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Examining the impact of microfinance on microenterprises performance (Implications for women-owned micro enterprises in Indonesia)

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Examining the impact of microfinance on microenterprises performance
(Implications for women-owned micro enterprises in Indonesia)

Abstract:
Purpose – This study attempts to examine the impacts of microfinance on women-owned microenterprises' (WMEs) performance in Indonesia. It especially observes how financial, human and social capital influences performance of enterprises.
Design/methodology/approach – Data was collected from a survey conducted in Surabaya, Indonesia's second largest city, covering more than one hundred WMEs. The ordered probit technique is applied to estimate the performance vis-à-vis financial, social and human capital relationships.
Findings – This study finds a negative relationship between performance and financial capital and a positive relationship between performance and social capital. However, none of the human capital indicators significantly matters for performance.
Originality/value – To the best of our knowledge, this study provides the first in–depth understanding of the role of microfinance programmes in in the case of performance of WMEs' in Indonesia, one of the world's most populous economies.
Keywords – Microcredit, microenterprise, business performance
Paper type – Research Paper

1. Introduction

Microfinance has been shown to matter importantly for raising the living standards for the poor and their hopes for breaking out of poverty. Evidence shows that the impact of microfinance is not only at individual and household levels (Littlefield, Morduch and Hashemi, 2003; Morduch, 1999), but also at the country level (Khandker, 2005; Mosley and Hulme, 1998). Essentially, microfinance is designed to provide access to finance to those with few or no valuable assets that can be used as capital or collateral. Relative to formal banking credit, microcredit from microfinance institutions (MFIs) are informal and based mainly on trust, without strict collateral requirements or legally enforceable contracts. Moreover, as opposed to consumption, microcredit is usually offered to the most needy to start up a microenterprise or to expand an existing business.

Given that the main goal of microfinance is poverty reduction via microcredit for business start–up/expansion, it is natural to enquire about the extent of its success in different settings so that relevant policies may be reviewed accordingly, especially since existing literature provides inconclusive evidence. Indeed, while some studies show that microcredit does benefit women's microenterprises performance (Copestake *et al.*, 2001; Leach and

Sitaram, 2002), others question the effectiveness of microcredit *per se* in successfully lifting people out of poverty and improving welfare (Cull *et al.*, 2009). Some even contend that the effectiveness is even less for the poorest and those with limited skills, as these groups of borrowers can seldom use the loans productively (Adams and Von Pischke, 1992). Ironically, some studies even argue that microfinance may actually be harmful to its recipients (Buckley, 1997; Rahman, 1999).

In the case of a microenterprise — just like any other business venture — finance (microcredit) *per se* cannot be the sole ingredient for success. Other factors, such as human and social capital, are equally important (Anthony, 2005; Bradley *et al.*, 2012; Tundui and Tundui, 2012). A combination of these different forms of capital is essential for enhancing the performance of a microenterprise. Without an appropriate mix, business success becomes a real challenge. In turn, an unsuccessful micro–business might have little, if any, positive implication for poverty alleviation or welfare improvement.

Bearing the above in mind, microfinance appears to have made considerable progress in making financial resources available to the bottom segments of the society, to women, in particular, offering them an opportunity to improve their living standards. Microfinance has a long history in Indonesia and has been active in providing credit for the poor. However, the role of microfinance and its impact on Indonesian WMEs remains little known, and this is the primary motivation for this study.

Specifically, this study endeavours to provide an in–depth understanding of the role of microfinance in WMEs' performance in an urban area of Indonesia with the main research question being "what are the key determinants of Indonesian WMEs performance?", focusing on financial, human, and social capitals. To address the question, a survey of microbusiness owners in Surabaya, the second largest city in Indonesia, was conducted and the survey data was analysed using the ordered probit regression technique. This study finds a negative relationship between performance and financial capital and a positive relationship between performance and social capital. The findings suggest that microcredit itself does not necessarily assure a better business performance; however spousal involvement, a part of social capital, is essential for business success.

The rest of this paper is outlined as follows. Section 2 briefly provides an overview of Indonesia with focus on socio-economic and financial market conditions as well as on the microfinance industry. It is then continued with literature review and hypotheses linked to the research questions in Section 3. Section 4 explains research method followed by empirical results and discussion in Section 5. Section 6 concludes.

2. Country Overview

With a GNI per capita of only US$ 4,810 in 2012 (World Bank, 2013), poverty remains Indonesia's major national challenge. While the proportion of Indonesians living on less than $1.25 a day has been reduced significantly in the last two decades (ADB, 2013), around 18% of the total population continue to live below the international poverty line (World Bank, 2013) causing some Human Development Index (HDI) indicators to be very low on an international scale.

HDI, as well as some gender indicators, suggest that women tend to be disadvantaged with respect to a number of socio–economic factors, including employment, education, and participation in parliament and high offices compared to their male counterparts. In addition, a survey of small and medium enterprises (SMEs) conducted by IFC/NORC (2010) reveals that, across 10 Indonesian cities, women-headed firms were generally smaller than men-headed ones, with 82% having a monthly turnover of Rp. 50 million or less, compared to only 56% for men. Further, the survey provides evidence that fewer women–headed firms had a savings or a deposit account (79% female/92% male) and a business loan (6% female/16% male).

The Indonesian government has encouraged formal financial institutions, mostly commercial banks, to reach the unbanked by endorsing the national regulation of non-collateralised loans for microcredit[1]. Yet, this has been confronted with two main constraints. Firstly, the ability of the country's commercial banks to provide credit is limited by the relatively small size of the country's financial sector (World Bank, 2010). Secondly, the 1998 Financial Crisis has caused a traumatic effect which has motivated Indonesian authorities to emphasis the practice of prudential banking, resulting in a prudentially sound, but inefficient, narrow, and homogenized banking oligopoly (Beck and Al-Hussainy, 2010). The constraints contribute to the shallow outreach of the country's formal financial sector. Hamada (2010) reports that the outreach of large commercial banks, excluding *Bank Rakyat Indonesia* (BRI), into the small credit market remains limited. Accordingly, this has become a significant constraint for micro, small and medium enterprises (Rosengard and Prasetyantoko, 2011), outside the country's microfinance industry.

[1] Central Bank of Indonesia (Bank Indonesia) defines microcredit as a loan below 50 million rupiah (equivalent with USD. 4,280.82, based on current (17/07/2014) exchange rate of USD 1 = Rp. 11,680) provided by financial providers in Indonesia.

The microfinance industry in Indonesia is exceptionally old. It is made of a large variety of institutions, programs, services, clients, target groups, and is also subject to various legal, regulatory, and supervisory frameworks (Holloh, 2001). The country's microfinance industry is also one of the most commercialised in the world in terms of its provision of sustainable microfinance with wide scale and sustainable outreach (Charitonenko and Afwan, 2003). The commercialization might have two main implications. Firstly, it stimulates MFI to do credit expansion, widening access to finance. Secondly, however, the commercialization might cause tighter credit screening, which limits the access to finance. In such cases, Rosengard and Prasetyantoko (2011) report that there is still an unmet demand for microfinance services. Additionally, the interest rates charged by MFIs on microloans are often considerably higher compared with those commonly charged by urban commercial banks.

3. Literature review and hypothesis development

3.1. Financial capital and enterprise performance

At the earliest stage of an enterprise' life cycle, financial capital is the essential resource for purchasing fixed assets, for working capital, and for financing initial operations and the living expenses of the owners. The amount of initial capital invested has a positive linkage with venture survival and growth (Cooper *et al.*, 1994) because it enables entrepreneurs to invest in productive activities, to have financial cushion to protect against slow start-ups, market downturns, or managerial mistakes, as well as to exploit business opportunities and speed up business growth in the subsequent stages (Bates, 1995; Demirguc-Kunt *et al.*, 2007).

Financial capital may come from various sources. In developed countries, start-up finance is mostly supplied by the entrepreneurs themselves in the form of personal equity. Meanwhile in developing countries, financial capital is mostly acquired from external sources, predominantly as debt (Parker, 2009). This is because that the start-up finance often exceeds the entrepreneurs' valuable possessions. However, those with lower credit scoring and/or lack of collateral might be excluded from obtaining loans, preventing them to become entrepreneurs (Evans and Jovanovic, 1989).

Moreover, the presence of gender bias in financial sector causes unequal treatment of women when dealing with banks and other mainstream credit institutions, which generally tend to favour men (IFC, 2012; Parker, 2009). The lenders – banks and other mainstream credit institutions – argue that men run larger businesses and seize larger control over the assets that banks seek as collateral (Armendariz de Aghion and Morduch, 2005). Women are also less likely to have relevant industry-specific experience, hence women-owned firms are less likely to be successful according to economic measures of business success (GEM, 2010; Loscocco *et al.*, 1991; Watson and Robinson, 2003). Other explanation is that as women consider more about risks, they tend to demand relatively small, but more frequent loans; this increases lending costs (van Staveren, 2001).

Unlike conventional banks and other mainstream credit institutions, microcredits are offered by microfinance institutions (MFIs) with minimal credit screening and without, or in some cases with more flexible, physical collateral. Although the cost of borrowing is relatively high, the MFIs' credit scheme gives wider access to finance to the unbanked to cope with household vulnerability and/or for micro entrepreneurship (Copestake et al., 2001; Garikipati, 2008).

Notwithstanding the opportunities provided by microfinance to the most needy, for some MFIs with lending group schemes, credit screening is more often based on the trustworthiness of the individual and on the number of ties to other group members, and less attention is given to the business opportunity pursued (Armendariz de Aghion and Morduch, 2005). With the paucity of collateral, these factors result in a higher credit risk that must be shared by all members in the group.

