SOCIAL CAPITAL AND ENTREPRENEURIAL COMPETENCIES: A STUDY AMONG WOMEN MICRO-ENTREPRENEURS IN MALAYSIA

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Abstract – Women entrepreneurship as one of the key contributors of economic development through a rapid development process reduces poverty, unemployment, and inequalities, and improves the overall well being of children. Social capital is the most under-rated influential factor, which may have a strong influence on entrepreneurial competencies and enterprise performance. This study aims to examine the effect of social capital (i.e., structural, cognitive, and relational) on entrepreneurial competencies (i.e., conceptual, commitment, and organizing) among women micro-entrepreneurs in Peninsular Malaysia. This study employs a cross-sectional approach and quantitative data are collected through structured interviews. It was found that social capital has a significant positive effect on entrepreneurial competencies. Development policies and programs in Malaysia should therefore focus on building social capital among micro-entrepreneurs to foster the national development process that reduces poverty, unemployment rate, and inequalities.

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INTRODUCTION

Women entrepreneurship is acknowledged as the main contributor of employment and sustainable economic development as it has a significant effect on reducing poverty and inequality, and on improving the overall well being of children (OECD, 2013). The participation of women entrepreneurs has been rapidly increasing over the last few decades and studies have reported a positive contribution to the world economy (Debroux, 2010). The Malaysian entrepreneur’s population grew from 1.2 million in 1982 to 2.2 million in 2008, out of which 13.1 percent are women. The participation of Malaysian women in self-employed income generating activities keeps increasing over the years (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, 2011). They 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) is involved in manufacturing; the rest (1.4 percent) are active in the mining, agriculture, and construction sectors (SMECorp, 2013). 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 (SMECorp, 2013). Aside from now, Malaysian women have also played a significant role during the recession periods by contributing to the economic development and stabilizing the economy (Ndubisi & Kahraman, 2006; Tan, 1990).

Entrepreneurial activities do not take place in a vacuum; it is embedded in networks such as social relationships (Simoni and Labory, 2006). To facilitate this, the Malaysian government has created platforms 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 relationships created from the social structure is also known as social capital (Putnam, 1993). Social capital facilitates access to financial suppliers. It serves as a platform where resources are exchanged, particularly knowledge, and triggers value creation (Brush et al. 2002). Formal and informal social capital not only determines but also enhances the expansion and growth of women-owned businesses (Kickul, Gundry, & 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 developing an effective marketing and advertising campaign (Hisrich & Brush, 1983; Pellegrino & Reece, 1982).

It is noted that social capital provides access to resources far from its reach if it operates in isolation. The theory of social capital explains how structural and social interaction and cooperation build social capital and how social capital affects the enterprise performance. However, entrepreneurship is a complex concept, and it is embedded within a network of social relationships; this social relationship becomes a capital for entrepreneurs over time when complemented with trust, cooperation, collective action, and crosscutting personal relationships (Nahapiet & Ghoshal, 1998). Studies have reported the positive effect of social capital throughout the enterprise lifecycle, from positive entrepreneurial attitude (Fornoni & Foutel, 2004), startup (Hoang & Antonic, 2002), enterprise performance through reducing risk (Moran, 2005), to generating channels to access other resources (Oh et al., 2006).

It is evident that social trust and cooperation play a crucial role in entrepreneurs’ learning and growth over time, which is expected to lead to an improvement in the level of entrepreneurial competencies among women entrepreneurs. However, studies on social capital and entrepreneurship are commonly fixated on social capital and firm performance. It is our understanding that social capital (i.e., structural, cognitive, and relational) cannot directly improve performance; rather, it affects the key factors that influence performance by providing access to information, capital, and other resources. This study therefore concentrates on the effect of social capital on entrepreneurial competencies, which is ultimately expected to improve enterprise performance owned and managed by women micro-entrepreneurs in Peninsular Malaysia.

