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# Table of Content

<b>Investigating the driving forces of the formation of Chinese born global firms</b> Xi Chen	61
<b>Challenges small and medium enterprises (SMEs) face in acquiring loans from commercial banks in Tanzania</b> Nassoro Gassiah* and Jaraj Kikula	74
<b>Disruptive thinking in social entrepreneurship: Challenges and effectiveness</b> MK Agarwal*, and Selma Ndiwakalunga Mulungal	82

*Full Length Research Paper*

# Investigating the driving forces of the formation of Chinese born global firms

Xi Chen

Business School, China University of Political Science and Law, China.

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The traditional internationalization process theory posits that firms expand to overseas market after solid domestic firms' experience. However, from the 1980s, we witnessed a breed of young entrepreneurial firms, which took on internationalization early in their evolution. They are called 'Born Globals'. This study presents an integrative conceptual framework and identifies the underlying driving forces of the formation of Chinese born global firms. Specifically, this paper employs a quantitative survey research method to examine the driving force of the formation of Chinese born global firms. It traces the phenomenon to market level driving forces, company level factors, together with entrepreneur or manager level antecedents that triggered the formation of Chinese born global firms. It applies logistic regression analysis to explore and identify different driving forces. The main findings are threefold: firstly, stronger host country customer demand and stagnated domestic market growth lead to the formation of born global firms. Secondly, more international business trip experience, conference experience and relevant industry experience of founders or high level managers give rise to greater possibility of the occurrence of born global firms. Thirdly, the more globally committed the firms are to overseas market, the more likely for them to become born global firms.

**Key words:** China, born global firms, driving forces, small to medium-sized enterprises, entrepreneurship.

## INTRODUCTION

According to the traditional viewpoint of internationalization described in the Uppsala internationalization model, firms have the ability to go into global market, to survive and even thrive only after accumulating market experience in domestic market (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). However, in contrast to this increased internationalization process, the recent 20 to 30 years witness the rise of a new class of start-ups that span international borders right at birth. These breeds of start-

ups are called born global firms (Hedlund and Kverneland, 1985; Rialp et al., 2005) or international new ventures or born internationals. Born global firms are business organizations of any size or with experience or resources that, from inception, can participate actively in cross-border trade. They seek to derive significant competitive advantage from the use of resources and the sale of outputs to multiple countries (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996; Fan and Phan, 2007; Cavusgil and Knight, 2015). This born global

E-mail: [45706582@aa.com](mailto:45706582@aa.com).

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phenomenon approach triggered empirical and conceptual studies that make up the overwhelming majority of extant born-global literature (Knight and Cavusgil, 1996; Madsen and Servais, 1997; Bell et al., 2001; Moen and Servais, 2002; Knight et al., 2004; Knight and Cavusgil, 2004; Gabrielsson, 2005; Rialp et al., 2005a, b; Freeman et al., 2006, 2010; Lopez et al., 2009; Madsen, 2013; Paul and Gupta, 2014; Cavusgil and Knight, 2015; Falahat et al., 2018). Born-global firms are becoming predominant and this phenomenon continues to evolve.

The choice of entry mode decision of born global firms could be attributed to multiple factors. Researchers will naturally raise the question why these born global firms have the drive to go global so fast. The decision for firms to initiate exporting quickly must be triggered by some antecedents or forces. Although there are a number of studies and a growing body of literature on born global firms, the past research has mostly concentrated on BG phenomenon in small, open developed economies like Sweden, Finland (Nummela et al., 2014), Danish, Israel (Gabrielsson et al., 2008; Nummela et al., 2014), Belgian (Sleuwaegen and Onkelinx, 2014), Ireland (Nummela et al., 2014), where firms suffer from domestic market stagnation and also on large developed economies like UK, New Zealand or Australia (Chetty and Campbell-Hunt, 2004; Knight and Cavusgil, 2004). The Born Global phenomenon of developing economies, especially emerging and transitioning economies which just opened to foreign world like China is not investigated.

China appears to be a more and more important emerging market. The investigation of the exporting stimuli of Chinese exporters is interesting and important, which will largely augment the export marketing knowledge. The question whether there are born global firms in China, and what drives their formation has not been sufficiently handled. Furthermore, due to the explorative nature of the studies, majority of them on born global firms have always relied on qualitative study methodology, such as longitudinal case analysis, multiple comparative case studies; no research has addressed this emerging phenomenon with application of quantitative survey method. The examination of the antecedents of the formation of born globals remains fragmented (Knight and Liesch, 2016). Some identified internal antecedents alone such as knowledge and international commitment (Cannone and Ughetto, 2014), international entrepreneurial culture like risk, international motivation, proactiveness (Gabrielsson et al., 2014). While, other studies have explored the role played by external antecedents such as market demand and market size, rather than adopting a broader analysis that incorporates both internal and external influences together. This means there is still no comprehensive framework that has determined the formation of born global firms.

As a response to the above limitations, the current study attempts to give insight into the antecedents of the

internationalization of Chinese born global companies. Specifically, the current study seeks to answer the question: what factors drive firms to choose fast internationalization process and therefore give rise to the birth of the new born global firms? This paper answers it by exploring the following detailed research questions:

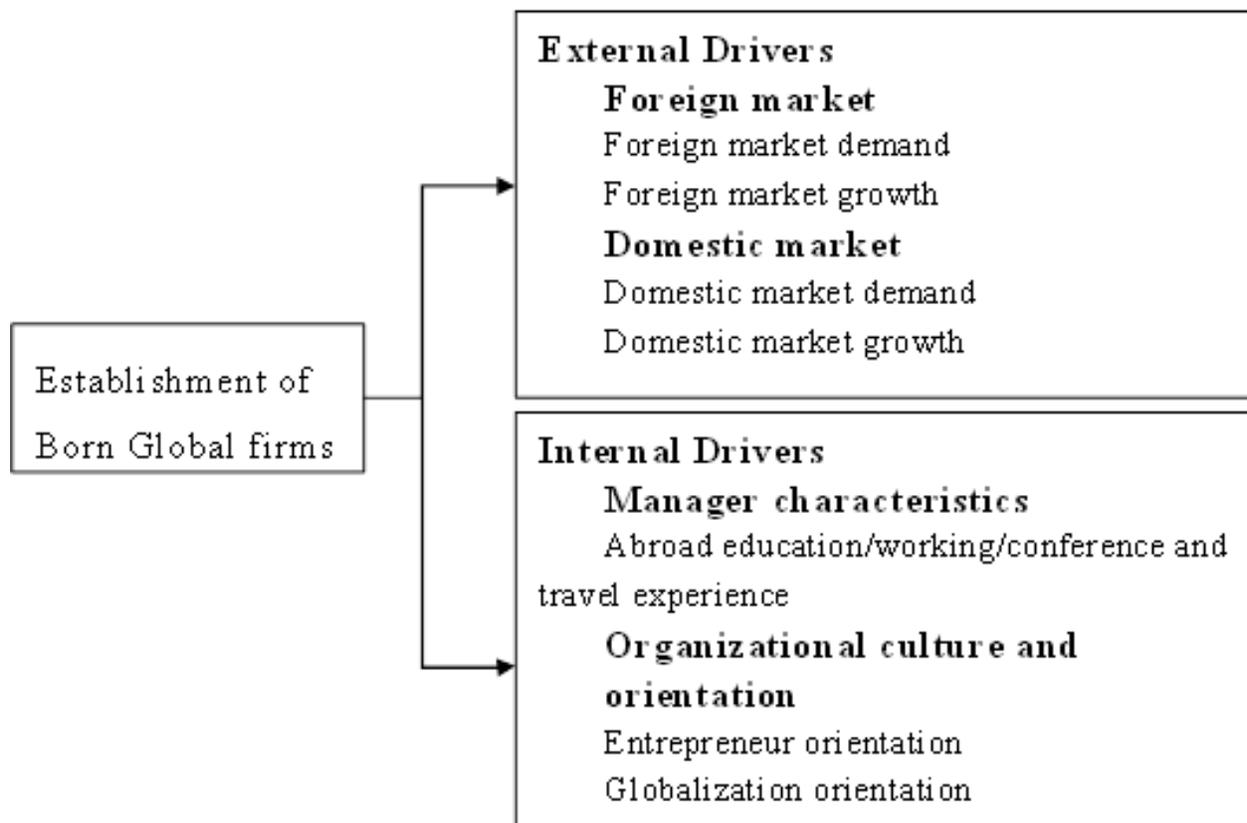
RQ1: What market level environments cultivate these start-ups?

RQ2: What organizational cultures lead to born globals' early adoption of globalization?

RQ3: What managers' characteristics nurture their expansion into overseas at birth?

The answer to these questions helps to better understand the new traits of these new emerging firms, provides significant managerial guidelines as what factors to improve in order to foster the firms to internationalize early, and provides necessary support in different ways to help them step up into international market place and achieve superior performance. To the best of our knowledge, this is one of the earliest studies evaluating the formation mechanism of born global firms using quantitative survey method from emerging economies-China in the international arena. In particular, the current study aims to contribute to born global literature by building a systematic theoretical framework to investigate the driving forces of Chinese born global firms drawing upon IO (Industry Organization) theory and RBV (Resource Based View) theory. The current study creatively builds up two by two matrix using export speed and export intensity as two dimensions to classify Chinese exporters into born global firms and conventional firms. In particular, we define the threshold of export speed as 'the time span between firms' birth and first time export is less than three years', and define export intensity as 'export sales ratio out of firms' total sales'. Therefore, firms which meet the 'speed and intensity' two criteria at the same time are born global firms, that is, firms who realize an export sales taking more than 30 percent of total sales within three years of their inception are implementing an accelerated internationalization, hence are born global firms.

Our analysis demonstrates that the decision by firms to internationalize early or not is firstly determined by domestic and foreign market conditions. Second, we find that managers' characteristics to a very large extent help predict a firm's choice between fast or incremental internationalization paths. Third, the results provide strong evidence that firms that are committed more to global market are more likely to become born globals. The rest of the paper is organized along the following lines. In the second section, we review past literature, develop conceptual framework and the theoretical background; propose the hypothesis of born global firms. In the third section, we introduce data collection process and born global selection procedure. In the fourth section which is



**Figure 1.** Conceptual framework of driving forces of Chinese born global firms.

empirical study part, we propose the model setup, present empirical results and discuss its managerial relevance. Finally, we review research findings, raise managerial implication of the study and discuss research limitations.