Furthermore, without overlooking the important role of financial capital in business development, Bradley *et al*. (2012) reveal that microcredit does not always have direct effects on microenterprises' performance, but this relationship is significant when mediated by the entrepreneurs' abilities to conduct innovation. The easy access to finance brought by MFIs, in some cases, might lead to a decline in business performance in the medium or long term caused by the inability of entrepreneurs to innovate. Instead, they are more likely to make their products slightly different from, or even imitate, the innovators' outputs. While imitating entrepreneurs may at first be justified as market demand is increasing, their continuing entry into the market escalates competitive pressure so that entrepreneurial profit is divided among numerous sellers (Hannan and Freeman, 1984). Accordingly, the first hypothesis (H1) is as follows:

Hypothesis 1: The relationship between financial capital and WMEs' business performance will be ambiguous

3.2. Human capital and enterprise performance

Human capital refers to formal education, attitudes, and other human skills and abilities obtained through on-the-job training or business/industrial experiences. Education, a fundamental source of human capital, provides general human capital such as general search skill, foresight, imagination, computational and communication skills, as well as specific skills and knowledge (Parker, 2009), which are prerequisites to the specific human capital associated with on-the-job training. A number of studies show that there might be a positive link between the level of education and business success (Kangasharju and Pekkala, 2002; Pena, 2002).

Beside formal education, expertise is another important dimension of human capital. In a business context, it is shaped by both formal and informal training of skills needed to exploit opportunity (Shane, 2003). Expertise comes from two main sources – internal and external.

With respect to internal sources, family is an important training ground for entrepreneurs. Exposure to family business allows individuals to learn how to start and develop a business through an apprenticeship because many of the skills necessary for decision making are tacitly learned and not codified (Polanyi, 1966). In that way, if individuals have had the opportunity to acquire some business experience through family or close friends, their expertise in evaluating a business opportunity could be greater (Amit *et al.*, 1993).

For instance, Caputo and Dolinsky (1998) report that having a self-employed husband is the single most important determinant of a woman being self-employed. Husbands are a source of knowledge and experience, and can also serve as role models for their wives. Other supporting evidence is given by Gimeno *et al.* (1997) that ventures founded by entrepreneurs from families with a history of entrepreneurship are less likely to fail because they benefit from proximity to entrepreneurial role models and emotional support.

With respect to external sources, prior knowledge from training and working experience enable entrepreneurs to increase their effectiveness during information gathering, and offers valuable knowledge about financing and developing their business, and it also raises confidence in opportunity exploration (Begley and Tan, 2001; Cooper *et al.*, 1995). These allow entrepreneurs greater freedom in exploring new combinations and innovating, as well as equipping them with greater ability to understand and handle business in uncertain conditions leading to improved outcomes (Karlan and Valdivia, 2010). Studies also find that expertise from industry-specific experience might be a major determinant of small business success, noting that women are more likely to be disadvantaged (e.g. Loscocco *et al.*, 1991).

From a gender perspective, women are likely to have fewer human capital compared to men. They are usually motivated by necessity and are more likely to enter a business without having a history of achievement, occupational training, or experience (GEM, 2010). However, the possession of such experience tends to be a key driver of profitability for WMEs (Coleman, 2007). Accordingly, the second hypothesis (H2) is a follows:

Hypothesis 2: Human capital will be positively associated with WMEs' business performance.

3.3. Social capital and enterprise performance

Coleman (1988) defines the concept of social capital as how the social structure of a group can function as a resource for the individuals of that group, and is embedded in the structure of relations. In an enterprise context, Granovetter (1985) concurs with the idea of embeddedness stating that enterprises are explained by structures of personal relations and networks of relations across and within enterprises. This concept highlights the importance of concrete personal relationships and networks of relationships in a standard economy system. These networks provide access to resources, employment, psychological aid, information and advice (Abell *et al.*, 2001; Hoang and Antoncic, 2003) that can be mobilised to facilitate entrepreneurial actions (Adler and Kwon, 2002).

The benefits of social capital are not only in terms of facilitating access to broader business sources, influences, or to gaining power or controls, but also solidarity that can be transformed into social support from others (Adler and Kwon, 2002). The social supports included in the structures of an individual's social life (e.g. group membership and/or family relationship) and the functions that these structures may serve (e.g. emotional support and instrumental assistance) can be received through the work domain (Allen, 2001) or the family domain (King *et al.,* 1995). Both domains can be highly interrelated in an entrepreneurial context, since entrepreneurs can more easily transfer or share resources between these domains compared to organisational employees (Powell and Eddleston, 2013).

Strong ties. Coleman (1988) argues that family is an ideal environment for creating social capital. Indeed, there is a greater likelihood that family and close friends will be socially involved with one another, forming a higher density network of relational lines (Granovetter, 1983).

With respect to strong ties, family support might range from spousal emotional support to employing members of the family. Evidence shows that family support is a key factor in entrepreneurial success for women entrepreneurs; it has positive effects on business survival, sales and profit growth (e.g. Powell and Eddleston, 2013).

While entrepreneurs in developed economies often rely on strong ties for establishing an enterprise, particularly for funding, emotional support, and continuing the formation activities (Davidsson and Honig, 2003; Gimeno et al., 1997; Shane, 2003), reliance on strong ties in developing economies has an additional motivation. Greater dependence on family networks or close trust relationships for a wide range of economic activities are required to cope with distrust of institutions and lax enforcement of contracts in developing economies (Humphrey and Schmitz, 1998; Zacharakis *et al.*, 2007). Moreover, material resource deficiencies commonly occurred in micro enterprises forces entrepreneurs to employ their own family members. In such cases, Cruz et al. (2012) report that employing family members would partly improve business performance for women-led firms, although it could also harm the firm's performance when the firm is the main source of household income. Evidence from India also shows that microcredit provided to women increase household income but only if their spouses are involved in the businesses (Leach and Sitaram, 2002).

Nevertheless, family involvement may not always have a direct positive effect on business performance. In the case of low-asset family firms, family involvement may increase agency costs, for at least two reasons: an apparent lack of formal monitoring systems, and family members' conflicting interests re use of business assets (Dyer, 2006; Tundui and Tundui, 2012).

Weak ties. Weak ties are looser relationships or a lower density of relational networks of individuals beyond family and close friends (Granovetter, 1983). Individual's informal relations with acquaintances and other types of network ties can create social capital through increased communication, information diffusion, and social support (Paxton, 1999). In addition to such informal person-to-person relations, individuals can be tied to others through formal membership in voluntary associations. Accordingly, being a member of an association, such as a microfinance lending group, could be beneficial for women entrepreneurs. In this context, interactions among the group's members provide them with opportunities to develop new or deepen existing social relationships within the group which might yield economic gains and/or provide members with valuable information about opportunities (Anthony, 2005). Accordingly, the third hypothesis (H3) is as follows:

Hypothesis 3: Social capital will be positively associated with WMEs' business performance.

4. Research method

4.1. The survey

The data was obtained from a survey, conducted in 2010, of Setya Bhakti Wanita (SBW), a microfinance cooperatives that operates in the City of Surabaya, Indonesia's second largest city, and its surroundings. With a multi-cultural population of around 2.8 million in 2010, the city is the capital of East Java Province, the second most populated province (37.48 million). SBW is one of the largest (in terms of membership and total assets) women-cooperative in the city. The institution provides both savings and co-guaranteed loan programs and has 379 operating microcredit lending groups with a membership of around 10,900 women. In 2010, it had granted total credit of approximately USD13.4 million (Rp. 133.7 billion) with individual credit of up to USD 2,500 (Rp. 25 million) per member.

The participated lending groups were randomly selected from the list of lending group provided by SBW. Subsequently, from each group, two or three members, who owned at least one business, were identified as prospective respondent. The identified respondents were then initially contacted by phone by the institution on behalf of the researcher for their voluntary participation. The interviews were mostly conducted at the respondent's residence or business place to observe their real-life conditions; occasionally the interviews were conducted at their group meetings. The interviewers were Petra Christian University's students. The researcher provided training to the students prior the survey, and supervised them during the survey. A total of 168 women respondents were interviewed but only 134 were analysed excluding unmarried respondents and incomplete responses.

4.2. The variables

Dependent variables. To recap, a primary objective of the study is to understand the business performance of women micro enterprises (WMEs) in Indonesia with respect to a number of independent variables. In this study, "profit" is used to proxy business performance, measured by a respondent's subjective self-reporting of changes in profit across two consecutive years. The reason for settling with the "subjective" response is that micro entrepreneurs in Indonesia tend not to keep proper records their business transactions; quite often they are not properly trained, qualified or otherwise equipped to do so. Subjective self-reported performance as a measure of profit, while not ideal, has been in other studies with reasonable reliability (e.g. Anna et al., 2000; Cruz et al., 2012; Wiklund and Shepherd, 2003).

Independent variables. Consistent with the literature and following Bradley et al. (2012), the key covariates include: financial capital (FCap), human capital (HCap), and social capital (SCap). Financial capital is operationally defined as the current amount of microcredit (loan size) owed by the individual respondent. Human capital consists of education level, family business background and prior work experience. Education level is measured by the level of formal education of the respondents ranging from elementary to university/college. Family business background and prior working experience are dummy variables.