LITERATURE REVIEW

Social Capital

Social capital is categorized as tangible or virtual resources, which individuals obtain through association with networks (Greve & Salaff, 2003). Social capital is a combination of different entities with two common elements, including certain aspects of structure; and it facilitates actions of individual or corporate actors. Social capital has been repeatedly proven in many researches to have a relationship with economic development and in increasing living standards, collectively (Svendsen 2003, Aldrich & Zimmer 1986, Hansen, 1995). Gootaert (1999) also suggested that social capital is the missing link in economic development. In addition to economic development, poor people utilize social capital networks and trust relationships as a way to deal with emergencies, a way to reach available opportunity, and to participate in social events such as festivals, weddings, and funerals (Rutherford, 2000). Social capital is also correlated to increasing household assets, income per capita, and household expenditures in Indonesia and Tanzania (Grootaert 1999, Narayan & Pritchett 1999). Social capital was even found in the disadvantaged African American community in the early 1990s. It was found that they used both traditional and non-traditional social capital to promote economic outcomes (Cook, 2011). Based on the definition of Nahapiet and Ghoshal (1998), this study defines social capital as ‘the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit’ and is divided into three dimensions namely, relational, structural, and cognitive.

The relational dimension focuses on the development and types of personal relationships through a chain of interactions (Nahapiet & Ghoshal, 1998). This dimension covers the characteristics and qualities of individual relationships, which is noted by Yli-Renko (1999) as the behavioral asset rooted in trust and trustworthiness. Macerinskiene and Aleknaviciute (2011) explain the strong connection between social capital and trust and noted trust as the fundamental element of social capital. Besides trust, relational social capital also includes the quality of networks, which defines the obligations and expectations of the networks.

The cognitive dimension refers to the shared representations, interpretations, and systems of meaning among parties (Nahapiet & Ghoshal, 1998). Cognitive dimension facilitates mutual understanding of goals and provides a proper method to interact with others. This dimension of social capital is the least studied of the three dimensions of social capital (Krause, 2007). Cognitive dimension is built from shared meanings and shared
interpretations between actors in a relationship. The cognitive dimension includes the elements of shared norms, range of meanings and values, and it is expected to directly impact the social capital creation and the development of relationships. Tsai and Ghoshal (1998) suggest that cognitive dimension is embedded in the shared visions and collective goals of organizational players and is put together by shared perceptions, expectations, and interpretations.

The **structural dimension** concerns the properties of the social system and the network of relations as a whole (Nahapiet and Ghoshal, 1998). This dimension assesses whether network ties exist between units and how it looks like. It looks into how dense the network structure is in the hierarchy of the network and connectivity of the linkages. This dimension has been explored in depth, and is strongly influenced by the work of Burt (2002, 2004, and 2007) and deals with whom you reach and how you reach them. The structural dimension encompasses network components and facets such as the presence or absence of ties between parties, the configuration of a network (such as the hierarchy within an organization), and concepts such as denseness of relationships, structural holes in networks, the presence or absence of network ties between different people, formal and/or informal (such as appropriable networks) network configuration, and the density and connectivity of a network.

**Entrepreneurial Competencies**

Competence is described as a work related concept which refers to areas of work at which a person is competent. It translates into the ability needed by an individual to carry out a task. The competence-based approach is an issue that has been highly debated in the area of human resource as revealed in vocational education and training literatures. Recent study by Wickramaratne, Kiminami, and Yagi, (2014) found that entrepreneurial competencies indirectly affect firm performance by positively affecting the entrepreneurial orientation of a firm’s owner/manager. It was found that entrepreneurs with entrepreneurial competencies seek for better opportunities and formulate a better strategy that fits their business (Mitchelmore & Rowley, 2010).