## LITERATURE REVIEW AND HYPOTHESIS

### Conceptualization

Two streams of economic drivers for internationalization can be traced to firms' external factors and internal characteristics (Zou and Cavusgil, 1996, 2002). For example, in Zou (1994)'s study on the driving forces of firms' internationalization strategy, the external and internal conditions of firms act as antecedents. Freeman et al. (2006) also reported that internal and external factors are the driving forces for firms to expand to overseas market. This paper uses this classification to examine the driving forces of Chinese born globals. For external factors, we consider domestic and foreign market environment; for internal factors, we consider managers' characteristics and organizational characteristics. Figure 1 shows the integrated conceptual

framework.

### Driving forces of born global formation

#### *External drivers- the IO theory*

The Industrial Organization Theory (IO Theory) states that firms' actions are determined by the external environments they are exposed to. External environments largely have impact on the speed and span of firms' internationalization. From the perspective of direction of influencing power, there are two broad external factors: the pull force from foreign market and the push force from internal market (Knight, 1997). Demand in overseas market is one key dimension of pull force from foreign market. The strong demand of foreign manufacturers for Chinese firms' products and service forms a pull power that fosters Chinese firms' overseas business activities. As noted in past studies, increasingly rising global demand acts as key element that encourages the export of companies (Oviatt and McDougall, 1995; Rialp et al., 2005). Also, on the other hand, the improved overseas market conditions strengthen firms' interest and commitment to international

boundaries (Rhee and Cheng, 2002). A push from domestic market is characterized by limited market potential or stagnated development. The restrained home market pushes firms to switch to seek foreign market opportunities. As noted by Caves (1982), the reason firms quit domestic market for overseas expansion is largely driven by the saturated home market, slim chance to diversify business units, downturn investment return. In contrast, there is large market waiting to be exploited. Aaby and Slater (1989), McNaughton (2000), Johnson (2004) and Chen et al. (2011) found that adverse domestic market conditions will stimulate enterprises to pursue export business.

In Moen (2002)'s empirical examination on Norwegian SME, he confirms the same statement. Born global firms perceive export market to be more attractive than home market; this stimulates an accelerated internationalization process. In addition, born global firms perceive saturation out of home market, which reversely urges the enterprises to slowly develop the domestic market, and actively expand export business. Gerschewski et al. (2015) also state that the external environment has been considered primarily in terms of factors that facilitate the development of born globals (Madsen and Servais 1997). Market attractiveness- both domestic and export- has also has great weight as triggers; home market unattractiveness and export market attractiveness are significantly higher for born globals than for other exporters.

Hence, we anticipate that in Chinese market:

H1: All other things being equal, the larger the demand and the higher the growth rate of foreign market, the more likely will a new venture choose to go international at inception.

H2: All other things being equal, the smaller the demand and the lower the growth rate of domestic market, the more likely will a new venture choose to go international at inception.

### **Internal drivers- the RBV theory**

The resource-based view (RBV) (Penrose and Penrose, 2009; Rumelt, 1984; Teece and Pisano, 1994; Wernerfelt, 1984) offers perspective to understand why some firms initiate foreign market entry early while others pursue an incremental approach. Recent research highlights the importance of studying the role of resources and capabilities of the BG firms (Laanti et al., 2007; Jones and Coviello, 2005; Knight and Cavusgil, 2004; Moen and Servais, 2002). Consistent with this, we analyze key enabling resources and capabilities that facilitate the firms' internationalization process in their early years. According to Bloodgood et al. (1996), the capability for small-medium sized firms to enter overseas market is

closely linked to their accumulated tangible and intangible resources. The more important, inimitable, irreplaceable resource accumulated, the more firms are likely to be more competitive; therefore more prone to pursue fast internationalization. These intangible resources include firms' knowledge, skill, managing experience, organizational culture, globalization orientation etc. (Wernerfelt, 1984). To a large extent they determine firms' choice between gradual or accelerated globalization.

### **Managers**

A rising number of studies explore the relationship between firms' globalization and managers' characteristics, a key intangible asset of firms (Cavusgil, 1980; Aaby and Slater, 1989; Zou and Stan, 1998; Westhead et al., 2001). McDougall et al. (1994) stated that the critical factor that makes born global firms to start internationalization right after their establishment is because they possess founders or managerial teams which have special internationalization capability and experience. This enables firms to be willing to and be able to co-align resources to achieve competitive advantage at early state of birth. Many studies have found this statement to be right (Andersson and Wictor, 2003; Crick and Jones, 2000; Crick and Spence, 2005; Sharma and Blomstermo, 2003). Jolly et al. (1992), Madsen and Servais (1997), and Knight and Cavusgil (2004) found that managers of born global firms relatively have more foreign experience than conventional firms. These managers therefore do not perceive domestic market as the single stage for firms to grow and thrive; they instead consider global market as an extended marketplace to draw firms' future, perceive abroad as larger market possibilities. Prior experience and knowledge shorten the psychic distance between firm and its target market; this furthermore decreases uncertainty and risk of operating abroad. In the study by Madsen and Servais (1997), evidence shows managers with rich foreign experience like to operate firms in international competition environment more.

When we look at the components of international experience, it consists of multiple forms, used to live abroad, work abroad, receive education abroad. All these contribute to the fast internationalization. In Chen et al. (2009a)'s case study on four Chinese born global firms, they found one case firm, a high technology firm globalized fast because its founder and managers were educated abroad and had worked in the same industry in foreign country. These two forms of international experiences gave them solid business network and familiarity with foreign market environment. In Bloodgood et al. (1996)'s study on American SME, the findings indicate that firms have higher tendency to become born global if their top level managers have more global work experience in the past. Chen et al. (2009b) also

discovered in their case study that an electronic-electric company they conducted interview with started exporting within the first few years of birth because the managers had many chances of undertaking business trips; he attended any international expo and exhibition and got to know many business partners abroad. This made the managers to seek overseas' opportunities. Besides various forms of international experience, work experience in the same industry also plays an important role (Madsen and Servais, 1997). Past work experience of the managers facilitates further development of the new firm and brings together more business opportunities and industry knowledge (Crick and Jones, 2000; Sharma and Blomstermo, 2003). Based on the above argument, we therefore propose the hypotheses that:

H3: All other things being equal, the more overseas education managers of a new venture receive, the more likely it will choose to go international at inception.

H4: All other things being equal, the more overseas work experience managers of a new venture have, the more likely it will choose to go international at inception.

H5: All other things being equal, the more overseas business trips managers of a new venture undertake, the more likely it will choose to go international at inception.

H6: All other things being equal, the more work experience in the same industry managers of a new venture have, the more likely it will choose to go international at inception.

### Organizational culture and orientation

In RBV theory, organizational culture and orientation is another important intangible asset. It presses firms to conquer their limitation and shortage, and to start fast global operation (Young et al., 2003). In the current study, we particularly concentrate on four organizational cultures or orientations to examine the driving forces of Chinese born global firms; they are risk taking ability, proactiveness, international vision and commitment. When firms choose to leave the moist soil of domestic market and foray into a complex and volatile international market, they often need great courage. Entrepreneurial orientation is a construct that best measures this courage and spirit. Entrepreneurial orientation describes a scenario that firms leap fast toward international market driven by unique entrepreneurial competence or vision (Autio et al., 2000; Knight and Cavusgil, 2004; Jiang et al., 2018). Many researchers pointed out that born global firms have very ample entrepreneurial orientation, which drives firms to recognize foreign opportunity and exploit foreign market aggressively (Covin and Slevin, 1989; Dess et al., 1997; Knight and Cavusgil 2004; Ruokonen and Saarenketo, 2009; Su and Wang, 2018; Covin and Wales, 2019). Strong entrepreneurial orientation supports the dynamic investigations and proactive attitude to seek

opportunities in a foreign market (Aziz and Hameed, 2019). Entrepreneurial orientation consists of two dimensions: risk taking ability and proactiveness (Kuivalainen et al., 2007). These two provide us a window to understand how firms conquer fierce competition and face volatile environment.

Risk taking is the degree at which firms are still willing to endure risks and pursue opportunity in the face of making risky decision, or firms insisting in investing their resources despite the possibility of them failing (Miller and Friesen, 1982). Studies have found that most born global firms are very aggressive and risk seeking rather than risk averse or conservative firms (Oviatt and McDougall, 1997; McDougall and Oviatt, 2000). Proactiveness refers to an attitude to focus on potential opportunities, seek first move advantage and take advantageous position (Lumpkin and Dess, 1996; Kuivalainen et al., 2007). Born global firms are more proactive than conventional firms. Consequently, we hypothesize that:

H7: All other things being equal, the more risk taking a new venture is, the more it is likely to choose to go international at inception.

H8: All other things being equal, the more proactive a new venture is, the more it is likely to choose to go international at inception.

Global orientation portrays an organizational orientation that a firm's focus on global opportunities actively increases its commitment to exploit foreign market. Consistent with Knight (1997)'s study, we particularly consider two sub constructs: the international vision and commitment to foreign market. International vision is firms perceiving foreign market as not different from domestic one (Knight, 1997; Moen and Servais, 2002). The stronger a firm's international vision, the more it is prone to actively look for overseas opportunities. This urges firms to increase speed to internationalize. It therefore make firms more likely to become born global firms (Hu and Chen, 2007). Based on this discussion, we hypothesize that:

H9: All other things being equal, the stronger the international vision of a new venture, the more it is likely to choose to go international at inception.

Commitment denotes firms' investment of their financial and human resources in international market. Stronger commitment reflects a more determined attitude toward opening international business (Aaby and Slater, 1989; Cavusgil and Nevin, 1981) and an ambition. The more resources firms involve in foreign market, the more they will likely begin foreign operation. We therefore hypothesize that:

H10: All other things being equal, the more committed a

new venture is to international market, the more it is likely to choose to go international at inception.

## METHODOLOGY

### Data collection and sample

#### *Procedure*

We examine the hypotheses using Chinese exporting manufacturers. Respondents in the study are the export marketing managers, senior executives of the export department or even owners of the firms. These managers are directly involved in the daily exporting business of their companies; they are familiar with exporting strategy and their firms' export performance. In order to increase generalizability, the sampling frame is a cross-section of companies in 37 industries. We obtain the data through mail surveys to Chinese export manufacturers. Firms are identified from a popular commerce website Alibaba and the Directory of Foreign Economic and Trade Enterprises of China, a large database collected by Ministry of Commerce of the People's Republic of China.

