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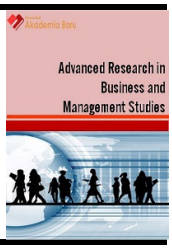

Mediating role of opportunity recognition between credit, savings and performance of micro and small enterprises in Pakistan

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ABSTRACT

MSEs have a significant role in economic development of any country but certain obstacles such as poverty, unemployment, low household income, and societal discriminations in developing countries hinder the performance of MSEs. The purpose of this study is to identify the mediating role of opportunity recognition between credit, savings, and performance of MSEs. The study focuses on the importance of opportunity recognition between credit, savings, and performance of MSEs in Pakistan. The study employed survey research and collected the data from the owners of MSEs that are operating in Pakistan. A structured questionnaire was adopted to collect the data using a seven point Likert scale. The findings of the study revealed that credit and savings have a significant impact over the performance of MSEs. Likewise, opportunity recognition mediates the relationship between credit and performance of MSEs and savings and performance of MSEs. The findings are important for the owners of MSEs and especially for the policy makers who have to develop the policies regarding microfinance and growth of MSEs in the country.

1. Introduction

Despite the importance of Micro and Small Enterprises (MSEs) in the country it has been observed that performance of MSEs in Pakistan is very low [1-3]. The major reason behind low performance of MSEs in the country is lack of access to financial resources and opportunity recognition [4, 5]. MSEs in Pakistan tend to perform in an environment where the opportunities are low [6], investments are low [7], usually businesses are home based or are involved in manufacturing of cheap products, and face a lot of difficulty regarding registration and licensing of the businesses [8, 9]. Researchers in the

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field of MSEs have highlighted the fact that in developing countries MSEs do not get easy access to financial resources [1].

On the other hand, the fact is that participation of MSEs in the informal sector of the economy is higher than large businesses [10, 11]. Lack of access to financial resources to initiate and run the business lead them the request for accessing financial services from microfinance institutions [12]. This is mainly because of lack of collateral, low household income, inability to save, low investments, and high rate of unemployment in the country [7,13]. Microfinance institutions mainly offer credit and savings services.

MSEs operating in the developing countries, lack the ability to save [14]. Saving are crucial for the growth and increase in income [15]. Savings act as security for the loans and could also be used to plough back the profits [16]. Savings as a major part of financial access helps entrepreneurs with low asset base to save, as they could make weekly or monthly savings as well, can contribute to group savings, and such savings are mobilized by microfinance institutions [17].

Furthermore, microfinance institutions are vital for startup and growth of MSEs especially in the developing countries as they provide not only access to financial resources but also provide trainings and social capital to the MSEs [4,12,18]. Therefore, on the basis of the above discussion it is right to say that access to financial resources provided by microfinance institutions are important for the growth and high performance of MSEs, yet their impacts in the literature are found positive [4,19] and negative [20-22]. As it can be seen that several studies have been conducted highlighting the importance of financial resources and found that credit and savings have a positive impact on performance of MSEs, yet several claimed a negative impact as well [15,20,21,22]. These inconsistencies clearly shows that there is some other factor that is disturbing this relationship which is missing [23]. It has been observed that entrepreneurs recognize opportunities when they have access to financial resources. Therefore, it seems that opportunity recognition is the key to success of any organization [24-26].

Furthermore, the literature on mediating relationship between opportunity recognition and performance of MSEs is limited. MSEs in the developing countries face hurdles in accessing credit and savings for entrepreneurial ventures and consequently it affects their business performance [27]. Moreover, according to entrepreneurship theory business environment provides opportunity [24], and entrepreneurs who see the opportunity require credit to exploit those opportunities [19]. Thus, it can also be said that financial access through microfinance institutions provide opportunity to entrepreneurial ventures [28]. Therefore, the objective of this study is to identify the mediating role of opportunity recognition between credit, savings, and performance of MSEs.