**Conceptual competency** represents entrepreneurs’ ability to creatively think of something, which can be related to new thinking patterns and the possibility of coming up with new concepts and ideas. Conceptual competencies involve abilities such as cognitive, analytical thinking, learning, decision-making, problem solving, sustaining temporal tension, innovating, and coping with uncertainty and risk (McClelland, 1987). Conceptual competencies can be defined as a high level of conceptual activities in relation to an entrepreneur’s behaviors such as a short-term perspective, resolving instant events, or requiring intuitive responses (Man, Lau, & Chan, 2002). This competency at times requires deviating from the standard procedure of doing something. This ability allows entrepreneurs to do things differently, take on new perspectives, create value in new ways, as well as to focus on finding new ideas and acting on them (Thompson et al., 1996). The ability to think analytically and to cope with uncertainty depends heavily on conceptual abilities. Entrepreneurs, especially those operating in the SME context, face numerous situations that require them to make quick decisions, therefore having the abilities to undertake a high level of conceptual activities is important for the success and survival of their business.

**Organizing competencies** refer to entrepreneurial abilities required to take up a variety of tasks and handle different functional areas, which demand the ability to plan and organize various resources in the organization (Chandler & Hanks, 1994). McClelland (1987) suggests that monitoring is essential in keeping the firm operating efficiently, suggesting that business owners should be able to monitor their business activities closely so that activities are carried out appropriately. In addition, the management of human resources in SME is reported to include distinctive activities which require entrepreneurs to equip themselves with organizing skills especially in leading, delegating, coaching, and training (Martin & Staines, 1994). In most SMEs, business owners have to deal directly with the employees and in many cases, there is no specific unit to administer employees as undertaken by the human resource department in large firms. As such, possessing the ability to organize and lead would enable entrepreneurs to minimize the staggering rate of failures among SMEs. Previous researches on entrepreneurial competencies have identified a range of organizing competencies associated with the firm’s performance, such as managerial competence (Chandler & Hanks, 1994), human resource management competence, and financial management competence (Brinckmann et al., 2011).

**Commitment competencies** refer to the basic characteristics of successful entrepreneurs including diligence, commitment, determination, dedication, initiative, and proactive orientation (McClelland, 1987). As a whole, commitment competencies are the elements, which force the entrepreneur to move ahead with the business. Commitment competencies, i.e., competencies to drive a business and achieve goals, are among the key competencies required for an entrepreneur. Previous studies that researched on female entrepreneurs’
competencies in developed economies found that the commitment competency is a key element for women entrepreneurs (Lerner et al., 1997).

**RESEARCH METHODOLOGY**

This study used a cross-sectional design and collected quantitative data through a structured interview from registered women micro-entrepreneurs in Peninsular Malaysia. The sampling frame was based on the business directory of SME Corporation Malaysia’s registered members of National Association of Women Entrepreneurs. Based on the list of registered women entrepreneurs under the SME Corporation Malaysia, there are a total of 126,910 registered SMEs in Malaysia, owned by women entrepreneurs; among them, 111,571 are registered microenterprises. The micro-entrepreneurs were drawn from four different regions of Peninsular Malaysia, namely the Northern, Central, Southern, and the East Coast regions. The Northern region is made up of Perlis, Kedah, Penang, and Perak. Kuala Lumpur and Selangor represent the Central region. The Southern region constitutes the states of Malacca and Johor while the East Coast region is made up of Kelantan, Terengganu, and Pahang. This research adopted the stratified random sampling method in order to identify women entrepreneurs from the four regions. This sampling method ensures that all sections of the population are taken into consideration. Each region was considered as strata; from that, a simple random sampling method was used to select 500 women micro-entrepreneurs, where every micro-entrepreneur had an equal chance of being selected. After retrieving the details of 500 women micro-entrepreneurs from a list of 111,571 women micro-entrepreneurs, this study confirmed their current status, size of enterprise (based on total investment and number of full-time employment), and whether they fully own and manage their enterprise. Among the selected 500 micro-entrepreneurs, a total of 421 micro-entrepreneurs were selected based on their recent status (active, own, and manage) and size. Among them, only 4 women micro-entrepreneurs refused the request for an interview; therefore, complete data were collected from 417 women micro-entrepreneurs. The research questionnaire was designed using simple and unbiased wordings, which the respondents could easily understand and provide answers based on their own perception. Questions were adopted from earlier studies with minor modifications where needed. A five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used for the independent and dependent variables. Cognitive dimension is the ease of communication among various actors in a day-to-day business activity.