Social capital comprises of strong and weak ties and lending group. Strong ties is the extent of family and close friends involvement in a respondent's business. The terms of the involvement includes participation in discussing business ideas, formal or informal employment or otherwise providing help or support to a business. In addition we include a spousal involvement variable to test if this does, per the literature, have any impact on women micro-entrepreneurs' business success in the case of Indonesia. Weak ties is measured by the extent of business acquaintance (consumers as well as suppliers) involved in the business. Lending group may include both strong and weak ties; in this study, it is separated from both due to the need to capture its role in respondents' business performance. Lending group is the extent of group members in a respondent's lending group.

Control variables. The control variables include change in total assets, competition, number of employees, new products and respondents' age. Change in assets, as a proxy of business expansion, is measured by subjective self-reporting of percentage change in the business assets. Competition measures the respondent's awareness of any competing firms in the surrounding area. Number of employees is the current number of employees working in a respondent's business. New product is a respondent's perception of to what extent she agrees that the product or service she is offering is new to local market. Finally, age is the age of the respondents. Table 1 explains briefly how the questions were framed to obtain relevant data.

[INSERT Table 1 about HERE]

4.3. Model specification

The dependent variable is defined as follows: 1 = ‘decrease’, 2 = ‘about the same’ and 3 = ‘increase’. Since the variables are limited and ordinal in nature, OLS technique might not be appropriate (e.g. McKelvey and Zavoina, 1975). The Ordered Probit estimation, an extension of the Probit model, is more appropriate for this purposes. The Ordered Probit model recognizes the indexed nature of various response variables; in this application, performance (y_i) is the ordered response.

The estimated models can be written as:

$$y_i^* - x_i'\beta + \varepsilon_i \tag{1}$$

$$y_i = 1 \; if \; y_i^* \leq \alpha_1$$
$$y_i = 2 \; if \; \alpha_1 < y_i^* \leq \alpha_2$$
$$y_i = 3 \; if \; \alpha_2 < y_i^*$$

where y_i^* is the latent variable of y_i, x_i' represents the covariates and the controls, and ε_i is the error term; it is assumed that $\varepsilon_i \sim NID(0,1)$.

With three possible responses, the implied probabilities can be obtained as:

$$P_1(x_i) = P(y_i = 1|x_i) = \Phi(\alpha_1 - x_i'\beta)$$
$$P_2(x_i) = P(y_i = 2|x_i) = \Phi(\alpha_2 - x_i'\beta) - \Phi(\alpha_1 - x_i'\beta)$$
$$P_3(x_i) = P(y_i = 3|x_i) = 1 - \Phi(\alpha_2 - x_i'\beta) \tag{2}$$

where Φ is cumulative density function of $NID(0,1)$, and $\alpha_1 \; and \; \alpha_2$ are the unknown thresholds estimated jointly with β using a maximum likelihood (ML) approach. When correctly specified, the ML estimation is consistent, asymptotically efficient, and normally distributed (Verbeek, 2012).

5. Empirical results and discussion

5.1. Empirical results

Appendix 1 provides descriptive statistics of the dataset. Table 2 presents the results of the ordered probit models estimating business performance, measured by changes in profit. Model 1 is the baseline control model, while Model 2 predicts profit in the absence of microfinance assistance. Model 3 estimates profit without social capital variables, while in Model 4, human capital variables are omitted from the estimation. Model 5 is the main model encompassing all covariates and controls used in this study.

[INSERT Table 2 about HERE]

At the 10% level of significance, Models 4 and 5 highlight a negative relationship between microcredit or loan and profit. However, the relationship becomes insignificant when social capital variables are omitted from the estimation (Model 3). These results are consistent with Hypothesis 1 that the relationship between financial capital and performance is ambiguous.

Re Hypothesis 2, as Table 2 shows, profit does not have any significant relationship with either prior working experience or family business background. Although profit is significantly linked to education in Model 2 and Model 3 (at the 10% level), this positive link does not appear in Model 5.

Re Hypothesis 3, none of strong and weak ties or lending group is significantly associated with profit. However, spousal involvement shows a significantly positive impact on the business performance in Models 2, 4 and 5.

[INSERT Table 3 about HERE]

Table 3 provides the results of an in-depth analysis of outcome prediction with respect to the two key (significant) covariates, microcredit and spousal involvement. The outcome prediction is obtained based on Model 5, holding all other independent variables at their sample means, microcredit is specified at its 10, 25, 50, 75 and 90 percentiles; and spouse involvement at six different degrees of response from strongly disagree to strongly agree.

The outcome predictions show that, given all other covariates at their means, increase in amount of loan apprears to decrease the probability of profitability. For example, for microcredit at 25 percentile the chance of increase in profit is 48.56% and it drops to 39.69% when the credit increases to 75 percentile. On the other hand, for microcredit at 25 percentile the chance of decrease in profit is 11.87%, and it increases to 16.94% when the credit is at 75 percentile.

Conversely, concerning spousal involvement, the more the women agree the more likely that their firms' profits increase. For example, given other covariates at means, the chance of increase in profit is 25.30% (strongly disagree) versus 55.92% (strongly agree) while the chance of decrease in profit is 29.02% (strongly disagree) versus 8.59% (strongly agree).

5.2. Discussion

Microfinance has been shown to have made key contributions in poverty alleviation programmes in some developing economies. It particularly helps the poor cope with their household vulnerability by offering non-collateralised loans that might be used to overcome income shocks. However, the original design of microfinance was actually not to provide loans for non-productive or for consumption purposes, but to help the most needy to establish their own micro business to improve household income. In such cases, previous studies have found divergent results. Unlike other studies maintaining that microfinance is positively associated with firm performance, this study finds some contradictory results.

Our study shows a negative relationship between microcredit (proxy for financial capital) and WMEs' profits (proxy for performance), indicating that higher levels of indebtedness are likely to adversely affect performance. Two main reasons, at least, might explain this result. Firstly, microcredit could improve WMEs' production capacity. However, as the women are typically less-skilled entrepreneurs, their participation in local market is mostly motivated by necessity, not opportunity. Moreover, when initiating the business, they were often pushed into entrepreneurship by circumstances beyond their control and therefore are forced to choose among whatever opportunities are available at that moment (McMullen *et al.*, 2008). They must then try to make the best of a bad situation, and in doing so, tend to exploit opportunities that have already been identified by others resulting in an increase in the quantity supplied or even over supply of analogous products in the local market. Without any compensating increase on the demand side, this increases competitive pressure at the market, leading to downward pressure on local prices and individual profits of both new and existing microenterprises (Bateman and Chang, 2012; Davis, 2006)

Furthermore, if individuals are forced into entrepreneurship by lack of other options, they are less likely to make necessary preparations or to have skills and resources that match the opportunity that allows growth of a business of scale (Bradley *et al.*, 2011). With regard to the preparation, our survey indicates that almost 70% of the total respondents had not made adequate plans before initiating their business, and this could carry undesirable consequences in subsequent periods.

The second reason is that there is a strong indication that the entrepreneurs cannot productively manage the credit to make their business grow and to become profitable (Dichter, 2006). Thus, the relatively high interest rate imposed on the credit might burden WMEs especially if the credit cannot be optimally utilised to generate even higher incomes. In addition, women might also use the credit for other purposes than business due to their inability to distinctively separate their household consumption and business investment (Parker, 2009). Hence, as has previously been warned by Morduch (1999), access to more credit might lead to greater personal and/or household expenditure rather than business development.

With regard to human capital, proxied by formal education and business expertise, results suggest that none of the indicators significantly matter for business performance. Formal education and prior work experience do not enhance the chance of increasing profits. Moreover, family business background is not significantly related to the chance of having better business performance. The later might suggest that the entrepreneur's parents/families might not have successfully transmitted entrepreneurial skills to their offspring, or that the parents indeed transferred the skills but the skills are not quite relevant to handle the current business challenges faced by them.

Regarding social capital, this study reveals statistically insignificant relationships between WMEs' performance and both strong and weak ties; however, spousal involvement is significantly correlated with profit. The size of family networks and the number of business acquaintances do not seem to have much impact on profit growth, but spouse (husband) involvement clearly shows strong contribution to business success. This might be because spousal involvement not only gives women less expensive employees, networking, and training, but also provides them with emotional support assisting the women who often desire for synergy between work and family (Bird and Brush, 2002; Brush, 1992).

A microfinance lending group is commonly expected to enhance harmony among its membership and help members broaden social networks, which benefit their business. However, our finding shows that although it has a positive sign, the relationship between lending group and business performance is not statistically significant. This might be due to the fact that women's involvement in lending groups is simply and pragmatically motivated by access to credit. During the interview, when the respondents were asked to rank (from 1 to 5, and 1 being the most) the time typically spent in a group meeting for discussing personal issues, loan repayment, business ideas, spiritual issues and community news, around 88% of the respondents positioned loan repayment issues at the top rank (rank 1). This clearly indicates that conversations among members during the group's meetings are dominated by loan repayment issues, leaving very little time for members to talk with each other about their business. Therefore, the chance of exchanging and gaining valuable information about business opportunities and ideas are rather limited.

6. Conclusion

While microfinance has been shown to have made considerable progress in making financial resources available to the bottom segments of the society, to women, in particular, offering them an opportunity to improve their living standards, despite a long history in Indonesia, one of the most populous and poverty challenged economies in the world, the role of microfinance and its impact on Indonesia's women microenterprises (WMEs) remains little known. This study fills this huge gap in the literature.