2. Literature Review

The literature has shown that MSEs demand credit and savings facilities and the repayment rate is also good as compared to large firms, despite of high interest rates and low collaterals [10, 17]. The provision of financial access has seen improvement in income, output, growth, employment creating, and investment [4,5,29]. Provision of credit has been observed to have a positive impact over performance of MSEs in majority of the countries [2,8,30-32]. Similarly, savings serves as insurance for credit as most of the MSEs in the developing countries like Pakistan lack collateral [33]. Likewise, savings have also been found to have a positive impact over the performance of MSEs [14].

Another important aspect is that microfinance provide needed opportunity for entrepreneurs to initiate and grow their profits for the growth of their business [9,16,25,34]. Ability of the MSEs to recognize opportunity increases if the financial access is available to them [35]. Thus, it would be

right to say that credit and savings enhances opportunity recognition which ultimately enhances performance of MSEs [49]. This argument is supported by the theory of entrepreneurship [19].

Opportunity of entrepreneurial activity for business startup or business growth act as a link between credit and savings and performance of MSEs [24]. Credit and saving facilities provided by the microfinance institutions provide opportunity for MSEs to enhance income [48]. Recognition of business opportunity need funds for exploitation of the same [26]. When the credit is provided by the microfinance institution, then the owner of MSEs are vigilant while application of the resources which could lead to better performance [18].

Entrepreneurship theory provided by Shane [24] highlights that the ability of an individual to recognize the opportunity and exploit the opportunity differs from owner to owner of MSE [36]. This difference is because of difference in the level of information and willingness of the owner of MSE to take risk [37]. Capability of the owner of MSE to access information and willingness to act upon the information is highly influenced by the risk factor [25]. Researchers have identified that attitude and behavioral intentions are highly correlated. Therefore, catering an opportunity is dependent on the attitude of the entrepreneur [24]. In the light of the above discussion and considering the entrepreneurship theory, it is proposed that opportunity recognition mediates the relationship between credit, savings, and performance of MSEs.

2.1 Theoretical Framework

This research explored performance of MSEs in Pakistan in terms of entrepreneurship theory of Shane [36]. As per this theory, the success of an entrepreneurial venture is dependent on the capability of the owner of MSE to tap the opportunity. The attributes of the owners of the MSEs differ in identifying the opportunity [36]. The decision of the owner of MSE for exploiting the market opportunity calls for financial resources that are through credit and savings. These most common resources lead to creation of opportunity to start a new business or to expand the existing business. And consequently, the appropriate utilization of credit and savings in the business lead to high performance. Despite this, the role of environment cannot be ignored. On the basis of the above discussion the following framework has been proposed.

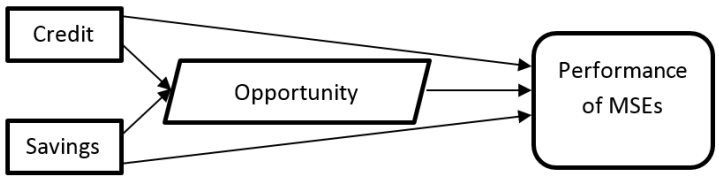

Fig. 1. Proposed Framework

3. Methodology

The purpose of the study was to identify the mediating role of opportunity recognition between credit, savings, and performance of MSEs operating in Pakistan. Therefore, to meet the study objectives survey research was conducted [38]. The unit of analysis in this study is organization i.e. MSE [39]. Therefore, all the MSEs operating in Pakistan constitute the sampling frame. Simple random sampling was used to identify 384 MSEs [40,41]. This sample size was chosen as recommended by Sekaran [41].

The dependent variable that is performance of MSEs has been measured with eight items [3]. The first independent variable credit has been measured with five items [2]. The second independent variable savings has been measured using five items [2]. The mediating variable opportunity recognition has been measured with six items [25]. For the measurement of the variables seven point Likert scale was used as it increases the sensitivity of analysis [42] therefore, it is considered as more reliable. Initially the descriptive were calculated to identify the normality of the data.