Due to the exploratory nature of this study, it used the variance based structural equation modelling, i.e., partial least squares (PLS) estimation with the primary objective of maximizing the explanation of variance in the structural equation model’s dependent constructs. This method was chosen because the component based least square is a robust causal modelling technique. It allows estimation of measurements and path coefficients simultaneously. The findings of this analysis are reported as recommended by Hair, Ringle, and Sarstedt (2011) for PLS modelling. These include the (a) indicator reliability (e.g., standardized indicator loadings 0.70; in exploratory studies, loadings of 0.40 are acceptable); (b) internal consistency reliability (Cronbach’s alpha and composite reliability - both measures should exceed 0.70); (c) convergent validity (AVE ≥ 0.50); (d) discriminant validity (cross loadings); (e) r² (acceptable level depends on the research context); (f) effect size or f² (0.02, 0.15, 0.35 for weak, moderate, strong effects); (g) path coefficient estimates; and (h) predictive relevance Q² (Q² > 0 is indicative of predictive relevance).

**SUMMARY OF FINDINGS**

**Micro-Entrepreneurs and Micro-Enterprise Characteristics**

In order to examine the effect of cognitive and relational social capital on structural social capital and micro-enterprise performance, this study collected quantitative data from a total of 417 micro-entrepreneurs from Malaysia. Among them, the highest proportion of women entrepreneurs was within the age group of 31 to 40 (47%) followed by the age group of 41 to 50 (25.2%). The lowest number of women entrepreneurs came from the age group of below 20 (0.5%). Out of the 417 respondents, 322 (77.2%) were married and 66 (15.8%) remained single. 16 (3.6%) of them were divorced and 13 (2.9%) were widowed. Majority of the respondents, 257 (61.6%), reported that they made all business decisions together with their spouses, while 132 (31.7%) of them were the principal decision makers. About 6 (1.4 percent) micro-entrepreneurs stated that other relatives were the principal decision makers in their household. Among the micro-enterprises, the highest number of firms (168 or 40.3%) were involved in manufacturing activities, followed by retailing (131 or 31.4%), services (86 or 20.6%), and only 1 was involved in agricultural activity. As per their educational background, a total of 162 (38.8%) respondents have attended secondary school, followed by 151 (36.2%) of them having a Malaysian Higher School Certificate (STPM) or Diploma, 5 (1.2%) respondents have completed a masters’ degree and only 6 (1.4%) micro-entrepreneurs never attended school.
Validity and Reliably Analysis

Cronbach’s Alpha explains the indicators’ inter-correlations, which estimates the reliability of the indicators used. As presented in Table 1, Cronbach’s Alpha for all items, i.e., cognitive social capital (CSC), relational social capital (RSC), structural social capital (SSC), social capital (SC), conceptual competency (ConC), commitment competency (ComC), organizing competency (OrgC), and entrepreneurial competencies (EC), are more than 0.8, which means all the items are reliable. As for the composite reliability, the cut-off value is 0.7 (Hair, Ringle, and Sarstedt, 2011), and all the items show a higher value than 0.8, representing reliable items. Based on Hair’s suggestion, the Average Variance Extracted (AVE) should be higher than 0.50 and as noted in Table 1, all the AVE values for constructs are higher than 0.50, which indicates acceptable convergent validity.

Indicators are checked for discriminant validity and considered reliable when outer (component) loadings are higher than 0.7 and a construct’s loading should be higher than all of its cross loadings. Component loading with a value of 0.5 is also acceptable if the AVE value is higher than 0.5. As in Table 2, most of the indicator loadings are higher than 0.7, thus, assumed reliable. Looking at the cross loading, all the indicators’ loadings are higher than the entire cross loadings, confirming discriminant validity.