Specifically, this study provides the first in–depth understanding of the role of financial, social and human capital in the performance of WMEs. A survey of 168 WMEs in Surabaya, the second largest city in Indonesia, was conducted and the data was analysed using the ordered probit regression technique. Result show that financial capital may not necessarily influence business success—a negative relationship is found between financial capital and performance. On the other hand, a positive relationship is noted between performance and spousal involvement, indicating that it might be more important than just microcredit for successful operation of WMEs in the case of Indonesia.

Future studies might involve a larger, more heterogeneous sample size, from a different part of Indonesia. Future research might also involve a deeper explanation of the relationships noted in this study, for example, why loan size has a negative effect on profit, whether applying alternative credit schemes (e.g. individual credit scheme) instead of lending group credit scheme might affect business performance differently, in what ways do spousal involvement benefit WMEs' business performance and whether the findings apply also to male–headed micro businesses. In the meantime, this study provides useful research–based findings for relevant policy development in Indonesia which might also be relevant for other developing economies.

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Table 1: Description of variables

Variables	Questionnaire Questions
Profit	Compared to last year, have your profits (revenues after expenses are paid) in your business (circle one): increased, decreased, or stayed about the same? Answer: decrease = 1 , about the same = 2 , increase =3
Microcredit (*Fcap*)	What is your current loan amount (in millions rupiah)?
Education	What is the highest grade/level of school you have attained? Answer: Elementary = 1 , Junior High = 2 , Senior High =3 , University = 4
Prior working experience	Did you have prior working experience with the type of business you started? Answer: (YES = 1 , No = 0)
Family business background	Did your parents ever work for themselves or run their own businesses? Answer: (YES = 1 , No = 0)
Strong ties	Approximately, how many family members or friends have been involved in your business?
Weak ties	Approximately, how many business acquaintances (i.e. consumers and suppliers) have been involved in your business?
Lending Group	How many people are in your lending group?
Spousal involvement	How much do you agree with statement that "I have found ways to get my husband/wife involved with my business"? Answer: (1.Strongly disagree..................7. Strongly agree)
Change in assets	Compared to last year, by how many percentages approximately have the assets (equipment/ materials) used by your business changed?
Competition	Are there any competitors who sell the same product/service in your area? Answer: (YES = 1 , No = 0)
Number of employees	How many people are employed by your business?
New product	How much do you agree with statement that "the product or service I am offering is new to the local market?" Answer: (1.Strongly disagree ....7. Strongly agree)
Age	What is your age?

Table 2: Ordered probit estimation results

Variables	Change in PROFIT				
	Model 1	Model 2	Model 3	Model 4	Model 5
Financial capital					
Microcredit			-0.0386 (0.0241)	-0.0531 (0.0238)**	-0.0450 (0.0245)*
Human capital					
Education		0.2313 (0.1288)*	0.2388 (0.1282)*		0.1942 (0.1311)
Prior working experience		-0.2614 (0.2185)	-0.1125 (0.2160)		-0.1330 (0.2292)
Family business background		0.2008 (0.2173)	0.1354 (0.2127)		0.1786 (0.2185)
Social capital					
Strong ties		-0.0264 (0.0515)		-0.0075 (0.0516)	-0.0180 (0.0525)
Weak ties		-0.0100 (0.0104)		-0.0123 (0.0104)	-0.0120 (0.0105)
Lending group				0.0202 (0.0136)	0.0181 (0.0142)
Spousal involvement		0.1420 (0.0685)**		0.1395 (0.0685)**	0.1356 (0.0701)**
Business control					
Change in assets	0.0244 (0.0056)**	0.0234 (0.0058)**	0.0241 (0.0057)**	0.0246 (0.0060)**	0.0244 (0.0060)**
Competition	0.3244 (0.2108)	0.4292 (0.2244)*	0.3616 (0.2155)*	0.5466 (0.2279)**	0.5118 (0.2300)**
Number of employees	0.0352 (0.0303)	0.0300 (0.0304)	0.0415 (0.0311)	0.0375 (0.0310)	0.0345 (0.0314)
New product	-0.0704 (0.1098)	0.0166 (0.1173)	-0.0339 (0.1123)	0.0573 (0.1207)	0.0462 (0.1210)
Individual control					
Age	-0.0078 (0.0117)	0.0034 (0.0126)	0.0021 (0.0124)	0.0027 (0.0123)	0.0076 (0.0128)

Notes: Unstandardized coefficients and standard error (in parentheses) are reported. Number of observation (n) = 134. *p<0.10; ** p<0.05

Table 3: The analysis of outcome prediction

Variables	Outcomes		
	Decrease in profit	Relatively no change in profit	Increase in profit
Microcredit : (at different quantile)			
10%	0.0798	0.3453	0.5750
25%	0.1187	0.3957	0.4856
50%	0.1279	0.4045	0.4676
75%	0.1694	0.4336	0.3969
90%	0.1932	0.4442	0.3626
Spousal involvement :			
Strongly disagree	0.2902	0.4567	0.2530
Moderately Disagree	0.2456	0.4561	0.2983
Slightly Disagree	0.2050	0.4481	0.3469
Neither Agree nor Disagree	0.1686	0.4332	0.3982
Slightly Agree	0.1367	0.4120	0.4513
Moderately Agree	0.1092	0.3856	0.5053
Strongly Agree	0.0859	0.3550	0.5592

Appendix 1: Statistic description of variables

	Microcredit	Education	Prior working experience	Family business background	Strong ties	Weak ties	Lending group	Spousal involvement	Change in assets	Competition	Number of employees	New product	Age	Profit
Mean	11.4047	3.1679	0.4234	0.5328	1.9635	7.6496	31.7883	5.1971	5.4745	0.6350	3.0970	2.0000	47.9635	2.3066
Stan dev	4.5566	0.8276	0.4959	0.5008	2.0559	9.4578	8.0727	1.6753	20.4264	0.4832	3.6765	0.9625	8.7198	0.7531
Max	30	4	1	1	10	50	50	7	60	1	21	7	66	3
Min	0.75	1	0	0	0	0	16	1	-75	0	0	1	30	1
Observations	134	134	134	134	134	134	134	134	134	134	134	134	134	134

Bukti korespondensi permintaan revisi oleh reviewer

(19 Desember 2014)

International Journal of Social Economics - Decision on Manuscript ID IJSE-08-2014-0158

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19-Dec-2014

Dear Mr. Atmadja:

Manuscript ID IJSE-08-2014-0158 entitled "Examining the impact of microfinance on microenterprises performance (Implications for women-owned micro enterprises in Indonesia)" which you submitted to the International Journal of Social Economics, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The reviewer(s) have recommended publication, but also suggest some revisions to your manuscript. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

To revise your manuscript, log into https://mc.manuscriptcentral.com/ijsec and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

You will be unable to make your revisions on the originally submitted version of the manuscript. Instead, revise your manuscript using a word processing program and save it on your computer. Please also highlight the changes to your manuscript within the document by using the track changes mode in MS Word or by using bold or coloured text.Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre.

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Once again, thank you for submitting your manuscript to the International Journal of Social Economics and I look forward to receiving your revision.

Sincerely,
Prof. Colin Tyler
Editor, International Journal of Social Economics
C.Tyler@hull.ac.uk

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:
This topic has been widely researched and vast amount of literature is available on the subject matter across the world. However, contextual novelty is present in the paper. Methodology has serious issues that need to be addressed before it can be considered for publication.

Additional Questions:
1. Originality: Does the paper contain new and significant information adequate to justify publication?: This topic has been widely researched and vast amount of literature is available on the subject matter in various countries across the world which is also referenced by the author as well. However, in the context of Indonesia and particularly area where this study was carried out can be a contribution. Hence the element of novelty in the context of Indonesia is present which makes it suitable for the publication.

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the

field and cite an appropriate range of literature sources? Is any significant work ignored?: The paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources. It seems that the paper has covered all the important literature.

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: No, there are serious concerns with reference to methodology that reduces the validity of the research. The researchers have collected data from 168 respondents whereas 134 questionnaires were usable. 168/10900 is not representative sample. The larger sample size can increase the validity of results. Since the research is already completed it seems difficult to overcome this issue. Similarly, there are serious concern on the sampling process as well. The author is taking two years' profit as dependent without considering the length of membership with SBW. The length of membership can also have impacts on the results.

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: Yes the results are clearly presented and analysed appropriately. The data has shown some outliers e.g. 21 employees in micro-enterprise is unusual with a mean of approximately 3. Anoutlier can significantly change the results. Authors need to shed light, were there any outliers? If yes, what actions were taken to correct them.

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: The The paper does not identify clearly implications for research, practice. Ambiguity in results does not adequately bridge the gap between theory and practice. The research has also limited potential in teaching as major findings already exist in literature. Author need to focus on this area.

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: Acceptable

Bukti konfirmasi submit revisi dan artikel yang direvisi

(3 Pebruari 2015)

International Journal of Social Economics - Manuscript ID IJSE-08-2014-0158.R1

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03-Feb-2015

Dear Mr. Atmadja:

Your revised manuscript entitled "Examining the impact of microfinance on microenterprises performance (Implications for women-owned micro enterprises in Indonesia)" has been successfully submitted online and is presently being given full consideration for publication in the International Journal of Social Economics.

Your manuscript ID is IJSE-08-2014-0158.R1.