We tested the content validity and clarity of measures using in-depth interviews with 12 export marketing managers. We modified a few items based on their feedback. We searched the yellow page of Alibaba and collected the company's information of various industries such as chemistry, electronics, automobile, fabric so on. Altogether, 800 Chinese exporting firms were collected. An invitation email and phone call were sent first specifying that respondents should be expert in export of the firms. We invited them to participate in the survey. After receiving feedback that shows willingness to participate, a cover letter and questionnaire were mailed to the export marketing managers, followed by a reminder note and copy of the questionnaire. Survey was sent to 800 Chinese exporting manufacturers. After deleting undeliverable copies and incomplete copies, we eliminated 41 sample firms which are trading firms or foreign owned companies; finally 155 questionnaires were usable, yielding a response rate of 19.4%.

A comparison between the responding and non-responding firms using MANOVA indicated that in terms of key firms' characteristics, there were no significant differences between the early and late respondents. This shows that non-response bias is not a major concern. In order to double check our sample's representativeness, we compare our samples with manufacturing census database from National Bureau of Statistics of China. The result shows a good representativeness of our sample for the whole Chinese exporting companies nationwide.

The sample distribution is as follows: regarding scale of firm, 38.6% of our sample have scale of less than 100 employees, 32.7% firms have a 100-500 employees scale, 11.8% has 500-1000 employees, 12.6% has 1000-5000 employees, 3.4% has more than 5000 employees. The distribution of firm's sales within the recent one year is: 37.7% of firms have sales less than 20 million, 14.2% have sales between 20 to 50 million, 11.32% firms enjoy sales between 50 to 100 million, 12.26% between 100 to 500 million, and 24.53% with more than 500 million. The distribution of export ratio out of total sales within the recent one year is: 8.11% of firms have export ratio less than 10%, 18% has ratio between 10 to 30%, 12.6% of firms stay between 30 to 50%, 9.9% of firms with 50 to 70%, leaving 51.4% firms larger than 70%.

#### *Born globals filter*

From the 155 usable samples, we filter out the BG firms based on

the speed-intensity 2 by 2 matrix proposed by Chen et al. (2009a): Firms initiate export business within 3 years of their establishment and export takes no less than 30% of total sales revenue. Using this matrix criterion, it yields 79 BG firms, leaving 76 conventional firms.

### Measurement

Most of the constructs were adopted from past literature. We translate them into Chinese and make some necessary modification. In order to verify the accuracy of scale translation, we conducted back-translation from Chinese to English. All multiple-items measurements used in the study apply 7 point scale ranging from 1 ("strongly disagree") to 7 ("strongly agree"). The questionnaire has three parts. The first part measures market conditions of external and internal environments using 4 items. Part two investigates managers' information by asking a multi-item construct. Part three examines 4 constructs composed of 9 items about organizational culture. We had control for industry using year of birth, international experience, firm size, state of ownership. In order to generalize, industry is not narrowed to a particular one; we use industry dummy to control industry effect. The one item international experience measures exporter's experience in the international market. Firm size is measured with one item scale regarding the number of employees in the firm. Ownership is measured by presenting respondents different types of firm ownership to choose. Next we introduced the measurement of each construct and item. Measurement of external environments comes from the literature (Zou and Stan, 1998; Cavusgil and Zou, 1994; Aaby and Slater, 1989).

#### *Domestic market and foreign market*

We adopt measures of domestic and foreign market from previous literature (Zou and Stan, 1998; Cavusgil and Zou, 1994; Aaby and Slater, 1989). We ask respondents the market growth rate and market demand in domestic and foreign market, respectively.

#### *Prior experience of managers*

We asked the respondents the following: if they received education abroad; used to work abroad; used to have business trips abroad; used to work in other firms in the same industry.

#### *Entrepreneurial orientation*

We used the measurement of Knight (1997), Moen and Servais (2002) and Knight and Cavusgil (2004).

#### *Risk taking ability*

It was measured with two items: managers prefer mature products and service to new developed ones; managers like firms to develop in a gradual manner.

#### *Proactiveness*

This is measured with the following two items which describe the degree to which firms have proactive orientation or culture: firm has an organizational culture to actively develop international market; we are willing to take risks and make bold decisions in international business.

**Table 1.** Pearson’s correlation matrix for variables.

S/N	Variable	1	2	3	4	5	6	7	8	9	10	11	12
1	Foreign market demand	1											
2	Foreign market growth rate	0.21	1										
3	Domestic market demand	0.18	0.11	1									
4	Domestic market growth rate	0.08	-0.14	-0.14	1								
5	Education managers received abroad	-0.04	-0.01	0.04	0.0009	1							
6	Managers’ working experience abroad	0.07	-0.08	-0.04	0.0065	0.04	1						
7	Managers’ business trips abroad	0.16	0.05	-0.09	0.03	-0.16	-0.02	1					
8	Managers’ working experience in same industry	0.08	0.18	0.03	0.10	-0.21	-0.27	-0.44	1				
9	Risk taking ability	0.07	0.07	0.12	0.02	-0.08	-0.01	0.12	0.09	1			
10	Proactiveness	0.04	0.21	0.05	0.12	-0.01	-0.02	0.09	0.11	0.30	1		
11	International vision	0.17	0.20	0.10	0.03	-0.06	-0.11	0.12	0.16	0.29	0.66	1	
12	Commitment	0.16	0.20	0.02	-0.07	-0.02	0.11	0.01	0.11	0.28	0.59	0.47	1

**International vision**

We measure this construct using three items: we see the world as our firms’ marketplace; it is firms’ mission to exploit international market; conduciveness of our firm’s culture for actively exploring opportunities abroad.

**Commitment**

We ask respondents how they agree on the following statement: we commit sufficient financial resource into international market; we commit sufficient human resources into international market.

**REGRESSION ANALYSIS**

**Validity and reliability**

Reliabilities for multiple itemed scales are presented in Table 2. The estimated reliabilities

for the constructs were high, all surpassing 0.72. We present construct means, standard deviations, and correlations in Table 1. We apply full-information maximum-likelihood techniques in LISREL 8.8 (Jöreskog and Sörbom 2006) to assess model fit, factor loadings, measurement errors and correlations of and between each construct. The overall minimum fit function chi-square for this model is 40.71 (P=0.0061). The comparative fit index (CFI) and the incremental fit index (IFI) is 0.99 and 0.98, the non-normed fit index (NNFI) is 0.97. The root mean square error of approximation (RMSEA) is 0.073, implying a satisfactory fit of the model. For convergence validity, factor loadings and measurement errors are in acceptable ranges which provide evidence of convergent validity. For discriminant validity among the constructs, based on Fornell and Larcker (1981), every pair of latent factors passes this test, hence shows good discriminant validity.

**Model setup**

We propose a regression model to examine the main questions of this paper. A binary logit model was used because the dependent variable, status of the Chinese firms, born global or conventional global, is dichotomously defined; the dependent variable takes on the value 1 if firms are born globals, and 0 if firms are conventional globals.

For the independent variable, since the inquiry probes into what factors drive firms to be born global, we explore three groups of underlying mechanism, external factors including domestic and foreign market as the first group, managers and organizational culture or orientation as the second group of drivers. We also control for firms’ demographic information.

Hence, the proposed model is specified as:

$$\begin{aligned}
 P(BG)_i = & \alpha + \beta_1 HSTDEM_i + \beta_2 HSTGRH_i + \beta_3 HMEDEM_i + \beta_4 HMEGRH_i \\
 & + \beta_5 MGR_{1i} + \beta_6 MGR_{2i} + \beta_7 MGR_{3i} + \beta_8 MGR_{4i} \\
 & + \beta_9 RISK_i + \beta_{10} PRAT_i + \beta_{11} VISION_i + \beta_{12} CMTT_i + \varepsilon
 \end{aligned}
 \tag{1}$$

**Table 2.** Measurement of constructs, factor loadings and reliability.

Scales	Measurement	Factor loadings	Cronbach Alpha
<b>Entrepreneurship orientation</b>			
Risk taking ability	Managers prefer mature products and service to new developed ones	0.67	0.73
	Managers like firms to develop in a gradual manner.	0.83	
Proactiveness	Firm has an organizational culture to actively develop international market	0.87	0.72
	We are willing to take risks and make bold decisions in international business.	0.66	
<b>Globalization orientation</b>			
International vision	We see the world as our firms' marketplace	0.76	0.84
	It's firms' mission to exploit international market	0.82	
	Conduciveness of our firm's culture for actively exploring opportunities abroad	0.81	
Commitment	We commit sufficient financial resource into international market	0.82	0.84
	We commit sufficient human resources into international market	0.88	

Where  $i$  indexes for firm  $i$ , the four variables in the first row are external market environment; they are presented by host market demand (HSTDEM), host market growth(HSTGRH), home market demand (HMEDEM) and home market growth(HMEGRH). Four MGR variables (MGR1 to MGR4) in the second row relate to managers' prior international experience: they are foreign education, foreign working experience, business trips abroad, and work experience in the same industry. Organizational variables are represented by ability to take on risk (RISK), firms' proactiveness (PRAT) (RISK and PRAT constitute entrepreneurship orientation concept), international vision (VISION) and commitment to foreign market (CMTT) (VISION and CMTT constitute the globalization orientation concept). B constitutes the globalization orientation conception, take on risk, business trip abroad impact on the formation of born global firms.

According to previous literature, since on the right hand side, each row of variables is unit of

firm, manager, organization, therefore we apply multi-level data analysis (Cohen and Cohen, 1983; Kuivalainen et al., 2007) to examine the antecedents of the formation of Chinese born global firms. The stepwise method of multi-level analysis helps to enhance the prediction power of the model.

### Estimation results

The parameter estimates for the model appear in Table 3. As more variables are put into the regression, there is an improvement of model fit. The first groups of variables are external driving components. H1 predicted that faster foreign market growth and larger foreign market demand increased probability for firms to become born global firms. Results show no impact of foreign market growth, and show a moderate influence of foreign market demand ( $\beta$  (sult,  $p < 0.1$ ). Therefore H1 is partially supportive. H2 is similar

to H1: strong support for domestic market increase rate is found ( $\beta$  (s fo,  $p < 0.01$ ). This shows that the faster the domestic market increases, the more firms will have benign business conditions and more opportunities in home market. This decreases firms' tendency to seek overseas market chance, hence prohibit an accelerated internationalization. This finding is consistent with the statement in IO theory, that external market environments largely determine the structure and strategic choice of firms. The findings show that it is the domestic and foreign markets that foster and guide the Chinese firms to choose or not choose fast globalization at early stage. This has become a pioneer in global market. On one hand, fascinating foreign demand attracts Chinese firms to open up new opportunities; on the other hand, stagnated growth in home market disappoints firms, and indirectly forces them to seek market opportunities abroad. The push and pull together builds external driving forces that make firms to change from conventional firms to born globals.