Skewness and Kurtosis have been used to measure the normality of the data [43]. Skewness shows that either the data is skewed or not, whereas, Kurtosis shows that either the data is Peaked or not. If the value of Skewness is below 3 the data is considered as normal, likewise, if the value of kurtosis is below 8 then data is again considered as normal [43]. After ensuring that the data is normal to meet the objectives of the study and to test the hypothesis that have been developed, structural equation modeling was conducted. The results of descriptive are mentioned in table 1:

Table 1
Descriptive Analysis

Variables	Mean	Standard Deviation	Skewness	Kurtosis
Credit	4.013	0.8567	1.003	0.526
Savings	3.972	0.8546	1.258	0.754
Opportunity recognition	4.235	0.8459	1.482	0.637
Performance of MSEs	4.856	0.7584	1.819	0.594

After ensuring that the data is normal structural equation modeling was conducted using Smart PLS 3. The fore most important thing in structural equation modeling was to identify the construct reliability. Therefore, to check the construct reliability Average Variance Extracted (AVE), Composite reliability (CR), and Cronbach's alpha have been analyzed. The threshold level for AVE, CR, and Cronbach's alpha is 0.50, 0.60, and 0.70 respectively [44,45]. If the calculated values are above the threshold level the construct reliability is maintained. The calculated values of AVE, CR, and Cronbach's alpha are mentioned in table 2 below:

Table 2
Construct Reliability

Variables	AVE	CR	Cronbach's alpha
Credit	0.625	0.785	0.854
Savings	0.589	0.913	0.913
Opportunity recognition	0.613	0.842	0.943
Performance of MSEs	0.597	0.781	0.894

From table 2 it is obvious that there is no issue of construct reliability. Therefore, it was quite safe to run structural equation modeling. In order to check the relationship and to find the beta values PLS algorithms were calculated. Furthermore, to test the hypothesis bootstrapping was conducted. The two figures have been shown below to see the results of PLS algorithms and Bootstrapping. The figure 2 mentioned below shows the direct relationships.

Figure 2 is showing PLS algorithms which have been calculated to check the direct effect of the independent variables which are credit and savings. In figure 2 direct effects of credit and savings along with their beta values have been highlighted. Figure 2 further shows the value of r2 which shows explained variation. The value of r2 as 0.402 which shows that performance of MSEs are 40.2 percent dependent on credit and savings. This also shows that 40.2 percent change is performance of MSEs in Pakistan are due to credit and savings. The next step was to run bootstrapping to test the

first two hypothesis which are regarding direct relationships. Results of boot strapping have been mentioned in figure 3.