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Examining the impact of microfinance on microenterprises performance (Implications for women-owned micro enterprises in Indonesia)

Journal:	*International Journal of Social Economics*
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Manuscript Type:	Research Paper
Keywords:	Microcredit, Microenterprise, Business performance

Examining the impact of microfinance on microenterprise performance
(Implications for women-owned micro enterprises in Indonesia)

Abstract:
Purpose – This study attempts to examine the impacts of microfinance on women-owned microenterprises' (WMEs) performance in Indonesia. It especially observes how financial, human and social capital influences performance of enterprises.
Design/methodology/approach – Data was collected from a survey conducted in Surabaya, Indonesia's second largest city, covering more than one hundred WMEs. The ordered probit technique is applied to estimate the performance vis-à-vis financial, social and human capital relationships.
Findings – This study finds a negative relationship between performance and financial capital and a positive relationship between performance and social capital. However, with respect to human capital, the level of education has a marginally significant relationship with performance.
Originality/value – To the best of our knowledge, this study provides the first in–depth understanding of the role of microfinance programmes in in the case of performance of WMEs' in Indonesia, one of the world's most populous economies.
Keywords – Microcredit, microenterprise, business performance
Paper type – Research Paper

1. Introduction

Microfinance has been shown to matter importantly for raising the living standards for the poor and their hopes for breaking out of poverty. Evidence shows that the impact of microfinance is not only at individual and household levels (Littlefield, Morduch, & Hashemi, 2003; Morduch, 1999), but also at the country level (Khandker, 2005; Mosley & Hulme, 1998). Essentially, microfinance is designed to provide access to finance to those with few or no valuable assets that can be used as capital or collateral. Relative to formal banking credit, microcredit from microfinance institutions (MFIs) are informal and based mainly on trust, without strict collateral requirements or legally enforceable contracts. Moreover, as opposed to consumption, microcredit is usually offered to the most needy to start up a microenterprise or to expand an existing business.

Given that the main goal of microfinance is poverty reduction via microcredit for business start–up/expansion, it is natural to enquire about the extent of its success in different settings so that relevant policies may be reviewed accordingly, especially since existing literature provides inconclusive evidence. Indeed, while some studies show that microcredit does benefit women's microenterprises performance (Copestake, Bhalotra, & Johnson, 2001; Leach & Sitaram, 2002), others question the effectiveness of microcredit *per se* in successfully lifting people out of poverty and improving welfare (Cull, Demirgüç-Kunt, & Morduch, 2009). Some even contend that the effectiveness is even less for the poorest and those with limited skills, as these groups of borrowers can seldom use the loans productively (Adams & Von Pischke, 1992; Imai, Arun, & Annim, 2010). Ironically, some studies even argue that microfinance may actually be harmful to its recipients (Buckley, 1997; Rahman, 1999).

In the case of a microenterprise — just like any other business venture — finance (microcredit) *per se* cannot be the sole ingredient for success. Other factors, such as human and social capital, are equally important (Anthony, 2005; Steven W Bradley, McMullen, Artz, & Simiyu, 2012; Leach & Sitaram, 2002; Tundui & Tundui, 2012). A combination of these different forms of capital is essential for enhancing the performance of a microenterprise. Without an appropriate mix, business success becomes a real challenge. In turn, an unsuccessful micro–business might have little, if any, positive implication for poverty alleviation or welfare improvement.

Bearing the above in mind, microfinance appears to have made considerable progress in making financial resources available to the bottom segments of the society, to women, in particular, offering them an opportunity to improve their living standards. Microfinance has a long history in Indonesia and has been active in providing credit for the poor. However, the role of microfinance and its impact on Indonesian WMEs remains little known, and this is the primary motivation for this study.

Specifically, this study endeavours to provide an in–depth understanding of the role of microfinance in WMEs' performance in an urban area of Indonesia with the main research question being "what are the key determinants of Indonesian WMEs performance?", focusing on financial, human, and social capitals. To address the question, a survey of women-headed microentreprises in Surabaya, the second largest city in Indonesia, was conducted and the survey data was analysed using the ordered probit regression technique. This study finds a negative relationship between performance and financial capital and positive relationship between performance and human capital and performance and social capital. The findings suggest that microcredit itself does not necessarily assure a better business performance; however spousal involvement, a part of social capital, and level of education are essential for business success.

The rest of this paper is outlined as follows. Section 2 briefly provides an overview of Indonesia with focus on socio-economic and financial market conditions as well as on the microfinance industry. It is then continued with literature review and hypotheses linked to the research questions in Section 3. Section 4 explains research method followed by empirical results and discussion in Section 5. Section 6 concludes.

2. Country Overview

With a GNI per capita of only US$ 4,810 in 2012 (World Bank, 2013), poverty remains Indonesia's major national challenge. While the proportion of Indonesians living on less than $1.25 a day has been reduced significantly in the last two decades (ADB, 2013), around 18% of the total population continue to live below the international poverty line (World Bank, 2013) causing some Human Development Index (HDI) indicators to be very low on an international scale.

HDI, as well as some gender indicators, suggest that women tend to be disadvantaged with respect to a number of socio–economic factors, including employment, education, and participation in parliament and high offices compared to their male counterparts. In addition, a survey of small and medium enterprises (SMEs) conducted by IFC/NORC (2010) reveals that, across 10 Indonesian cities, women-headed firms were generally smaller than men-headed ones, with 82% having a monthly turnover of Rp. 50 million or less, compared to only 56% for men. Further, the survey provides evidence that fewer women–headed firms had a savings or a deposit account (79% female/92% male) and a business loan (6% female/16% male).

The Indonesian government has encouraged formal financial institutions, mostly commercial banks, to reach the unbanked by endorsing the national regulation of non-collateralised loans for microcredit[1]. Yet, this has been confronted with two main constraints. Firstly, the ability of the country's commercial banks to provide credit is limited by the relatively small size of the country's financial sector (World Bank, 2010). Secondly, the 1998 Financial Crisis has caused a traumatic effect which has motivated Indonesian authorities to emphasis the practice of prudential banking, resulting in a prudentially sound, but inefficient, narrow, and homogenized banking oligopoly (Beck & Al-Hussainy, 2010). The constraints

[1] Central Bank of Indonesia (Bank Indonesia) defines microcredit as a loan below 50 million rupiah (equivalent with USD. 4,280.82, based on current (17/07/2014) exchange rate of USD 1 = Rp. 11,680) provided by financial providers in Indonesia.

contribute to the shallow outreach of the country's formal financial sector. Hamada (2010) reports that the outreach of large commercial banks, excluding *Bank Rakyat Indonesia* (BRI), into the small credit market remains limited. Accordingly, this has become a significant constraint for micro, small and medium enterprises (Rosengard & Prasetyantoko, 2011), outside the country's microfinance industry.

The microfinance industry in Indonesia is exceptionally old. It is made of a large variety of institutions, programs, services, clients, target groups, and is also subject to various legal, regulatory, and supervisory frameworks (Holloh, 2001). The country's microfinance industry is also one of the most commercialised in the world in terms of its provision of sustainable microfinance with wide scale and sustainable outreach (Charitonenko & Afwan, 2003). The commercialization might have two main implications. Firstly, it stimulates MFI to do credit expansion, widening access to finance. Secondly, however, the commercialization might cause tighter credit screening, which limits the access to finance. In such cases, Rosengard and Prasetyantoko (2011) report that there is still an unmet demand for microfinance services. Additionally, the interest rates charged by MFIs on microloans are often considerably higher compared with those commonly charged by urban commercial banks.

3. Literature review and hypothesis development

3.1. Financial capital and enterprise performance

At the earliest stage of an enterprise' life cycle, financial capital is the essential resource for purchasing fixed assets, for working capital, and for financing initial operations and the living expenses of the owners. The amount of initial capital invested has a positive linkage with venture survival and growth (Cooper, Gimeno-Gascon, & Woo, 1994) because it enables entrepreneurs to invest in productive activities, to have financial cushion to protect against slow start-ups, market downturns, or managerial mistakes, as well as to exploit business opportunities and speed up business growth in the subsequent stages (Bates, 1995; Cooper, Woo, & Dunkelberg, 1988; Demirguc-Kunt, Beck, & Honohan, 2008).

Financial capital may come from various sources. In developed countries, start-up finance is mostly supplied by the entrepreneurs themselves in the form of personal equity. Meanwhile in developing countries, financial capital is mostly acquired from external sources, predominantly as debt (Parker, 2009). This is because that the start-up finance often exceeds the entrepreneurs' valuable possessions. However, those with lower credit scoring and/or lack of collateral might be excluded from obtaining loans, preventing them to become entrepreneurs (Evans & Jovanovic, 1989).

Moreover, the presence of gender bias in financial sector causes unequal treatment of women when dealing with banks and other mainstream credit institutions, which generally tend to favour men (IFC, 2012; Parker, 2009; Stevenson, 1986). The lenders – banks and other mainstream credit institutions – argue that men run larger businesses and seize larger control over the assets that banks seek as collateral (Armendariz de Aghion & Morduch, 2005). Women are also less likely to have relevant industry-specific experience, hence women-owned firms are less likely to be successful according to economic measures of business success (GEM, 2010; Loscocco, Robinson, Hall, & Allen, 1991; Watson & Robinson, 2003). Other explanation is that as women consider more about risks, they tend to demand relatively small, but more frequent loans; this increases lending costs (van Staveren, 2001).

Unlike conventional banks and other mainstream credit institutions, microcredits are offered by microfinance institutions (MFIs) with minimal credit screening and without, or in some cases with more flexible, physical collateral. Although the cost of borrowing is relatively high, the MFIs' credit scheme gives wider access to finance to the unbanked to cope with household vulnerability and/or for micro entrepreneurship (Copestake et al., 2001; Garikipati, 2008).