**Table 3.** Regression coefficient estimates.

<b>Dependent variable (born global or conventional global)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Intercept</b>	-0.16	1.26	0.83	-0.13	0.67	1.29
<b>External drivers</b>						
Foreign market growth rate	-0.11		-0.17			-0.35
Foreign market demand	0.21*		0.27*			0.22*
Domestic market growth rate		-0.25**	-0.29***			-0.32***
Domestic market demand		-0.02	-0.04			0.04
<b>Internal drivers</b>						
<b>Manager</b>						
Education received abroad				-0.24		0.06
Working experience abroad				0.71		0.48
Business trips abroad				0.92*		1.17*
Working experience in same industry				0.79*		1.06**
<b>Organization culture and orientation</b>						
Risk taking ability					-0.20	-0.37
Proactiveness					-0.46	-0.10
Commitment					0.53*	0.61*
International vision					0.22	0.01
<b>Control</b>						
Time of birth	-0.05**	-0.05**	-0.05**	-0.05**	-0.05**	-0.06**
Size	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.00005
Industry	-0.01**	-0.01**	-0.01**	-0.01	-0.01*	-0.01*
Experience	0.37**	0.35**	0.38**	0.30**	0.33**	0.32*
Ownership	-0.20**	-0.14*	-0.15	-0.15	-0.18*	-0.10
Log-likelihood (LL)	-94.01	-91.24	-88.89	-82.65	-90.15	-71.21

P value appears in bracket. \*\*\*, \*\*, \* Statistically significance at 0.01 0.05, 0.10 respectively.

H1 and H2 are therefore partially supported. For the second group of influencing components, the internal drivers were manager and organizational culture/orientation. Examination of managers' prior experience demonstrates no significant effect of prior foreign education received ( $\beta$  (igni),  $p > 0.1$ ) and work experience abroad ( $\beta$  (broa),  $p > 0.1$ ); so H3 and H4 are not supported. As can be observed, comparatively, business trips abroad ( $\beta$  (rkin),  $p < 0.1$ ) and work experience in the same industry ( $\beta$  (rkin),  $p < 0.05$ ) play a more important role in predicting firms to go abroad early and intensively. H5 and H6 are supported, accordingly.

For H5, it provides evidence that if managers are more exposed to foreign business environment by attending business conference, trainings etc., they tend to learn more about frontier trend of foreign market, strong demand of foreign customers, and also build up more international network and know rich source of business partners. These produce strong pull strength to drive firms

abroad; it dramatically shortens preparation time span and drive Chinese firms to accelerate their speed to enter foreign market. For H6, finding demonstrates a key role played by managers' past work experience in same industry ( $\beta$  (n1.06),  $p < 0.05$ ). Therefore H6 is supported. This result suggests that managers' previous work experience in other companies in the same industry endows them with better knowledge of the market. The managers may take advantage of past know-hows and the perceived risk is largely decreased as well. Meanwhile, rich network relationship obtained through prior work experience in the industry reduces barrier for firms to enter global market, which subsequently accelerates firms' internationalization process.

Although a number of past literature have proved the significant role played by foreign education and foreign work experience (Athanasios and Nigh, 2002; Kundu and Katz, 2003), our study, on the other hand, did not find this effect (H3, H4). Nowadays in China, different

**Table 4.** Summary of hypothesis.

S/N	Hypothesis	Empirical results	Support or not
1	The larger the demand and the higher the growth rate of foreign market, a new venture is more likely to choose to go international at inception	The larger foreign demand is, firms are more likely to be BG	Partially support
2	The smaller the demand and the lower the growth rate of domestic market, a new venture is more likely to choose to go international at inception	The smaller the domestic market growth rate, firms are more likely to be BG.	Partially support
3	The more overseas education managers receive, a new venture is more likely to choose to go international at inception	Not significant	Not supported
4	The more overseas working experience managers have, a new venture is more likely to choose to go international at inception	Not significant	Not supported
5	The more overseas business trips managers take, a new venture is more likely to choose to go international at inception	Consistent with hypothesis	Supported
6	The more working experience in the same industry managers have, a new venture is more likely to choose to go international at inception	Consistent with hypothesis	Supported
7	The more risk taking a new venture is, it is more likely to choose to go international at inception	Not significant	Not supported
8	The more proactive a new venture is, it is more likely to choose to go international at inception	Not significant	Not supported
9	The stronger the international vision, a new venture is more likely to choose to go international at inception	Not significant	Not supported
10	The more committed a new venture is to international market, it is more likely to choose to go international at inception	Consistent with hypothesis	Supported

from western countries in the literature where it is very common for people to pursue educational degrees abroad, most entrepreneurs in China are born and raised in their home country; people who receive education abroad and even have worked abroad are still very few. Rather, in current China's reality, the most influential factor that pushes managers to have international vision is business trips and prior work experience in the industry (H5, H6). For organizational culture and orientation level of internal driving forces, H7, H8 and H9 predicted the role of risk taking, proactiveness and international vision in born globals' formation. As shown in the results, the three coefficients are insignificant, suggesting no influence on firms' fast internationalization. Hence, H7, H8 and H9 were not supported. It may be because there is no large difference between Chinese firms in their level of organizational culture or orientation. The decision for firms to take a quick globalization approach is more driven by external market environment and managers' characteristics. In H10, we anticipated that the more committed a firm is to global market, the more it is likely to become a born global. The test for H10 shows a significant result ( $\beta$  (e te,  $p < 0.05$ ), indicating commitment is a driver that presses firms to seek opportunities beyond their boundary at early stage. H10 is supported. This finding is consistent with results presented by Western scholars, which show that if a firm plans to employ a fast internationalization approach, it

needs to have sufficient financial resources and human capital involved in overseas boundary. Table 4 summarizes the hypothesis testing results in the paper.

## DISCUSSION

There has been a growing body of literature investigating the phenomenon of born global firms; however, there has been lack of research on the underlying mechanism why Chinese born globals seek fast internationalization using an integrated framework. To fill this gap, we targeted Chinese firms, applied an external-internal-drivers research framework to examine their driving forces, and to understand why they adopt accelerated manner. To the best of our knowledge, our study is the first attempt to empirically test the driving forces of born global firms under China context using a survey method. The study adds value to the previous research by first raising an integrated conceptual framework. We adopt three groups of drivers to examine the mechanism, namely external environment (domestic market and foreign market), managers' characteristics, and organizational culture/orientation. Our investigation also extends previous work by introducing a 'speed-intensity' 2 by 2 matrix to classify firms into either born global firms or conventional firms. We demonstrate that, both external and internal market environments have an impact on the

formation of born global firms. As external conditions, expanding overseas' demand and stagnated domestic market growth push for an early internationalization to seek more possibilities. As internal conditions, more business trips expose managers to global mindset; work experience in same industry prepares managers with rich business network and knowledge about the market, which in turn push their entry into foreign market. Meanwhile, the more committed firms are the more tendencies for them to become born global because foreign competition always requires abundant financial support and a well-trained team.

This study has important theoretical and managerial implications. From theoretical perspective, our study is the first to examine the driving forces of born global firms with a systematic framework. Our findings advanced the understanding of born global phenomenon by targeting the emerging developing economy-China. From managerial standpoint, the study found the direction and magnitude of the impact of each driving force on born global formation, identified factors that mostly press firms to step into foreign boundary right after birth in the context of Chinese market environment. This adds value to the management of Chinese firms. For example, results show business trips of managers abroad play a major role; this suggests that when managers of a firm do have overseas' experience or receive education abroad, their understanding of foreign market will be enhanced. By attending more global expo or conferences, they will learn more about the socio-culture, economics difference between China and target foreign country, and understand keen interest and tastes of foreign customers. To sum up the four hypotheses on managers, the results demonstrate that firms either possess a born prior experience/knowledge (*ex ante*) before their establishment like experience in same industry, or they should accumulate richer and richer knowledge after their birth (*ex post*) like participating more in international conferences or expos. The entire prior or post knowledge is a learning process. It happens either before or after birth. If firms find they own abundant prior experience, they can aggressively march to outside world, accelerate the pace of internationalization; if firms lack prior experience, they can learn while doing the new business, expose themselves more frequently to international occasions to know more about overseas market, or recruit employees with rich international experience. With respect to organizational culture/orientation, results indicate that if firms plan to take a fast internationalization approach, they need to invest more financial and human resources into global market to guarantee the success of fast internationalization.

## Conclusion

According to the traditional viewpoint of

internationalization described in the Uppsala internationalization model, firms have the competence to go global, survive and even thrive only after accumulating market experience in domestic market. However, in contrast to this incremental internationalization process, the recent 20 to 30 years witness the rise of a new class of start-ups that span international borders right at birth. These breeds of start-ups are called born global firms, international new ventures or born internationals. The Chinese market has also witnessed the emergence and booming of born global firms. The current study answered the question that what factors drive firms to choose fast internationalization process and therefore give rise to the birth of the new breed born global firms. This study specifically identified external market level factors, organizational level factors and managers' traits level factors underlying the internationalization of Chinese born globals from inception. At the market condition level, the study found that stronger host country customer demand together with the stagnated domestic market growth mutually lead to the formation of born global firms. The resource-based perspective states that firms' foundational resources are particularly important in business environments because they offer a stable basic for strategy development. Knowledge possessed by Chinese born globals turns to be a key resource. At the management team level, the research revealed that managers in Chinese born globals can gain *ex post* experience by attending more international conferences, taking more international business trips, and having founder or high level managers with relevant industry experience. This leads to the occurrence of born global firms. At the organizational level, the findings imply that international entrepreneurial commitment is especially important to these firms and drive them to go international. The more committed the Chinese born globals are, the more likely they are to become born global firms. The above findings not only help us better understand new traits of these new emerging firms, but also provide significant managerial guidelines as what factors to improve in order to foster firms to internationalize early, and how to provide necessary support in different ways to help them step up into international market place and achieve superior performance.

## CONFLICT OF INTERESTS

The author has not declared any conflict of interest.

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*Full Length Research Paper*

# Challenges small and medium enterprises (SMEs) face in acquiring loans from commercial banks in Tanzania

Nassoro Gassiah<sup>1\*</sup> and Jaraj Kikula<sup>2</sup>

<sup>1</sup>Department of Business Studies, Faculty of Commerce, Jordan University College,  
P. O. Box 1878 Morogoro, Tanzania.