Hierarchical and Structural Model

Assessment of the model is based on the ability to predict the endogenous constructs, which is facilitated by coefficients of determination ($r^2$), effect size ($f^2$), and cross-validated redundancy ($Q^2$). The $r^2$ values in the hierarchical entrepreneurial competency model noted that the degree of explained variance of this hierarchical construct is reflected in its components, i.e., commitment competency, conceptual competency, and organizing competency. The $r^2$ values in the hierarchical social capital model noted that the degree of explained variances of the hierarchical construct is reflected in its components, i.e., cognitive social capital, relational social capital, and structural social capital. The $r^2$, which explains variance in two endogenous variables based on Table 3, are considered moderate (0.245). The moderate $r^2$ value is acceptable as this study is designed to identify how social capital affects entrepreneurial competencies rather than to identify the effect of key factors on entrepreneurial competencies.

### TABLE 1. RELIABILITY ANALYSIS

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of Items</th>
<th>Cronbach’s alpha</th>
<th>Composite reliability</th>
<th>Average Variance Extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSC</td>
<td>6</td>
<td>0.856</td>
<td>0.895</td>
<td>0.590</td>
</tr>
<tr>
<td>CSC</td>
<td>4</td>
<td>0.931</td>
<td>0.938</td>
<td>0.756</td>
</tr>
<tr>
<td>RSC</td>
<td>5</td>
<td>0.848</td>
<td>0.893</td>
<td>0.627</td>
</tr>
<tr>
<td>SC</td>
<td>15</td>
<td>0.933</td>
<td>0.943</td>
<td>0.518</td>
</tr>
<tr>
<td>ConC</td>
<td>5</td>
<td>0.900</td>
<td>0.926</td>
<td>0.717</td>
</tr>
<tr>
<td>ComC</td>
<td>4</td>
<td>0.927</td>
<td>0.948</td>
<td>0.821</td>
</tr>
<tr>
<td>OrgC</td>
<td>5</td>
<td>0.874</td>
<td>0.911</td>
<td>0.676</td>
</tr>
<tr>
<td>EC</td>
<td>14</td>
<td>0.923</td>
<td>0.934</td>
<td>0.505</td>
</tr>
</tbody>
</table>

Note: RSC: Relational Social Capital; CSC: Cognitive Social Capital; SSC: Structural Social Capital; SC: Social Capital; ConC: Conceptual Competency; ComC: Commitment Competency; OrgC: Organizing Competency; and EC: Entrepreneurial Competency
The predictive measure of Stone-Geisser’s $Q^2$ is another assessment to assess the model’s predictive relevance. $Q^2$ value that is larger than zero indicates that the path model’s accuracy is acceptable. The $Q^2$ value of 0.116 is more than zero for social capital and entrepreneurial competencies, indicating predictive relevance.

**TABLE 2. OUTER MODEL LOADING AND CROSS LOADING**

<table>
<thead>
<tr>
<th>Item</th>
<th>SSC</th>
<th>CSC</th>
<th>RSC</th>
<th>SC</th>
<th>ConC</th>
<th>ComC</th>
<th>OrgC</th>
<th>EC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 1</td>
<td>0.567</td>
<td>0.401</td>
<td>0.468</td>
<td>0.533</td>
<td>0.418</td>
<td>0.286</td>
<td>0.502</td>
<td>0.489</td>
</tr>
<tr>
<td>Item 2</td>
<td>0.838</td>
<td>0.487</td>
<td>0.456</td>
<td>0.654</td>
<td>0.408</td>
<td>0.327</td>
<td>0.380</td>
<td>0.452</td>
</tr>
<tr>
<td>Item 3</td>
<td>0.714</td>
<td>0.499</td>
<td>0.332</td>
<td>0.569</td>
<td>0.310</td>
<td>-0.162</td>
<td>-0.154</td>
<td>0.007</td>
</tr>
<tr>
<td>Item 4</td>
<td>0.878</td>
<td>0.715</td>
<td>0.582</td>
<td>0.811</td>
<td>0.250</td>
<td>0.325</td>
<td>0.109</td>
<td>0.278</td>
</tr>
<tr>
<td>Item 5</td>
<td>0.825</td>
<td>0.412</td>
<td>0.269</td>
<td>0.546</td>
<td>0.143</td>
<td>0.092</td>
<td>0.128</td>
<td>0.151</td>
</tr>
<tr>
<td>Item 6</td>
<td>0.746</td>
<td>0.355</td>
<td>0.350</td>
<td>0.528</td>
<td>0.121</td>
<td>0.261</td>
<td>0.311</td>
<td>0.281</td>
</tr>
</tbody>
</table>