Notwithstanding the opportunities provided by microfinance to the most needy, for some MFIs with lending group schemes, credit screening is more often based on the trustworthiness of the individual and on the number of ties to other group members, and less attention is given to the business opportunity pursued (Armendariz de Aghion & Morduch, 2005). With the paucity of collateral, these factors result in a higher credit risk that must be shared by all members in the group.

Furthermore, without overlooking the important role of financial capital in business development, Steven W Bradley et al. (2012) reveal that microcredit does not always have direct effects on microenterprises' performance, but this relationship is significant when mediated by the entrepreneurs' abilities to conduct innovation. The easy access to finance brought by MFIs, in some cases, might lead to a decline in business performance in the medium or long term caused by the inability of entrepreneurs to innovate. Instead, they are more likely to make their products slightly different from, or even imitate, the innovators' outputs. While imitating entrepreneurs may at first be justified as market demand is increasing, their continuing entry into the market escalates competitive pressure so that entrepreneurial profit is divided among numerous sellers (Hannan & Freeman, 1984; Schumpeter, 1912). Accordingly, the first hypothesis (H1) is as follows:

Hypothesis 1: The relationship between financial capital and WMEs' business performance will be ambiguous

3.2. Human capital and enterprise performance

Human capital refers to formal education, attitudes, and other human skills and abilities obtained through on-the-job training or business/industrial experiences. Education, a fundamental source of human capital, provides general human capital such as general search skill, foresight, imagination, computational and communication skills, as well as specific skills and knowledge (Parker, 2009), which are prerequisites to the specific human capital associated with on-the-job training. A number of studies show that there might be a positive link between the level of education and business success (Kangasharju & Pekkala, 2002; Pena, 2002).

Beside formal education, expertise is another important dimension of human capital. In a business context, it is shaped by both formal and informal training of skills needed to exploit opportunity (Shane, 2003). Expertise comes from two main sources – internal and external.

With respect to internal sources, family is an important training ground for entrepreneurs. Exposure to family business allows individuals to learn how to start and develop a business through an apprenticeship because many of the skills necessary for decision making are tacitly learned and not codified (Polanyi, 1966). In that way, if individuals have had the opportunity to acquire some business experience through family or close friends, their expertise in evaluating a business opportunity could be greater (Amit, Glosten, & Muller, 1993).

For instance, Caputo and Dolinsky (1998) report that having a self-employed husband is the single most important determinant of a woman being self-employed. Husbands are a source of knowledge and experience, and can also serve as role models for their wives. Other supporting evidence is given by Gimeno, Folta, Cooper, and Woo (1997) that ventures founded by entrepreneurs from families with a history of entrepreneurship are less likely to fail because they benefit from proximity to entrepreneurial role models and emotional support.

With respect to external sources, prior knowledge from training and working experience enable entrepreneurs to increase their effectiveness during information gathering, and offers valuable knowledge about financing and developing their business, and it also raises confidence in opportunity exploration (Begley & Tan, 2001; Cooper, Folta, & Woo, 1995). These allow entrepreneurs greater freedom in exploring new combinations and innovating, as well as equipping them with greater ability to understand and handle business in uncertain conditions leading to improved outcomes (Karlan and Valdivia (2010). Studies also find that expertise from industry-specific experience might be a major determinant of small business success, noting that women are more likely to be disadvantaged (Loscocco et al., 1991).

From a gender perspective, women are likely to have fewer human capital compared to men. They are usually motivated by necessity and are more likely to enter a business without having a history of achievement, occupational training, or experience (GEM, 2010). However, the possession of such experience tends to be a key driver of profitability for WMEs (S. Coleman, 2007). Accordingly, the second hypothesis (H2) is a follows:

Hypothesis 2: Human capital will be positively associated with WMEs' business performance.

3.3. Social capital and enterprise performance

J. S. Coleman (1988) defines the concept of social capital as how the social structure of a group can function as a resource for the individuals of that group, and is embedded in the structure of relations. In an enterprise context, Granovetter (1985) concurs with the idea of embeddedness stating that enterprises are explained by structures of personal relations and networks of relations across and within enterprises. This concept highlights the importance of concrete personal relationships and networks of relationships in a standard economy system. These networks provide access to resources, employment, psychological aid, information and advice (Abell, Crouchley, & Mills, 2001; Hoang & Antoncic, 2003) that can be mobilised to facilitate entrepreneurial actions (Adler & Kwon, 2002).

The benefits of social capital are not only in terms of facilitating access to broader business sources, influences, or to gaining power or controls, but also solidarity that can be transformed into social support from others (Adler & Kwon, 2002). The social supports included in the structures of an individual's social life (e.g. group membership and/or family relationship) and the functions that these structures may serve (e.g. emotional support and instrumental assistance) can be received through the work domain (Allen, 2001) or the family domain (King, Mattimore, King, and Adams (1995). Both domains can be highly interrelated in an entrepreneurial context, since entrepreneurs can more easily transfer or share resources between these domains compared to organisational employees (Powell & Eddleston, 2013).

Strong ties. J. S. Coleman (1988) argues that family is an ideal environment for creating social capital. Indeed, there is a greater likelihood that family and close friends will be socially involved with one another, forming a higher density network of relational lines (Granovetter, 1983).

With respect to strong ties, family support might range from spousal emotional support to employing members of the family. Evidence shows that family support is a key factor in entrepreneurial success for women entrepreneurs; it has positive effects on business survival, sales and profit growth (Bruderl & Preisendorfer, 1998; Powell & Eddleston, 2013).

While entrepreneurs in developed economies often rely on strong ties for establishing an enterprise, particularly for funding, emotional support, and continuing the formation activities (Davidsson & Honig, 2003; Gimeno et al., 1997; Shane, 2003), reliance on strong ties in developing economies has an additional motivation. Greater dependence on family networks or close trust relationships for a wide range of economic activities are required to cope with distrust of institutions and lax enforcement of contracts in developing economies (Humphrey & Schmitz, 1998; Zacharakis, McMullen, & Shepherd, 2007). Moreover, material resource deficiencies commonly occurred in micro enterprises forces entrepreneurs to employ their own family members. In such cases, Cruz et al. (2012) report that employing family members would partly improve business performance for women-led firms, although it could also harm the firm's performance when the firm is the main source of household income. Evidence from India also shows that microcredit provided to women increase household income but only if their spouses are involved in the businesses (Leach & Sitaram, 2002).

Nevertheless, family involvement may not always have a direct positive effect on business performance. In the case of low-asset family firms, family involvement may increase agency costs, for at least two reasons: an apparent lack of formal monitoring systems, and family members' conflicting interests re use of business assets (Dyer, 2006; Tundui & Tundui, 2012).

Weak ties. Weak ties are looser relationships or a lower density of relational networks of individuals beyond family and close friends (Granovetter, 1983). Individual's informal relations with acquaintances and other types of network ties can create social capital through increased communication, information diffusion, and social support (Paxton, 1999). In addition to such informal person-to-person relations, individuals can be tied to others through formal membership in voluntary associations. Accordingly, being a member of an association, such as a microfinance lending group, could be beneficial for women entrepreneurs. In this context, interactions among the group's members provide them with opportunities to develop new or deepen existing social relationships within the group which might yield economic gains and/or provide members with valuable information about opportunities (Anthony (2005). Accordingly, the third hypothesis (H3) is as follows:

Hypothesis 3: Social capital will be positively associated with WMEs' business performance.

4. Research method

4.1. The survey

The data was obtained from a survey, conducted in 2010, of Setya Bhakti Wanita (SBW) microfinance institution (MFI) which operates in the City of Surabaya—Indonesia's second largest city—and its surroundings. With a multi-cultural population of around 2.8 million in 2010, the city is the capital of East Java Province, Indonesia's second most populated province (37.48 million). SBW, in turn, is one of the largest (in terms of membership and total assets) women MFIs in the city. The institution provides both savings and co-guaranteed microcredits and has 379 operating microcredit lending groups with a membership of around 10,900 women. In 2010, it had granted total credit of approximately USD13.4 million (Rp. 133.7 billion) with individual credit of up to USD 2,500 (Rp. 25 million) per member.

In Indonesian, both registered microbusiness owners as well as non-business owners may apply for credit from MFIs. Since the number of business owners is far less than the non-business owners, memberships of MFIs are commonly dominated by non-business owner members, a situation also prevalent at SBW. Of SBW's total women membership of 10,900, only 2000 met the survey criteria of "owns a microbusiness". The 2000 women microenterprise owners made up around 80 lending groups. From each of the 80 groups, two to three members were randomly selected as prospective respondents. The prospective respondents were then initially contacted by phone by SBW on behalf of the researchers for their "voluntary" participation. Of the 230 prospective respondents contacted, only 168 agreed to be interviewed, of which only 130 completed responses were found to be valid for the purposes of the analysis—unmarried respondents, incomplete responses and some outliers were excluded.

Interviews were mostly conducted at the respondent's residence or business place to observe their real-life conditions; occasionally the interviews were conducted at group meetings. The interviewers were local university students, from a final year research methods class. An announcement was made by the convenor about the opportunity to participate in a survey as interviewers. Twenty–five students were selected based on their academic performance and relevant prior experience. The researcher provided training to the students prior to the survey, and supervised them during the survey.

4.2. The variables

Dependent variables. To recap, a primary objective of the study is to understand the business performance of women micro enterprises (WMEs) in Indonesia with respect to a number of independent variables. In this study, "profit" is used to proxy business performance, measured by a respondent's subjective self-reporting of changes in profit across two consecutive years. The reason for settling with the "subjective" response is that micro entrepreneurs in Indonesia tend not to keep proper records their business transactions; quite often they are not properly trained, qualified or otherwise equipped to do so. Subjective self-reported performance as a measure of profit, while not ideal, has been in other studies with reasonable reliability (Anna, Chandler, Jansen, & Mero, 2000; Cruz et al., 2012; Wiklund & Shepherd, 2003).