<sup>2</sup>Department of Business Studies, Faculty of Social Science, Mzumbe University, Tanzania.

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**Commercial banks in developing economies play an important role in promoting the growth of SMEs through the loan provided since they create conducive environment for their growth and success. The study focuses on investigating the challenges SMEs face in acquiring loans from commercial banks. The study used 120 respondents who were purposively and randomly selected. Both primary and secondary data were used. Data were analyzed descriptively and presented in tables, percentages, pie charts and tabulation to show differences in frequencies. Statistical Package for Social Sciences (SPSS) version 20.0 was used in coding, entering and analyzing the data. The study found that high interest rates, lack of collateral, short repayment period, lack of loan information, lack of integrity of bank officers and lack of innovations were the major challenges/difficulties which SMEs face in accessing credit facilities from commercial banks in Morogoro municipality. The study findings generally revealed that SMEs are facing challenges in accessing credit facilities in Morogoro Municipality; hence the researchers, based on the study findings, conclude that SMEs in Tanzania are small because they prefer to get their start-up capital from personal savings, relatives and friends. Based on the study findings, researchers recommended that for banks to attract customers (SMEs) to borrow, they should reduce the interest rates charges. Also, commercial banks should adjust repayment period which would be flexible enough within the business operational cycle of different SMEs in the study area.**

**Key words:** Small and medium enterprises, credit facilities, commercial bank.

## INTRODUCTION

Commercial banks in developing economies play an important role in promoting the growth of SMEs through the loan provided since they create conducive environment for their growth and success. Despite the fact that SMEs fail to acquire loans from commercial banks due to

unfavorable lending conditions (Mwakababu, 2013), commercial banks are hindered by the absence of a well-functioning SMEs lending market that impedes the growth of SMEs in terms of economy. This led to the negative consequences for economic growth and

\*Corresponding author. E-mail: [nassorogassiah91@gmail.com](mailto:nassorogassiah91@gmail.com). Tel. +255 746 466 930.

macroeconomic resilience (Berry, 2002). Commercial banks are financial institutions that accept demand and time deposits, make loans to individuals and organizations, and provide services such as documentary collections, international banking, trade financing (Warsame et al., 2018). Therefore, in this study commercial banks were regarded to be important to all depository institution (Miller and VanHouse, 1993). In Tanzania, the history of commercial banks dates back to 1991 when the Government initiated financial sector reforms in order to create an effective and efficient financial system (URT, 2000). Despite the establishment of local and foreign private banks, such reforms led to the restructuring of two state-owned commercial banks, namely the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB). The problem of acquiring loans from financial institutions is more pronounced for SMEs (Berger and Udell, 2007). This has led to increased interest from various researchers and academicians in Tanzania on the topic of loan provided towards SMEs. For instance, a study by Madole (2013) examined the impact of microfinance credit on the performance of SMEs, Laiser (2013) examined the determinant factors affecting small business holders in microcredit access, Lwidiko (2014) investigated the banks' trade financing and its contribution to SMEs development while Oni and Daniya (2012) investigated the role of Governments and their financial institutions towards development of SMEs.

Financing SMEs is a topic of significant research interest in academics; it is an imperative issue to policy makers around the globe since majority of them are not considered credit worthy due to various reasons (Alhassan and Sakara, 2014). The study conducted by Sapienza (2004) revealed that SMEs financing is mostly affected by imperfections of financial markets in obtaining external funds compared to larger ones. In this context, it is worth noting that when an economic environment changes, it leads to commercial bank consolidation, mergers, and acquisitions, and most likely affect the credit allocation that hits the core problem of SMEs; that is, changes in the accessibility and availability of loans. In another case, Peek and Rosengren (1995) pointed that, the size of the commercial banks affects the acquisition of loans by SMEs whereby large sized commercial banks tend to lend to medium and large companies; while small or micro size commercial banks often specialize in lending to SMEs. This happens because small size cannot disburse large sized loans because of, (a) legal lending limit regulations, and (b) the diversification strategy of a loan portfolio; small banks have small portions of their loan portfolios with SMEs due to the problem of economy of scale in the screening and monitoring process. The study by Marwa (2014) noted that most SMEs operate as family-based enterprises with no clear demarcation between family and business assets; they operate outside the formal economy. This

makes their ability to meet the collateral requirement by commercial banks extremely difficult. In addition to this, the study pointed that most SMEs suffer from a lack of, or poor record keeping systems, undocumented business processes and contracting which lead to an unexpected barrier to loan from formal commercial banks.

Furthermore, the study conducted by Abdesamed and Wahab (2014) revealed that, in most of the developing economies Tanzania being included, commercial banks are often unable or reluctant to grant loans to SMEs; instead they prefer lending to well large and micro enterprises that have well maintained financial statements and credit histories. These findings were supported by Hall and Fang (2004) who argued that, lending to SMEs is perceived to be riskier than to large established enterprises. In this context, lending to SMEs is mostly obstructed by SMEs size and age, lack of business strategy, collateral, financial information, bank requirements as well as the owners or manager's educational background and business experience. Despite having various studies, little is known on the benefits and non-financial services offered by commercial banks regarding loans towards the growth of SMEs. Thus, this necessitates the need of conducting this study by investigating the effects of loans offered by commercial banks on the performance of SMEs in Tanzania, the case of NMB Bank in Morogoro Municipality.

## **THEORETICAL AND ANALYTICAL FRAMEWORK**

### **Pecking order theory**

The Pecking Order Theory (POT), also known as the Pecking Order Model, relates to a company's capital structure. The theory was developed by Myers and Majluf (1984). The theory states that managers follow a hierarchy when considering sources of financing (Myers and Majluf, 1984). Therefore, the pecking order theory states that managers display the following preference of sources to fund investment opportunities: first, through the company's retained earnings, followed by debt, and choosing equity financing as a last resort. The POT arises from the concept of asymmetric information; asymmetric information, also known as information failure, occurs when one party possesses more information than another party, which causes an imbalance in transaction power. These information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt. Company managers typically possess more information regarding the company's performance, prospects, risks, and future outlook than external users such as creditors (debt holders) and investors (shareholders). Therefore, to compensate for information asymmetry, external users demand a higher return to counter the risk that they are taking. In essence, due to information asymmetry,

external sources of finances demand a higher rate of return to compensate for higher risk. In the context of the POT, retained earnings financing that is, internal financing comes directly from the company and minimizes information asymmetry. As opposed to external financing, such as debt or equity financing where the company must incur fees to obtain external financing, internal financing is affordable and the most convenient source of financing.

When a company finances an investment opportunity through external financing (debt or equity), a higher return is demanded because creditors and investors possess less information regarding the company, as opposed to managers. In terms of external financing, managers prefer to use debt over equity; the cost of debt is lower compared to the cost of equity. The issuance of debt often signals an undervalued stock and confidence that the board believes the investment is profitable. On the other hand, the issuance of equity sends a negative signal that the stock is overvalued and that the management is looking to generate financing by diluting shares in the company. Therefore, when considering sources of financing, the cheapest is through retained earnings, second through debt, and third through equity. Despite the fact that various literatures emphasize that SMEs rely on internal source of finance and external borrowing in order to finance SMEs operations and growth. However, some firms operate under a constrained pecking order and thus do not consider external equity (Howorth, 2001). Indeed, SMEs demand additional capital to finance their operations. Therefore, the study used the POT to explain the need of credit to SMEs in Tanzania.

## RESEARCH METHODS AND METHODOLOGY

### Description of the study area

The study was conducted in Morogoro municipality, located about 195 km to the West of Dar es Salaam. It is situated on the lower slopes of Uluguru Mountains whose peak is about 1,600 feet above sea level. It is one of the six districts in Morogoro region, with coordinates of 6°49'20" S, 37°40'0" E, covering 260 km<sup>2</sup> with a population of 315,866 people (URT, 2013). Morogoro Municipality is bordered by Kilombero District to the south, Kilosa District to the south and Mvomero District to the north (URT, 2013). The study area was chosen because of the availability of Small and Medium Enterprises (SMEs) together with financial accessibility, that is, credit provider institutions like NMB Bank and other commercial banks.

### Research design

The study employed a case study research design based on mixed research approach. The case study design was used because it is a more cost-efficient method compared to other research designs since it focuses on a single unit, namely the NMB Bank in Morogoro Municipality (Kothari, 2004). Therefore, quantitative approach was used to collect data on predetermined instruments that yield statistics data, while qualitative approach was used to gain deep

understanding of respondents' attitudes and opinions on the challenges small and medium enterprises (SMEs) face in acquiring loans from commercial banks (Mwonge and Naho, 2021).

### Sample size and sampling techniques

#### Sample size

The sample size of this study was 120 SMEs. This size was obtained from the table proposed by Bartlett et al. (2001) that is used in determining the minimum returned sample size for a given population size.

#### Sampling techniques

Both purposive and simple random sampling techniques were used in our study. Purposive sampling technique was used in the selection of NMB Bank staffs while 120 SMEs were randomly selected in this study.

### Data type and collection

Data collection is a process of gathering specific information aimed at providing or rejecting some facts (Kothari, 2004). Both primary and secondary data were used in order to obtain valid and reliable results; primary data were collected from 120 SMEs through interviews and questionnaires; while secondary data were collected through documentary reviews, that is, business annual report, internet and journals.

### Data analysis

Data analysis refers to the computation of certain indices or measures along with searching for patterns of relationship that exist among the data group (Kothari, 2004). The collected data were coded and processed using the statistical tool SPSS (Statistical Package for Social Science) version 20 to compute descriptive statistics such as percentages, frequencies and standard deviation. The study results were presented in the form of pie charts and tables.