**TABLE 3. PATH COEFFICIENTS**

<table>
<thead>
<tr>
<th>Item</th>
<th>Coefficient</th>
<th>t</th>
<th>p</th>
<th>$r^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 1</td>
<td>0.799</td>
<td>35.703</td>
<td>0.000</td>
<td>0.639</td>
</tr>
<tr>
<td>Item 2</td>
<td>0.950</td>
<td>260.191</td>
<td>0.000</td>
<td>0.903</td>
</tr>
<tr>
<td>Item 3</td>
<td>0.908</td>
<td>119.074</td>
<td>0.000</td>
<td>0.825</td>
</tr>
<tr>
<td>Item 4</td>
<td>0.799</td>
<td>38.030</td>
<td>0.000</td>
<td>0.639</td>
</tr>
</tbody>
</table>

Note: RSC: Relational Social Capital; CSC: Cognitive Social Capital; SSC: Structural Social Capital; SC: Social Capital; ConC: Conceptual Competency; ComC: Commitment Competency; OrgC: Organizing Competency; and EC: Entrepreneurial Competency
CONCLUSION

This study provides empirical evidences of social capital on entrepreneurial competencies among Malaysian women micro-entrepreneurs. This study tried to overcome the limitations from previous researches such as social capital researches that are limited to a single industry (Schilling & Phelps, 2007), using only membership in formal associations as a measure of social capital (Krishna, 2008; Al Mamun, 2014), just among Microfinance Institution (MFI) clients measuring trust, reciprocity, and social cohesion (Ahlin & Townsend, 2007; Al Mamun, 2014), or focused on the effect of social capital on enterprise performance (Park & Luo, 2001). This study provided empirical evidence of social capital on entrepreneurial competencies covering the manufacturing, retailing, wholesale, agriculture, and service industries. At the same time, this study looked into three dimensions of social capital namely structural, relational, and cognitive rather than focusing on a single dimension. This study covered women micro-entrepreneurs who tend to be the majority in women entrepreneurs’ population, and that gives a better representation of the women entrepreneurs. Importantly, this study provided empirical evidence supporting the theory of social capital, where the theory as explained by Nahapiet and Ghoshal (1998) states that social capital built from structural, relational, and cognitive dimensions affect firm performance.

Women entrepreneurs, policy makers, and socio-economic development organizations therefore need to emphasize on the potential of social capital in enhancing entrepreneurial competencies, which is ultimately expected to improve enterprise performance among the low-income women micro-entrepreneurs in Malaysia. First, entrepreneurs have to realize the importance of network ties and network density where knowing the right people among key business players and knowing how to reach them is important; besides that, being active in formal and informal networks and having common acquaintances seem to be crucial. At the same time, having an understanding of how other key business players carry out their day to day operation tends to give an advantage to the entrepreneurs. Getting used to norms and sharing similar business goals and values strengthen the cognitive capital of an entrepreneur. Next, trust, being close, and valuing a business relationship builds strong structural capital.

Working on that information, women entrepreneurs should be focusing on how to identify and reach key business players and spend time to network with other businesses by joining formal and informal networks. Through this, they should build up trust and get close with other key players, which will eventually give them a chance to understand how other businesses operate and create a platform of value and norm sharing. Since the government’s aims are to improve women’s involvement and contribution in entrepreneurship and economic development, they 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. In addition to that, it allows trust building among entrepreneurs, an opportunity to understand value and norms, and to strengthen their relationship with other women entrepreneurs. Moreover, it will be a supportive environment where women micro-entrepreneurs would be able to build social capital and gain advantage from it. This will eventually lead to better micro-entrepreneurs and micro-enterprise performance, which will improve Malaysia’s economic performance.

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