Independent variables. Consistent with the literature and following Bradley et al. (2012), the key covariates include: financial capital (FCap), human capital (HCap), and social capital (SCap). Financial capital is operationally defined as the current amount of microcredit (loan size) owed by the individual respondent. Human capital consists of education level, family business background and prior work experience. Education level is measured by the level of formal education of the respondents ranging from elementary to university/college. Family business background and prior working experience are dummy variables.

Social capital comprises of strong and weak ties and lending group. Strong ties is the extent of family and close friends involvement in a respondent's business. The terms of the involvement includes participation in discussing business ideas, formal or informal employment or otherwise providing help or support to a business. In addition we include a spousal involvement variable to test if this does, per the literature, have any impact on women micro-entrepreneurs' business success in the case of Indonesia. Weak ties is measured by the extent of business acquaintance (consumers as well as suppliers) involved in the business. Lending group may include both strong and weak ties; in this study, it is separated from both due to the need to capture its role in respondents' business performance. Lending group is the extent of group members in a respondent's lending group.

Control variables. The control variables include change in total assets, competition, number of employees, new products, respondents' age and the length of membership. Change in assets, as a proxy of business expansion, is measured by subjective self-reporting of percentage change in the business assets. Competition measures the respondent's awareness of any competing firms in the surrounding area. Number of employees is the current number of employees working in a respondent's business. New product is a respondent's perception of to what extent she agrees that the product or service she is offering is new to local market. Finally, age is the age of the respondent, and length of membership is the duration for which a respondent had been a member of the MFI. Table 1 explains briefly how the questions were framed to obtain relevant data.

[INSERT Table 1 about HERE]

4.3. Model specification

The dependent variable is defined as follows: 1 = 'decrease', 2 = 'about the same' and 3 = 'increase'. Since the variables are limited and ordinal in nature, OLS technique might not be appropriate (McKelvey & Zavoina, 1975). The Ordered Probit estimation, an extension of the Probit model, is more appropriate for this purposes. The Ordered Probit model recognizes the indexed nature of various response variables; in this application, performance (y_i) is the ordered response.

The estimated models can be written as:

$$y_i^* = x_i'\beta + \varepsilon_i \tag{1}$$

$$y_i = 1 \; if \; y_i^* \leq \alpha_1$$
$$y_i = 2 \; if \; \alpha_1 < y_i^* < \alpha_2$$
$$y_i = 3 \; if \; \alpha_2 < y_i^*$$

where y_i^* is the latent variable of y_i, x_i' represents the covariates and the controls, and ε_i is the error term; it is assumed that $\varepsilon_i \sim NID(0,1)$.

With three possible responses, the implied probabilities can be obtained as:

$$P_1(x_i) = P(y_i = 1|x_i) = \Phi(\alpha_1 - x_i'\beta)$$
$$P_2(x_i) = P(y_i = 2|x_i) = \Phi(\alpha_2 - x_i'\beta) - \Phi(\alpha_1 - x_i'\beta)$$
$$P_3(x_i) = P(y_i = 3|x_i) = 1 - \Phi(\alpha_2 - x_i'\beta) \tag{2}$$

where Φ is cumulative density function of $NID(0,1)$, and $\alpha_1 \; and \; \alpha_2$ are the unknown thresholds estimated jointly with β using a maximum likelihood (ML) approach. When correctly specified, the ML estimation is consistent, asymptotically efficient, and normally distributed (Verbeek, 2012).

5. Empirical results and discussion

5.1. Empirical results

Appendix 1 provides descriptive statistics of the dataset. Table 2 presents the results of the ordered probit models estimating business performance, measured by changes in profit. Model 1 is the baseline control model, while Model 2 predicts profit in the absence of microfinance assistance. Model 3 estimates profit without social capital variables, while in Model 4, human capital variables are omitted from the estimation. Model 5 is the main model encompassing all covariates and controls used in this study.

[INSERT Table 2 about HERE]

At the 5% level of significance, Models 3, 4 and 5 highlight a negative relationship between microcredit or loan and profit. Re Hypothesis 2, as Table 2 shows, profit does not have any significant relationship with either prior working experience or family business background. However, it is significantly linked to education in Model 2 (at the 10% level), Model 3 (at the 5% level) and Model 5 (marginally significant at the 10% level).

Re Hypothesis 3, none of strong and weak ties or lending group is significantly associated with profit. However, spousal involvement shows a significant positive impact on the business performance in Models 2, 4 (at the 5% level) and 5 (at the 10% level).

[INSERT Table 3 about HERE]

Table 3 provides the results of an in-depth analysis of outcome prediction with respect to the three key (significant) covariates, microcredit, education, and spousal involvement. The outcome prediction is obtained based on Model 5, holding all other independent variables at their sample means, microcredit is specified at its 10, 25, 50, 75 and 90 percentiles; and spouse involvement at six different degrees of response from strongly disagree to strongly agree.

The outcome predictions show that, given all other covariates at their means, increase in amount of loan apprears to decrease the probability of profitability. For example, for microcredit at 25 percentile the chance of increase in profit is 50.27% and it drops to 37.62% when the credit increases to 75 percentile. On the other hand, for microcredit at 25 percentile the chance of decrease in profit is 10.71%, and it increases to 17.88% when the credit is at 75 percentile.

Conversely, concerning the respondents’ education, a higher level of education apparently increases the possibility of increase in profit. Assuming the other covariates at mean, the chance of increase in profit is higher for university educated (54.41%) compared to that of Junior High (37.07%) and Senior High (45.63%) educated.

Regarding spousal involvement, the more the women agree the more likely that their firms' profits increase. For example, given other covariates at means, the chance of increase in profit is 26.20% (strongly disagree) versus 56.43% (strongly agree) while the chance of decrease in profit is 27.49% (strongly disagree) versus 8.12% (strongly agree).

5.2. Discussion

Microfinance has been shown to have made key contributions in poverty alleviation programmes in a number of developing economies. It particularly helps the poor cope with their household vulnerability by offering non-collateralised loans that might be used to overcome income shocks. However, the original design of microfinance was actually not to provide loans for non-productive or for consumption purposes, but to help the most needy to establish their own micro business to improve household income. In such cases, previous studies have found conflicting results. Previous studies maintain that microfinance is positively associated with firm performance; our study finds the case to be otherwise.

Our study shows a negative relationship between microcredit (proxy for financial capital) and WMEs' profits (proxy for performance), indicating that higher levels of indebtedness are likely to adversely affect performance. Two main reasons, at least, might explain this result. Firstly, microcredit could improve WMEs' production capacity. However, as women are shown to be typically less-skilled entrepreneurs, their participation in local market is mostly motivated by necessity, not opportunity. Moreover, when initiating a business venture, they were often pushed into entrepreneurship by circumstances beyond their control and therefore are forced to choose from whatever opportunities might be available at that moment (McMullen, Bagby, & Palich, 2008). They must then try to make the best of a given situation and in doing so, often tend to replicate existing products and services, resulting in an increase in the quantity supplied or even over supply of analogous products in the local market. Without any compensating increase on the demand side, this increases competitive pressure in the market, leading to a downward pressure on local prices and individual profits of both new and existing microenterprises (Bateman & Chang, 2012; Davis, 2006)

Furthermore, if individuals are forced into entrepreneurship by lack of other options, they are less likely to make necessary preparations or to have skills and resources that match the opportunity that allows growth of business (Steve W Bradley, McMullen, Atmadja, Simiyu, & Artz, 2011). With regard to preparation, our survey indicates that almost 70% of the total respondents had not made adequate plans before initiating their business, and this could imply undesirable consequences in subsequent periods.

The second reason is that there is a strong indication that the entrepreneurs cannot productively manage credit for business growth and to enhance profitability (Dichter, 2006). Thus, the relatively high interest rate imposed on the credit might burden WMEs especially if the credit cannot be optimally utilised to generate even higher incomes. In addition, women might also use credit for other purposes than business due to their inability to distinctively separate their household consumption and business investment (Parker, 2009). Hence, as has previously been warned by Morduch (1999), access to more credit might lead to greater personal and/or household expenditure rather than business development.

An implication of the above is that microcredit for the purposes of enhancing business performance might not necessarily be a good idea, especially if it is unable to generate higher business returns to cover the relatively higher rate of interest. Thus, it might appear that as a business matures and develops, the volume of microcredit should ideally be reduced, not increased, and replaced by owners' own savings and retained profits, although in the case of microbusiness, Parker (2009) reminds us that entrepreneurs are often unable to distinguish consumption and business investment from their financing decision which makes them prone to risk.

Moving on and more specifically to the implications of this study, with regard to human capital, our study finds that only education level matters for business performance. This finding is consistent with previous findings that firms run by the highly educated individuals are more likely to perform better than those run by the less educated individuals (Kangasharju & Pekkala, 2002; Pena, 2002). On the other hand, the insignicant impact of family business background on business performance suggests that an entrepreneur's parents/families might not have successfully transmitted entrepreneurial skills to their offspring, or that the transferred skills have not been relevant.

Regarding social capital, this study reveals statistically insignificant relationships between WMEs' performance and both strong and weak ties; however, spousal involvement is significantly correlated with profit. The size of family networks and the number of business acquaintances do not seem to have much impact on profit growth, but spouse (husband) involvement clearly shows strong contribution to business success. This might be because spousal involvement not only gives women less expensive employee, networking, and training, but also provides them with emotional support assisting the women who often desire for synergy between work and family (Bird & Brush, 2002; Brush, 1992).