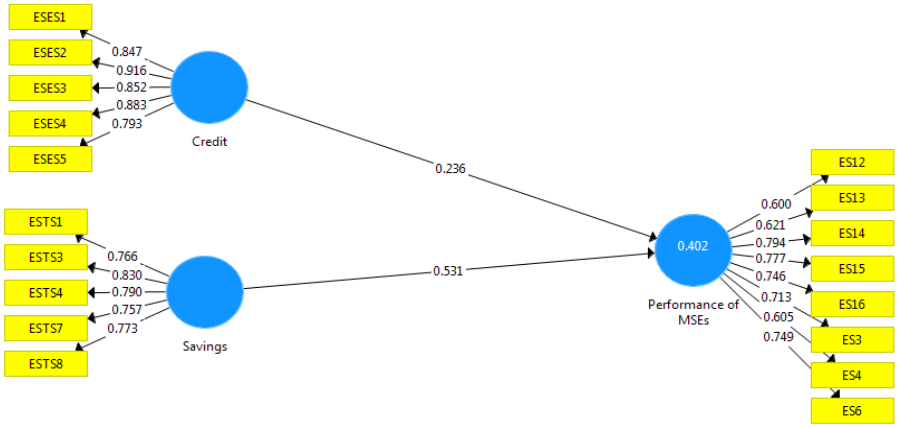

Fig. 2. PLS-SEM Algorithms Direct Relationships

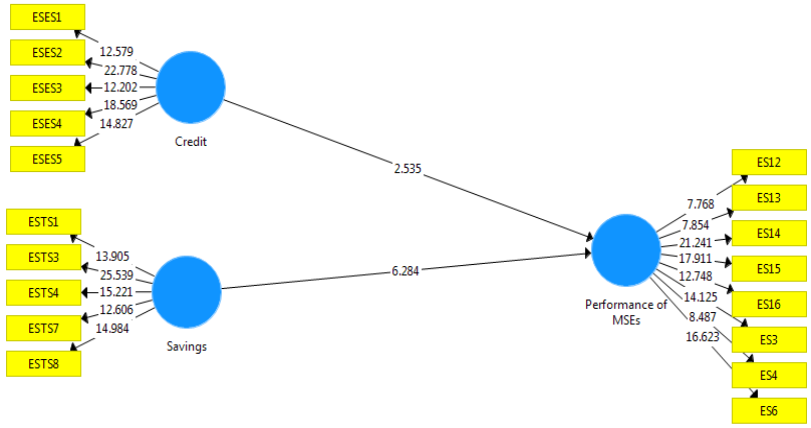

Fig. 3. PLS-SEM Direct Relationships Bootstrapping

From figure 3, it can be observed that the paths coefficients are significant as both the paths value exceed 1.96. After ensuring that the direct relationships exists, as mentioned earlier the mediating variable i.e. opportunity recognition has been introduced. Mediation testing identifies the indirect effect of credit and savings on performance of MSEs with a mediating effect of opportunity recognition. This analysis helps to understand that either opportunity recognition mediates the relationship between credit and performance and also savings and performance or not. The figure 4 represent the algorithms regarding the mediating role of opportunity recognition between credit and performance of MSEs and savings and performance of MSEs in Pakistan. This will be known by analyzing the value of r2, because if the value of r2 increases it shows that mediation is important and opportunity recognition actually mediates the relationship. Figure 4 is mentioned below to understand the mediating effect.

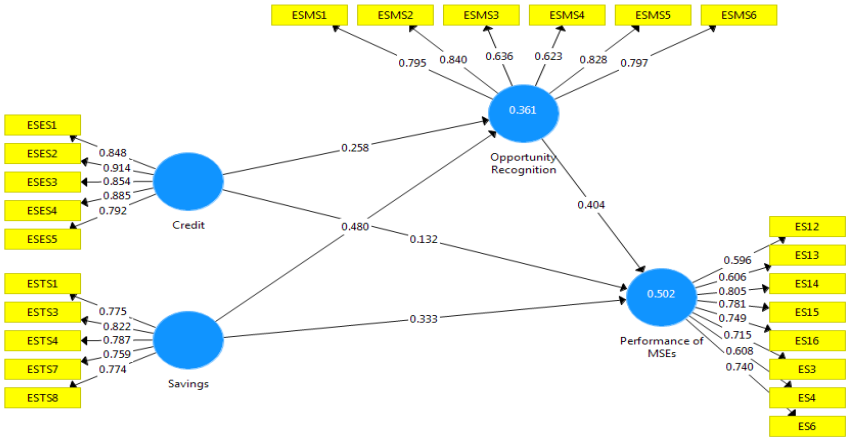

Fig. 4. PLS-SEM Algorithms Indirect Relationships

Figure 4 shows the impact of mediating variable. It can be seen that the value of r2 has been increased from 0.402 to 0.502. This shows that when the opportunity recognition is added as a mediator the performance of MSEs can be explained in better as compared to ignoring the mediating role of opportunity recognition. To test the hypothesis of mediating variable bootstrapping was conducted which will highlight the significance of the mediating variable. The significance and the beta values of the mediating variables can be known after checking the direct relationships and the bootstrapping. Figure 5 represents the results of bootstrapping which was used to test hypothesis 3 to 7:

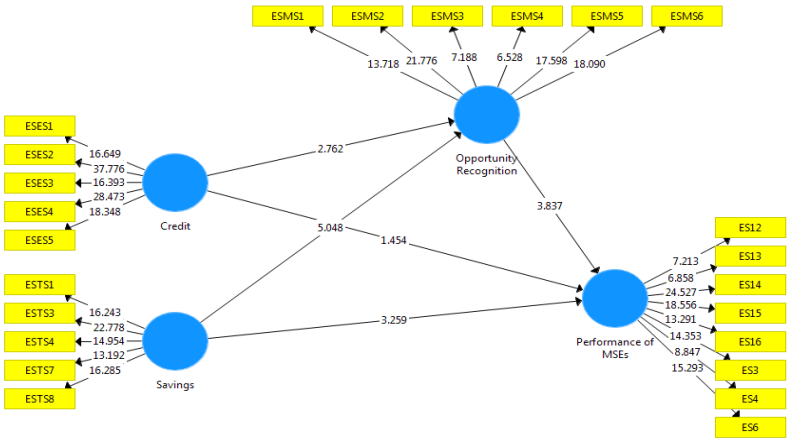

Fig. 5. PLS-SEM Bootstrapping Indirect Relationships

Figure 5 represents the mediating effect of opportunity recognition between credit, savings, and MSE performance. It shows that opportunity recognition is mediating both the relationships. To get the values for t statistics for mediating role of opportunity recognition the beta values of direct relationships have ben multiplied and then have been divided with the product of standard errors of the same. For further understanding the following table 3 represents the results if the study which will help to select that either the hypothesis are being accepted or rejected. The acceptance and rejection of hypothesis is dependent on the t statistics and P values. The value of t statistics increases 1.96 and the value of P falls below 0.05 then the hypothesis is supposed to be accepted [44, 45, 46, 47]. The results of the hypothesis testing are mentioned below in table 3:

Table 3
Results of hypothesis testing

Hypothesis	Path Coefficient	T statistics	P-Value	Decision
Credit -> PMSEs	0.236	2.535	0.011	Supported
Savings -> PMSEs	0.531	6.284	0.000	Supported
Credit -> Opportunity Recognition	0.258	2.762	0.006	Supported
Savings -> Opportunity Recognition	0.480	5.048	0.000	Supported
Opportunity Recognition -> PMSEs	0.404	3.873	0.000	Supported
Credit -> Opportunity Recognition -> PMSEs	0.304	10.690	0.000	Supported
Savings -> Opportunity Recognition -> PMSEs	0.267	19.441	0.000	Supported

From the table 3 it is clear that all the hypothesis have been accepted. This clear shows that opportunity recognition mediates the relationship between credit, savings and performance of MSEs in Pakistan.

4. Conclusion and Recommendations

On the basis of the literature reviewed and the results of the hypothesis testing that were conducted on the data collected from the owners of MSEs, it would be right to say that opportunity recognition has a significant mediating role between credit, savings, and performance of MSEs. Credit provided by the microfinance institutions to the MSEs helps them to see the opportunities because any entrepreneur can only look for the new opportunities if the funds are available. On the other hand when the opportunities are identified if they are catered properly helps the MSEs to enhance their performance and make them more sustainable in the market. Secondly, savings also helps in opportunity recognition. When the owner of an MSE has saved a significant amount he will automatically think about investing the money and he will certainly seek for new opportunities. Thus, savings also helps the entrepreneurs to identify new opportunities which ultimately enhances their performance. Therefore, it would be right to say that when the financial services like credit and savings are available to the owners of MSEs they will be deviated more towards finding new opportunities which will enhance their performance. The findings support the arguments raised by the Entrepreneurship theory developed by Shane and also the resource based view of the firm. The findings are very important for the government officials who are involved in policy making and also for the owners of MSEs so that they may try to save more money to invest in new opportunities. Likewise, the policy makers on the basis of findings of the study can promote the MSEs by providing them easy credit facilities and providing them platform to save money.

On the basis of findings of the study it is recommended to the government to boost the microfinance facility for the enhancement of MSEs in the country by making their sustainability easy. The government should also develop training institutes to promote entrepreneurial education in the country. This entrepreneurial education helps micro and small entrepreneurs to see the new opportunities which enhances the performance of MSEs.

Furthermore, the future researchers are suggested to inculcate impact of training and social capital in their study as these two are the other two important factors of microfinance. By linking training and social capital the facilities provided by microfinance institutions can be studied in detail and their importance can be highlighted to the owners of microfinance institutions because currently majority of the microfinance institutions are focusing only on credit even savings are not well established in Pakistan so if training and social capital are also added the performance can be enhanced further.

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