Role of Microfinance for Entrepreneurial Success

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ABSTRACT

The main objective of the paper is to analyze the influence of microfinance on entrepreneurial success of Zimbabwean SMEs. Adopting explanatory research design with a sample that constitutes 120 business owners of SMEs in Gweru district data collection was through questionnaire administering that used Likert scale-type questions. The hypotheses are analyzed using Spearman’s correlation and regression analysis in order to empirically establish the influence of microfinance on entrepreneurial success. The main regression results show a strong positive relationship between microfinance and entrepreneurial success, a weak negative relationship between the business owner’s age and entrepreneurial success, and a positive relationship between the level of studies and entrepreneurial success of Zimbabwean SMEs.

KEYWORDS

Age, Business, Education, Entrepreneurs, Finance, Owner, SMEDCO, Success

INTRODUCTION

In recent years, it appears that entrepreneurship is widely regarded as a trendy concept which is now on the national agenda of most countries around the world particularly in developing countries like Zimbabwe. With this in mind, the potency of entrepreneurship has not escaped the attention of both scholars and policymakers. Nonetheless, the influence of microfinance on entrepreneurial success has generated a heated scholarly debate. It is generally accepted that both developed and developing countries across the globe are embracing entrepreneurship as the key driver of socio-economic development (Baumol & Strom, 2007; Omri & Ayadi-Frikha, 2014; Rahman, Amran, Ahmad, & Taghizadeh, 2015). Furthermore, according to Sussian & Obamuyi (2018), Global Entrepreneurship Monitor (GEM) revealed that countries associated with higher levels of entrepreneurial activity tend to enjoy higher levels of economic growth. In fact, the relentless pursuit for fostering an entrepreneurial spirit among members of the society is the need of the hour when it comes to acceleration of economic growth. More strikingly, it is worth mentioning that the positive contributions of entrepreneurship towards economic growth are well-documented (Munyoro, Chikombingo, & Nyandoro, 2016). It is in this context that there has been an emerging trend towards the adoption of entrepreneurship

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worldwide especially in developing countries (Fierro, Noble, Hatem, & Balunywa, 2018; Park, 2017; Rudhumbu, Swo, Munyanyiwa, & Mutsau, 2016). Accordingly, the importance of the concept of entrepreneurship has attracted much attention of researchers, practitioners, and policymakers.

With the importance of microfinance in mind, it is deemed appropriate to mention that Muhammad Yunus is widely recognized as the Father of Modern Microfinance because he managed to come up with Grameen Bank aimed at financing the poor (Hinrichsen, 2019). It is salient to observe that the Latin American model of microfinance is not the same as Asian or African models in the sense that microfinance organizations in Latin America are more inclined to operate as private businesses. In the context of Latin American countries, Peru has witnessed an exponential growth of the microfinance sector owing to its favorable conditions for microfinance (Burneo & Lizarzaburu, 2018).

In the case of India, the concept of microfinance was introduced by the National Bank of Agriculture and Rural Development (NABARD) after borrowing the idea from Bangladesh (Grameen Bank) (Kannan & Panneerselvan, 2013). Going forward, many microfinance programs were launched in India such as Group Lending program, SHG-Bank Linkage program and Joint Liability Group (JLG) model. Following the effective implementation of microfinance programs, India witnessed a rapid growth of clients as evidenced by the fact that microfinance institutions served about 35.1 million customers from 2017 to 2018 (Sa-Dhan, 2018). It is imperative to note that there is an increase in the provision of microfinance services to the poor and SMEs in India through alternative approaches (Mohammed & Waheed, 2019).

It is important to note that this emerged trend towards entrepreneurship has heightened the strong need for the advancement of our understanding of entrepreneurship in Zimbabwe in the face of twin problems of a fragile economy and high unemployment rate. While there is a noticeable growing knowledge base on the subject of entrepreneurship, it is salient to observe that the contexts in which entrepreneurship takes place in terms of historical, sectoral, national and socio-economic contexts should be taken into account seriously in order to enrich future research work in entrepreneurship (Stam, 2016; Watson, 2013; Welter & Gartener, 2016). As such, it appears that there is a dire need for more empirical evidence on entrepreneurship as a field from the perspective of developing countries. With this in mind, it has been highlighted that there is an exponential growth in entrepreneurship activities in the face of contraction of the formal sector in Zimbabwe (Munyoro et al., 2016; Tinarwo, 2016). It is salient to observe that entrepreneurs ensure value creation through the commercialization of innovative products and services that stimulate new business ventures. This has led to an increase in the number of Small and Medium Enterprises (SMEs) in Zimbabwe. Undoubtedly, the SMEs are playing a crucial role when it comes to the Zimbabwean economy as they are the seed-bed of innovation and the key pillar of youth employment creation.

It is imperative to note that the Zimbabwean SMEs have managed to hire more than 5.9 million people in 2016 and contributed to the country’s Gross Domestic Product (GDP) a total amount of $8.58 billion during the same year (Bhoroma, 2018). In response to this development, all the financial institutions in Zimbabwe have a special SME desk that is dedicated to avail loans to SMEs. In this respect, it is salient to observe that the Zimbabwean financial institutions, microfinance included, have made a momentous effort to address the financial challenges of entrepreneurs in Zimbabwe. There is no doubt that microfinance institutions are providing financial resources as a way to support entrepreneurial activities (Sussan & Obamuyi, 2018). Despite the significance of the concept of microfinance, there is a controversy surrounding its effect on entrepreneurial success (Sultakeev, Karymshakov, & Sulaimanova, 2018). Following a thorough cross-examination of the available literature on microfinance and entrepreneurship, the authors noticed that several quantitative studies predominately focused on the impact of microfinance on entrepreneurship development (El-Hadidi, 2018; Gedion, Maizs, & Toroitich, 2016; Ounde & Agboola, 2012; Sussan & Obamuyi, 2018) but the nexus between microfinance and entrepreneurial success has received scant attention in the extant empirical literature up to now.
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