This finding is consistent with previous findings by Leach and Sitaram (2002), who report that spousal involvement has a positive contribution to women's microbusiness in India. In light of this, although there is always a risk of increase in agency costs (Dyer, 2006; Tundui & Tundui, 2012), it might be useful for policy makers to contemplate providing incentives for spouse involvement in microenterprises run by women.

Moreover, non financial factors such as spousal involvement and women's level of education might also become useful indicators for microfinance institutions to predict the chance that the credit will be productively utilised by the borrowers to improve their business performance. These factors could be considered particularly in designing credit policies, which is able to deliver the credit effectively and minimise the credit risk.

Finally, a microfinance lending group is commonly expected to enhance harmony among its membership and help members broaden social networks, which benefit their business. However, our findings show that although positive, the relationship between lending group and business performance is not statistically significant. This might be due to the fact that women's involvement in lending groups is simply and pragmatically motivated by access to credit. During the interview, when the respondents were asked to rank (from 1 to 5, and 1 being the most) the time typically spent in a group meeting for discussing personal issues, loan repayment, business ideas, spiritual issues and community news, around 88% of the respondents positioned loan repayment issues at the top rank (rank 1). This indicates that conversations among members during the group's meetings are dominated by loan repayment issues, leaving very little time for members to talk with about their business, the chance of exchanging and gaining valuable information about business opportunities and ideas are rather limited.

Literature suggest that, as a manifestation of weak ties, a lending group could provide alternative sources of information that might not be directly available to a particular individual. Access to this additional information can be combined with current knowledge to discover or create non-obvious opportunities in the market (Shepherd, McMullen, & Jennings, 2007). Consequently, activities in the group meetings should not be limited by loan repayment discussion only, but should be extended to facilitate members to engage in business-related conversations and to develop new or deepen existing social relationships within the group. The ability of loan officers, as the representatives of microfinance institutions, and group leaders to facilitate such conversations appears important.

6. Conclusion

While microfinance has been shown to have made considerable progress in making financial resources available to the bottom segments of the society, to women, in particular, offering them an opportunity to improve their living standards, despite a long history in Indonesia, one of the most populous and poverty challenged economies in the world, the role of microfinance and its impact on Indonesia's women microenterprises (WMEs) remains little known. This study apparently fills this huge gap in the literature.

Specifically, this study provides the first in–depth understanding of the role of financial, social and human capital in the performance of WMEs. A survey of 168 WMEs in Surabaya, the second largest city in Indonesia, was conducted and the data was analysed using the ordered probit regression technique. Results show that financial capital may not necessarily influence business success—a negative relationship is found between financial capital and performance. On the other hand, a positive relationship is noted between performance and levels of education, and between performance and spousal involvement indicating that these variables might be more important than just microcredit for successful operation of WMEs in the case of Indonesia.

Future studies might involve a larger, more heterogeneous sample size, from a different part of Indonesia. It might also involve a deeper explanation of the relationships noted in this study, for example, why loan size has a negative effect on profit, whether applying alternative credit schemes (e.g. individual credit scheme) instead of lending group credit scheme might affect business performance differently, in what ways do spousal involvement benefit WMEs' business performance and whether the findings apply also to male–headed micro businesses. In the meantime, this study provides useful research–based findings for relevant policy development in Indonesia which might also be relevant for other developing economies.

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Table 1: Description of variables

Variables	Questionnaire Questions
Profit	Compared to last year, have your profits (revenues after expenses are paid) in your business (circle one): increased, decreased, or stayed about the same? Answer: decrease = 1 , about the same = 2 , increase =3
Microcredit (*Fcap*)	What is your current loan amount (in millions rupiah)?
Education	What is the highest grade/level of school you have attained? Answer: Elementary = 1 , Junior High = 2 , Senior High =3 , University = 4
Prior working experience	Did you have prior working experience with the type of business you started? Answer: (YES = 1 , No = 0)
Family business background	Did your parents ever work for themselves or run their own businesses? Answer: (YES = 1 , No = 0)
Strong ties	Approximately, how many family members or friends have been involved in your business?
Weak ties	Approximately, how many business acquaintances (i.e. consumers and suppliers) have been involved in your business?
Lending Group	How many people are in your lending group?
Spousal involvement	How much do you agree with statement that “I have found ways to get my husband/wife involved with my business”? Answer: (1.Strongly disagree...................7. Strongly agree)
Change in assets	Compared to last year, by how many percentages approximately have the assets (equipment/ materials) used by your business changed?
Competition	Are there any competitors who sell the same product/service in your area? Answer: (YES = 1 , No = 0)
Number of employees	How many people are employed by your business?
New product	How much do you agree with statement that “the product or service I am offering is new to the local market?” Answer: (1.Strongly disagree ....7. Strongly agree)
Age	What is your age?
Length of membership	When (in what year) did you become a member of the microfinance institution?

Table 2: Ordered probit estimation results

Variables	Change in PROFIT									
	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coef	SE	Coef	SE	Coef	SE	Coef	SE	Coef	SE
Financial capital										
Microcredit					-0.0634	0.0271**	-0.0707	0.0270**	-0.0645	0.0275**
Human capital										
Education			0.2489	0.1329*	0.2770	0.1309**			0.2204	0.1344*
Prior working experience			-0.2391	0.2225	-0.0711	0.2205			-0.1043	0.2333
Family business background			0.1397	0.2247	0.0088	0.2197			0.0755	0.2274
Social capital										
Strong ties			-0.0300	0.0520			-0.0091	0.0525	-0.0138	0.0536
Weak ties			-0.0101	0.0107			-0.0131	0.0107	-0.0118	0.0108
Lending group							0.0193	0.0140	0.0171	0.0146
Spousal involvement			0.1485	0.0702**			0.1419	0.0696**	0.1332	0.0719*
Business control										
Change in assets	0.0250	0.0059**	0.0244	0.0061**	0.0253	0.0060**	0.0256	0.0062**	0.0254	0.0062**
Competition	0.2836	0.2150	0.4032	0.2305*	0.3549	0.2213	0.5284	0.2341**	0.4968	0.2369**
Number of employees	0.0576	0.0481	0.0297	0.0500	0.0622	0.0491	0.0436	0.0502	0.0391	0.0506
New product	-0.0472	0.1080	0.0335	0.1166	-0.0055	0.1113	0.0832	0.1185	0.0706	0.1197
Individual control										
Age	-0.0136	0.0129	-0.0031	0.0138	-0.0052	0.0135	-0.0024	0.0133	0.0011	0.0139
Length of membership	0.0139	0.0162	0.0166	0.0170	0.0349	0.0182*	0.0260	0.0185	0.0294	0.0189

Notes: Unstandardized coefficients and standard error are presented. Number of observation (n) = 130. *p<0.10; ** p<0.05

Table 3: The analysis of outcome prediction

Variables	Outcomes		
	Decrease in profit	Relatively no change in profit	Increase in profit
Microcredit : (at different quantile)			
10%	0.0589	0.3122	0.6289
25%	0.1071	0.3902	0.5027
50%	0.1195	0.4035	0.4770
75%	0.1788	0.4450	0.3762
90%	0.2145	0.4571	0.3284
Level of education:			
Elementary	0.2467	0.4623	0.2910
Junior High	0.1827	0.4467	0.3707
Senior High	0.1302	0.4135	0.4563
University	0.0891	0.3668	0.5441
Spousal involvement :			
Strongly disagree	0.2749	0.4631	0.2620
Moderately Disagree	0.2323	0.4606	0.3071
Slightly Disagree	0.1937	0.4510	0.3554
Neither Agree nor Disagree	0.1592	0.4347	0.4061
Slightly Agree	0.1291	0.4125	0.4584
Moderately Agree	0.1031	0.3854	0.5115
Strongly Agree	0.0812	0.3545	0.5643

Appendix 1: Statistic description of variables

	Loan	Education	Prior working experience	Family business background	Strong ties	Weak ties	Lending group	Spousal involvement	Change in assets	Competiti on	Number of employees	New product	Age	Length of member ship	Profit
Mean	11.28	3.15	0.40	0.53	1.99	7.64	31.67	5.22	5.31	0.63	2.48	2.00	47.95	10.25	2.30
Standard deviation	4.43	0.84	0.49	0.50	2.10	9.52	8.07	1.68	20.50	0.48	2.28	0.99	8.60	6.92	0.75
Max	30	4	1	1	10	50	50	7	60	1	10	7	66	29	3
Min	0.75	1	0	0	0	0	16	1	-75	0	0	1	30	1	1
Observations	130	130	130	130	130	130	130	130	130	130	130	130	130	130	130

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14-Apr-2015

Dear Mr. Atmadja:

It is a pleasure to accept your manuscript entitled "Examining the impact of microfinance on microenterprises performance (Implications for women-owned micro enterprises in Indonesia)" in its current form for publication in International Journal of Social Economics. The comments of the reviewer who reviewed your manuscript are included at the foot of this letter.

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Sincerely,
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Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Accept

Comments:
Over all the paper is well written and make sense to the reader. The logical flow of argument is also clear that makes the paper suitable for publications.

Additional Questions:
1. Originality: Does the paper contain new and significant information adequate to justify publication?: Yes

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: There is good amount of literature. however many references are quite old while there is plenty of research over period of time. No Significant amount of work is ignored.

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