access to Finance	4.5150	.66681	.445
Entrepreneurial Networking	3.4250	.83659	.700
MSE Performance	4.3222	1.01519	1.031

The abovementioned table shows the descriptive of the variables and it appears to be quite good. For conducting structural equation modeling, and to check the influence of moderating variable PLS-3 software was used. The value of average variance explained is considered to have a significant impact on the dependent variable if the values are above 0.5 the calculated vales are as follows:

TABLE 3

Variables	Average Variance Extracted (AVE)
Access to Finance	0.717
Entrepreneurial Networking	0.649
Performance of MSEs	0.819

All the values of average variance explained are above the bear minimum acceptable levels. This shows that the variables have a significant influence. In the similar context, composite reliability was also checked. The value of composite reliability should be above 0.7 the calculated values are as follows:

TABLE 4

Variables	Composite Reliability
Access to Finance	0.888
Entrepreneurial Networking	0.934
Performance of MSEs	0.960

The composite reliability of the variables is also above the bear minimum levels. This also shows that the results drawn will be appropriate and useful.

After having all satisfactions regarding instrument and the collected data the path coefficients have been calculated.

TABLE 5

Paths	Paths Coefficients	SD	T Statistics	P-Values
AF -> PMSEs	0.376	0.131	2.859	0.004
$R^2 = 0.364$				

After ensuring the direct relationship between access to finance and performance of MSEs which shows a significant relationship the important was to check the moderation by entrepreneurial networking over the relationship between access to finance and entrepreneurial orientation. For estimating the moderating effect interaction term was introduced in the model. The results

of interaction term and the bootstrapping are mentioned in the table below:

TABLE 6

Paths	Path Coefficients	SD	T Statistics	P Values
Access to Finance	0.376			
Entrepreneurial Networking	0.337			
Moderating Effect 1	0.385	0.138	2.794	0.040
R2 = 0.471				

The abovementioned table clearly shows the significance and importance of interaction term. First the interaction has a significant positive impact which can be determined by its t value and p value. Furthermore by looking at the R^2 it can be observed that the Value of R^2 has increased from 36.4% to 47.1%. The interaction term when introduced has increased the value of explained variation in the model. This shows that entrepreneurial networking significantly enhances moderates the relationship between access to finance and performance of MSEs.

CONCLUSIONS

The main purpose of the study was to examine the moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs. The independent variable access to finance was tested through a moderating variable entrepreneurial networking to see whether there exist a moderating effect over the relationship among access to finance and performance of MSEs or not. The data analysis has shown

that access to finance offered by micro-finance institutions positively influence performance of MSEs. The strong influence of entrepreneurial network on the relationship among access to finance and performance of MSEs had had been highlighted by previous researchers (e.g. Reese & Aldrich, 1995; Aldrich et al., 1997; Cooper, 2002) and the current study support their findings. The findings of the study are helpful for the policy makers so that they may develop policies to boost the sector by providing them easy loans. This will not only promote MSE sector but will improve employment level and will contribute to overall GDP of the country.

Limitations and Suggestions

There are a number of limitations in this study. The study was limited to one province of Pakistan; as such it would be necessary to test the efficiency or reliability of the model in different settings as well. The fact that no specific industry was focused in the study was another limitation. Furthermore, all the limitations of sampling were also associated. Yet this study has contributed to the advancement in knowledge in the area of MSEs. It would also help the government of Pakistan, micro-finance institutions and entrepreneurs to understand the importance of each. Therefore, for future research it is suggested to expand the area of the study to the whole country. Furthermore, the researcher should add entrepreneurial orientation in the model because entrepreneurial orientation might have a major influence on the performance of MSEs.

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