## RESULTS AND DISCUSSION

### Challenges SMEs face in acquiring loans from commercial banks

Despite the benefits small business derived from MFIs there are some difficulties they usually face when accessing credit facilities. Our study sought to know the challenges SMEs face in accessing credit facilities from MFIs in Morogoro municipality. Respondents were required to indicate the degree of improvements they know and/or perceive whether they are Strongly Agree (SA), Somewhat Agree (SoA), Neutral (N), somewhat Disagree (SoD) and Strongly Disagree (SD). The study found out that the challenges hindering SMEs from accessing credit facilities were high cost of repayment, that is, high interest rate, integrity of bank officers, short repayment period, unavailability of loan information, lack of collateral, and lack of innovations. Table 1 presents the

**Table 1.** Challenges SMEs face in accessing bank loans.

Challenge	SA		SoA		N		SoD		SD	
	N	%	N	%	N	%	N	%	N	%
High interest rates	80	66.67	30	25.00	0	0.00	10	8.33	0	0.00
Lack of collateral	65	54.17	46	38.33	0	0.00	9	7.50	0	0.00
Short repayment period	70	58.33	50	41.67	0	0.00	0	0.00	0	0.00
Lack of loan information	78	65.00	32	26.67	10	8.33	0	0.00	0	0.00
Lack of integrity of bank officers	50	41.67	40	33.33	0	0.00	20	16.67	10	8.33
Lack of innovations	65	54.17	38	31.67	12	10.00	0	0.00	5	4.17

Source: Field study, 2021.

study results. Table 1 shows the respondents' perception about the difficulties SMEs face in accessing bank loan. The study found that high interest rates, lack of collateral, short repayment period, lack of loan information, lack of integrity of bank officers and lack of innovations were the major challenges/ difficulties which SMEs face in accessing credit facilities from commercial banks in Morogoro municipality.

### **High interest rates**

The study findings revealed that majority of the respondents, about 80, comprised 66.67%, indicating that high interest rate charged by MFIs is a very big challenge SMEs face in accessing credit facilities; followed by 30 respondents (25%), who agreed to some extent that high interest rate is a challenge, while 10 respondents (8.33%) disagreed with the statement. Figure 1 presents the study results. The study results found out that access to credit facilities from MFIs by SMEs is highly limited by high interest rate of credit given. Indeed, high costs of loan in terms of high interest rates make it extremely difficult for SMEs to access credit facilities from MFIs. The study result is in line with the findings of many related studies (Vuvor and Ackah, 2011; Ndungu, 2014; Mira and Ogollah, 2013) who found that high cost of loan in terms of high interest rates makes it extremely difficult for SMEs to access bank loans. Therefore, based on the study findings, researchers recommended that the management of commercial banks should consider lowering their interest rates to encourage SMEs to borrow and access bank credit.

However, study findings indicate that, 10 (8.33%) of the respondents indicated that the level of interest rate charged by lending institutions is not a challenge SMEs encounter in accessing loans from commercial banks. This implies that SMEs are charged lower interest at NMB Bank as compared to other commercial banks.

These findings were supported by an interviewee who revealed the following:

*In our bank, interest rates are not one of the problems*

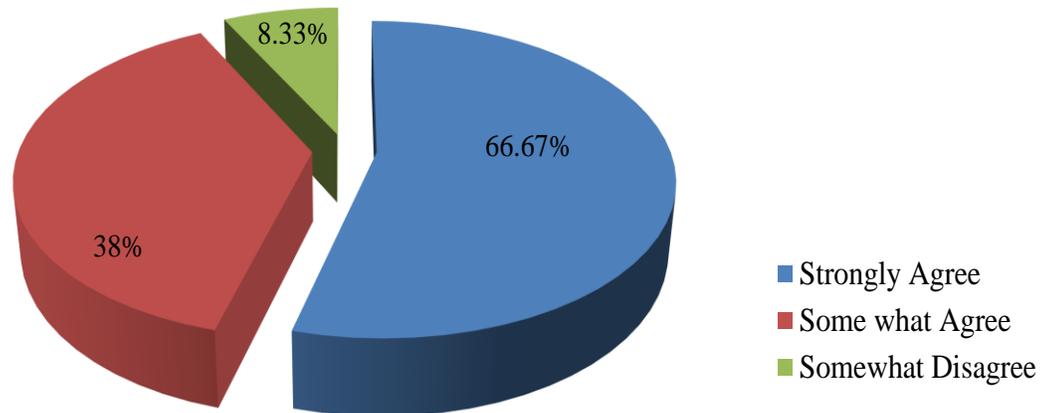
*encountered by SMEs in acquiring loans. For instance, SMEs customers are charged lower as compared to other banks, whereby 21% of interest rates are charged for surveyed collaterals and 24% for un-surveyed collaterals.*

Another interviewee pointed the following arguments that supported these findings:

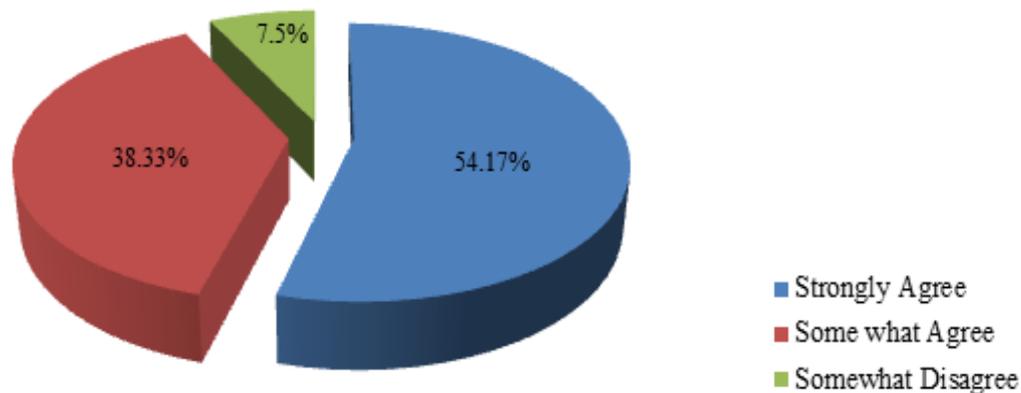
*Apart from charging low interest rates, our banks charged also low fees towards loans whereby 1.5% of the requested amount are charged as the processing fees, and 0.075% of the requested amount is charged as the insurance fees.*

### **Lack of collateral**

The study findings show that 65(54.17%) of the respondents indicated that collateral requirement is very big challenge for SMEs to acquire bank loans followed by 46 (38.33%) of respondents who agreed to some extent while 9 (7.5%) disagreed with the statement. The study result implies that indeed, this is the SMEs costs incurred for securing the loan before (mortgaging) the credit being issued. The results give an indication that SMEs struggle in accessing credit facilities (bank loans) with the high requirement of collaterals SMEs can access banks loan smoothly. The results are presented in pie chart as shown in Figure 2. The study findings from Figure 2 reveal that access to credit facilities is highly limited by strict collateral requirements such as group guarantees, individual guarantors, having a bank account, having equity capital and assets as title deeds and log books. However, the analysis shows that these MFIs operate within the lending principles and the challenge here is that most of the respondents, that is, SMEs in this case do not have these collaterals the MFIs request. The study finding is consistent with the findings of various related studies (Marwa, 2014; Mashenene, 2015; Kwaning et al., 2015; Gangata and Matavire, 2013) who found that lack of collateral is a major challenge for SMEs to access loans from commercial banks. They further argued that



**Figure 1.** High interest rate (n=120).  
Source: Field study, 2021.



**Figure 2.** Lack of collateral (n=120).  
Source: Field study, 2021.

though most SMEs have limited contractual arrangement with their suppliers and customers, they have no formalized lease ownership for the land or premises they are operating from. This makes them unable to meet the collateral requirement by banks.

### **Short repayment periods**

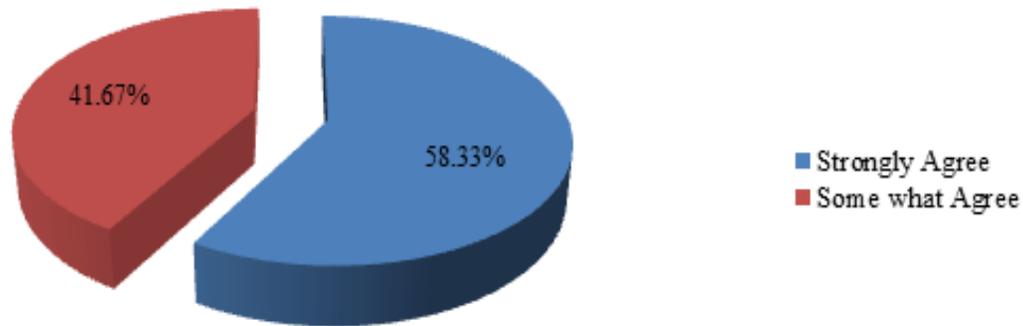
The study findings found that 70 (58.33%) of the respondents indicated that short repayment period is a major challenge for SMEs to access credit facilities; followed by 50(41.67%) of the respondents who agreed with the statement to some extent. Indeed, repayment period influences SMEs to access credit to a great extent ( $M= 1.60$ ,  $SD= 0.991$ ). The results are presented in pie chart as shown in Figure 3. The study findings from Figure 3 indicate that, all respondents agreed that repayment period was the challenge SMEs encountered in accessing loans from commercial banks. The banks

have set the short repayment period that requires SMEs to make payments (that is, principal and interest) in a short period of time. The study result is in line with the findings of various related studies (Rweyemamu et al., 2003; Kamanga, 2020) that financial institutions, that is, MFIs have failed to serve the SMEs by providing loans in both urban and rural communities because of short loan repayment challenges.

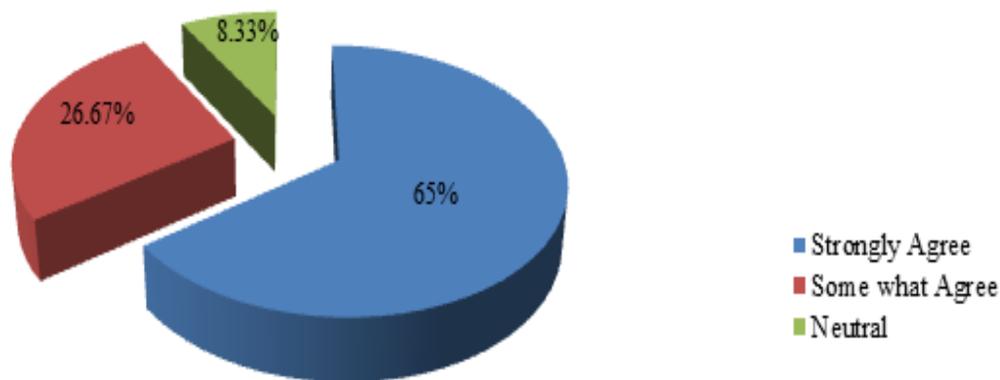
Also, these findings were supported by an interviewee who revealed the following:

*The repayment period does affect most SMEs in accessing loans from our banks, since they fear that they won't be able to repay the loan. This arises because of the nature of their business that does generate fluctuating cash flows which might bring difficulties on repaying loans in a given period of time.*

Another interviewee pointed out the following that supported these findings:



**Figure 3.** Short repayment periods (n=120).  
Source: Field study, 2021.



**Figure 4.** Lack of loan information (n=120).  
Source: Field study, 2021.

*The repayment period is observed by SMEs as a challenge because the minimum repayment period of six months and maximum period which is extended to 24 months seems to be a short-term period for most of them.*

It was further revealed that most of the entrepreneurs interviewed said that the repayment period for the first loan, usually six months was relatively short. They added that they could only manage to access a small amount since the shorter the period, the higher the repayment amount. The suggestion put forward was that the NMB Bank should push the loan repayment period from the current to one year at least to enable the entrepreneurs repay from their business proceeds generated from the borrowed funds.

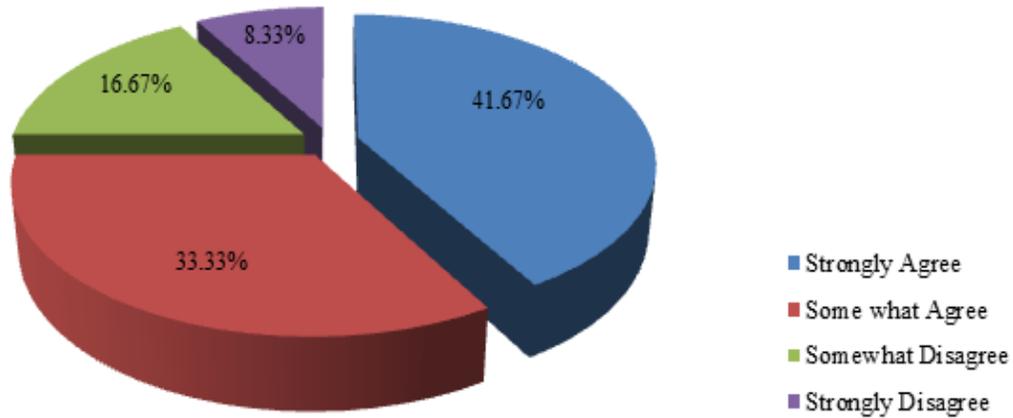
#### **Lack of loan information**

The results show that 78(65%) of the respondents strongly agreed that unavailability of loan information was the challenge SMEs face in acquiring loans from commercial banks followed by 32 (26.67%) who agreed

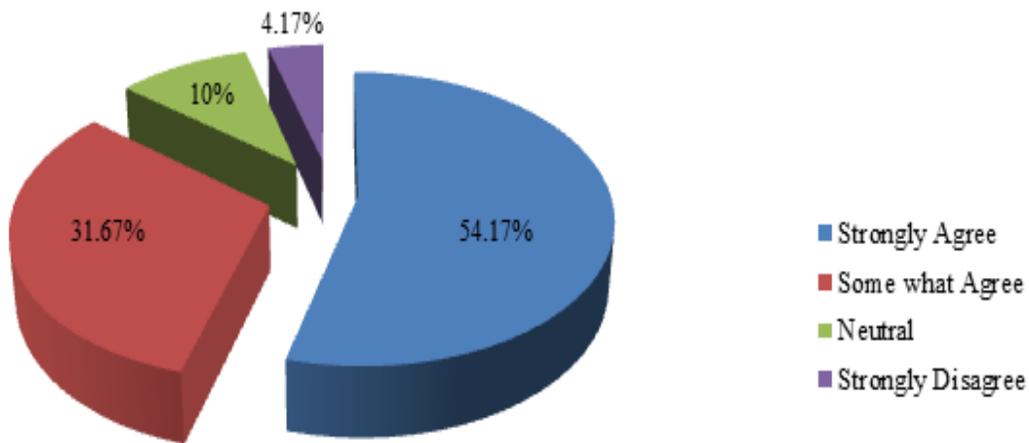
to some extent, while 10 (8.33%) were neutral. The results are presented in pie chart as shown in Figure 4. The study findings from Figure 4 indicate that, despite the fact that 8.33% of respondents were neutral the remaining 91.67% agreed that lack of loan information provided by banks was the challenge encountered in accessing loans from commercial banks. Examples of such information are, how to calculate interest amount, different types of loan products that are available for SMEs and how to apply them and their requirements, as well as various alternatives on repayment periods.

#### **Lack of integrity of bank officers**

The study results in Table 1 show that 50 (41.67%) of the respondents strongly agreed that integrity of bank officers was one of the challenges faced by SMEs in acquiring loans from commercial banks followed by 40 (33.33%) who agreed to some extent; 20 (16.7%) of the respondents disagreed, while 10 (8.33%) strongly disagreed with the statement. The results are presented in pie chart as shown in Figure 5. The study findings



**Figure 5.** Lack of integrity of bank officers (n=120)  
Source: Field study, 2021.



**Figure 6.** Lack of Innovation (n=120)  
Source: Field Study, 2021.

indicate that 50 (41.6%) of the respondents strongly agreed that integrity of bank officers was the challenge encountered in accessing loans from commercial banks. The study result implies that bank officers were effecting their obligations by abiding to procedures in disbursing loans. Hence, there are no bureaucracy and corruptions among bank officers. The study finding is in line with the findings of Cowton (2002) who argued that banks should generate the trust necessary for any banking system to flourish and contemporary banks need to take into account the consequences of their lending policies.

**Lack of innovations**

The study results in Table 1 show that 65 (54.17%) of the respondents strongly agreed that lack of innovations was one of the challenges SMEs face in acquiring loans

from commercial banks in the study area, followed by 38 (31.67%) who agreed to some extent, while 12 (10%) were neutral, and 5 (4.17%) strongly disagreed with the statement. The results are presented in pie chart as shown in Figure 6. The study result in Figure 6 implies that the banks have failed to be innovative in attracting new customers (SMEs in this case); for instance, introduction of an application that will enable SMEs in tracing the total amount of loans they can access based on the value of their collateral, the interest and principal amount they have to pay, and the time period of a loan.

**CONCLUSION AND RECOMMENDATIONS**

The study findings generally revealed that SMEs are facing challenges in accessing credit facilities in the Morogoro Municipality; hence the researchers, based on

the study findings, conclude that SMEs in Tanzania are small because they prefer to get their start-up capital from personal savings, relatives and friends. Based on the study findings, the researchers recommended that for banks to attract customers (SMEs) to borrow, they should reduce the interest rates charges. Also, it was recommended that financial institutions should set more flexible, affordable, and attractive requirements in financing SMEs in Tanzania.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interest.

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*Full Length Research Paper*

# **Disruptive thinking in social entrepreneurship: Challenges and effectiveness**

**MK Agarwal<sup>\*</sup>, and Selma Ndiwakalunga Mulunga**

Dr Shankar Dayal Sharma Institute of Democracy, University of Lucknow, Lucknow-226007, India.

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**With the emerging field of social entrepreneurship, academicians have raised several research agendas to give a unitary direction to the theoretical groundings and foundations of this concept. The current review is one such attempt to explore the definition of social entrepreneurship and its linkage to social innovation and disruptive thinking. This review aims to understand students' perspectives and familiarity towards social entrepreneurship; its effectiveness in bringing social change; and the challenges in this field of study. By adopting a secondary research where recent literature on current topic is explored, this review provides fresh insights into the dimensions of social entrepreneurship. Research papers, books, and published materials on social enterprise, innovation, and disruption are rigorously reviewed and explored to derive valuable conclusions. It is inferred from the study that a successful social venture can make a positive impact and contribution to the society, yet a need to measure its implications has been recognized. The research on social entrepreneurship is not united and convergent and requires more in-depth investigations and concrete evidences that can assist with its practical implementation.**

**Key words:** Social entrepreneurship, social innovation, disruptive thinking.

## **INTRODUCTION**

Entrepreneurship is one of the most prominent and essential dimensions that drives economic growth of a nation through increased employment and revenue generation or GDP. The presence and importance of entrepreneurship is common across all developed countries, where economic development and infrastructure are facilitated through the progress of entrepreneurship (Kickul and Lyons, 2016). This importance is realized by several governments who encourage and promote the augmentation of entrepreneurship via various growth strategies, initiatives,

and providence of resources to the entrepreneurs and startups. Since its inception, entrepreneurship in the economic context has been considered has business with risks and uncertainties (Groot and Dankbaar, 2014). It is of different types including small business, scalable startup, large company, and social, where social entrepreneurship is one which is unique and less explored. Social entrepreneurship differs from the other types due to the difference in its objectives as it emphasizes on not only enterprise/business development, but also the development of people, society, and

<sup>\*</sup>Corresponding author. E-mail: [mulungaselma@gmail.com](mailto:mulungaselma@gmail.com).

environment (Chou, 2018). Social entrepreneurship is most often used with social work, where the difference between NGOs and social services is that social entrepreneurship includes the acquisition of profits. Social entrepreneurship initiates programs or business in a way that helps the poor or deprived section, develops the society, and also gains revenue for a thriving business (Steyaert, and Dey, 2010). It offers innovative products and services that are available to all sections in a society and also benefits the environmental causes. As stated by Thompson et al. (2017), “a high-impact social venture focuses on its mission to “change the world”. For achieving the goals of social entrepreneurship, it is imperative to infuse the enterprise with innovation.

A social venture often requires new methods and means to create inventive products and services that are sustainable and benefits all stakeholders. Innovation, in this context, is referred as social innovation, which is focused on creating services or products that are able to best serve the users and people. Social innovation is a crucial part of social entrepreneurship where it is used to analyze and develop practices that meet the dynamic market needs and solves problems of social environment (Mosher-Williams, 2006). Social entrepreneurship, a relatively less explored area that has piqued interest of several research scholars, emphasizes on conducting business while solving social problems and assisting in the development of the society towards a progressive path. Social entrepreneurship can also be radical, innovative and disruptive. This review paper covers how innovation and disruptive thinking affects social entrepreneurship. The difference in social entrepreneurship thinking with that of entrepreneurship was explored. The more focus was on how social entrepreneurs identify opportunities and apply innovative approaches to tackle social issues. Further, the effectiveness of their methods and ideas on transforming society or bringing progressive changes and the challenges encountered by social entrepreneurs was also studied in this paper.

Disruptive thinking is another key concept that has gained attention in academics and industrial markets in recent years. Disruptive thinking is about “out of the box” thinking; ideologies that challenge the traditional way of doing things.. Disruption in social entrepreneurship can determine how entrepreneurs create new network or market by using disruptive thinking and innovation to disrupt the existing products/services and create new value that brings radical changes in the society and market.

### **Problem of the study**

Social entrepreneurship, a relatively less explored area that has piqued interest of several research scholars,

emphasizes on conducting business while solving social problems and assisting in the development of the society towards a progressive path. Social entrepreneurship can also be radical, innovative and disruptive. This review paper covers how innovation and disruptive thinking affect social entrepreneurship. The difference in social entrepreneurship thinking with that of entrepreneurship would be explored while also focusing on how social entrepreneurs identify opportunities in a developed country and apply innovative approaches to tackle social issues. Further, the effectiveness of their methods and ideas on transforming society or bringing progressive changes will be studied. The challenges encountered by social entrepreneurs are also studied in this paper.

## **LITERATURE REVIEW**

### **Defining Social Entrepreneurship and Social Innovation**

Jilinskaya-Pandey and Wade (2019) defined social entrepreneurship as an entity that inculcates diverse and innovative business models to achieve the social and environmental aims of the enterprise. Social entrepreneurship is gaining recognition and popularity in different fields of education, support services, medical industry, and social finance. Social finance that seeks social returns on business investment is a part of social entrepreneurship. These are reasons with profits and financial impact required for the growth of social ventures. There has been an increase in the number of ventures embarked on the foundation of social causes, and the organizations and government are promoting such activities by providing those resources and financial aid (Tiwari et al., 2017). Social entrepreneurs realize the need to developing products and making profits, and also on how to give back to the society. Social entrepreneurship based on a social, environmental or community objectives has increased over time where people are more indulging into this concept. In nations such as the United States of America (USA) and Australia, 11 percent of the businesses are social enterprises (Friedman, 2016). While the growth rate is not high, it is gradually being accepted by the people and communities due to the realization of positive impacts of social ventures on the society as a whole.

Social entrepreneurs thrive for positive changes in the society; while the term “Social innovation refers to innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly diffused through organizations whose primary purposes are social” as defined by Geoff Mulgan in this study in 2006. Jilinskaya-Pandey and Wade (2019) define social entrepreneurship as an entity that inculcates diverse and innovative business models to achieve the

social and environmental aims of the enterprise. Social entrepreneurship is gaining recognition and popularity in different fields of education, support services, medical industry, and social finance. Social finance that seeks social returns on business investment is a part of social entrepreneurship. There has been an increase in the number of ventures embarked on the foundation of social causes, and organizations and government are promoting such activities by providing them resources and financial aid (Tiwari et al., 2017). Social entrepreneurs realize the need to developing products and making profits, and also on how to give back to the society. Social entrepreneurship based on a social, environmental or community objective has increased overtime where people are indulging more into this concept. In nations such as U.S. and Australia, 11% of the businesses are social enterprises (Friedman, 2016). While the growth rate is not high, it is gradually being accepted by people and communities due to the realization of positive impacts of social ventures on the society as a whole.

Social entrepreneurs thrive for positive changes in the society, and while the term, social entrepreneur, is new, its concept has been there in the society since the 1980s (Pontus and Ulrika, 2010). Social entrepreneurship has acquired practical relevance in the 80s and 70s, but it is only in the 1990s that the government and research community started to show interest in it. It is acknowledged as a type of business that considers the creation of social wealth and not economic wealth as its major business goal. Due to the increase in social and environment problems plaguing the society, the ideology and perspective of social entrepreneurship has gained high popularity and importance (Pontus and Ulrika, 2010). It is often related to corporate social responsibility and corporate social innovation. According to Gandhi and Raina (2018), social entrepreneurship is implemented by employing innovation to produce social value. Cunha et al. (2015) strengthened the definition of social innovation by determining that it is a concept where 'change' is the foundation. It facilitates social change by visualizing a reality and creating it by bringing together resources. Social innovation gives rise to creative ideas and this in the context of social entrepreneurship assists in creating something new that forms the different stages in the complete social entrepreneurial process.

### **Understanding Social Entrepreneurship: Student perspective**

Eppler (2012) determined that a student who is interested in social change can adopt the ideologies of social entrepreneurship or convey their perspectives towards driving social change to their parents, teachers or adults. Calling oneself as social entrepreneur signals that the

individual shares beliefs and values to those who target social changes. Waghid and Oliver (2017) reveal from their study that education towards social entrepreneurship increases the interest and desirability of students to launch their own new ventures that can develop their society and economy. Awareness and knowledge towards the concept of social entrepreneurship is thereby very important in affecting the perspectives of youngsters and students. According to Richomme-Huet and De Freyman (2011), there exists few education and training programs that assist students who are motivated towards bringing social changes and embarking on the journey to launch their sustainable enterprise. However, most students are not familiar with the terminology and the importance or relevance of social entrepreneurship. Waghid and Oliver (2017) strengthen this argument that social entrepreneurship education is crucial for the society as it has an eminent role in job creation and poverty reduction. The higher educational institutes must include teachings on social entrepreneurship, which focuses on bringing social change, so as to enhance the knowledge bracket of the students. Obembe et al. (2014) assert that the perspectives of the students towards social entrepreneurship are reliant on their immediate social and cultural environment. The major factors that affect the perspectives of students are capital, university education, survival and familiarity. Students initially gain knowledge from different sources in their early childhood, and apart from school-based literacy, education on social entrepreneurship can also be offered through the film and entertainment industry. It is inferred from this review that the government must give more emphasis on promoting social entrepreneurship education.

### **Role of Disruptive Thinking**

Disruptive thinking and social innovation are key indicators of social entrepreneurship. Social innovation is driven by social entrepreneurs; it gives new perspective to innovation as it helps in designing strategies that can overcome the challenges of post-modern society. As defined by Andrew et al. (2010), "social innovation is a process initiated by social actors to respond to a desire, a need, to find a solution or to seize an opportunity of action to change social relations, to transform a frame or propose new cultural orientations to improve the quality and community living conditions." Disruptive thinking is also another element that gives more in-depth meaning to social entrepreneurship. Disruptive technologies change the functioning of industries and markets, and the use of disruptive technology and innovation has monumental consequences on social enterprises in the developing economies (Moon et al., 2016). Disruptive thinking refers to the ability to think towards radical changes while depending on non-conventional methods

**Table 1.** Comparison between different social entrepreneurship models.

Model		Key attribute	Examples
Entrepreneur Model	Support	<ul style="list-style-type: none"> <li>- Provide business support to required ventures and startups.</li> <li>- Help in training the entrepreneurs on how to run businesses and what to expect from the industry.</li> </ul>	<ul style="list-style-type: none"> <li>- Microfinance organizations</li> <li>- Consulting engineer</li> <li>- Technical support</li> </ul>
Market Intermediary Model		<ul style="list-style-type: none"> <li>- Provide services and resources to help businesses/clients enter and settle in the market.</li> <li>- Require lower costs.</li> </ul>	<ul style="list-style-type: none"> <li>- Supply resources in agriculture business, and handicraft sector.</li> </ul>
Employment Model		<ul style="list-style-type: none"> <li>- Provide employment opportunities to people.</li> <li>- Provide job trainings.</li> <li>- Sell products in open market.</li> <li>- Increases commercial viability.</li> </ul>	<ul style="list-style-type: none"> <li>- Helping disable people to acquire jobs in different areas including cafes etc.</li> </ul>
Fee-for-Service Model		<ul style="list-style-type: none"> <li>- Selling social services.</li> <li>- Placing a beneficial fee structure.</li> </ul>	<ul style="list-style-type: none"> <li>- Membership organizations</li> <li>- Clinics</li> </ul>
Low-income Client Model		<ul style="list-style-type: none"> <li>- Selling social services to those who cannot afford it.</li> <li>- Lower production and marketing costs.</li> <li>- Higher operating efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>- Healthcare</li> <li>- Utility programs</li> </ul>
Cooperative Model		<ul style="list-style-type: none"> <li>- Provides collective services to members of a group. The members are key stakeholders and investors.</li> <li>- A for-profit or non-profit business for members.</li> </ul>	<ul style="list-style-type: none"> <li>- Bulk purchasing</li> <li>- Credit unions</li> </ul>
Market Linkage Model		<ul style="list-style-type: none"> <li>- Connects client with markets.</li> <li>- Does not sell products.</li> </ul>	<ul style="list-style-type: none"> <li>- Broker services</li> <li>- Market research</li> </ul>
Service Model	Subsidization	<ul style="list-style-type: none"> <li>- Selling products to external markets fund social projects.</li> <li>- Business activities and social programs overlap.</li> </ul>	<ul style="list-style-type: none"> <li>- Consulting</li> <li>- Employment training</li> </ul>
Organizational Model	Support	<ul style="list-style-type: none"> <li>- Selling products to fund social projects.</li> <li>- Business activities are separate from social programs.</li> </ul>	<ul style="list-style-type: none"> <li>- Counselling</li> <li>- Printing services</li> </ul>

and developments (von Mutius, 2017). Disruptive thinking, creativity, and inventiveness are essential attributes in shaping social enterprises and sustainability.

According to Cieslik (2018), disruptive thinking and transformation is an essential aspect of social entrepreneurship that differentiates it from the other types of entrepreneurship. Social entrepreneurs are often viewed to be creative and open to disruptive ideas so as to bring strictness and certainty in bringing changes to the society. However, its impact on the effectiveness of the social venture is unknown due to a lack of evidence.

### Challenges and Effectiveness of Social Entrepreneurship

The business models used by social entrepreneurs include social innovative and creativity that assists in

bringing positive change in the society. Several social models and applications of social entrepreneurship are (Force, 2017) (Table 1):

1. The Entrepreneur Support Model: Here, the social entrepreneurs provide support to different organizations and consulting services to launch their enterprise.
2. The Market Intermediary Model: This model focuses more on marketing and selling the products or services of other businesses such as small-scale farmers.
3. The Employment Model: The social entrepreneurs provide platforms and different job opportunities to individuals for increasing employability in the society.
4. The Fee-for-Service Model: The social entrepreneurs seek charges from the customer for the socially beneficial services provided by them.
5. The Low-income Client Model: The social entrepreneurs offer services to unprivileged and low-

earning businesses or individuals. These can include healthcare programs.

6. The Cooperative Model: Here, the social entrepreneurs provide member services to a group that shares a common need or goal.

7. The Market Linkage Model: The entrepreneurs act as a medium to connect businesses with other businesses such as bringing together clients with Marketing firms.

8. The Service Subsidization Model: Here, the social entrepreneurs fund social programs in different sectors or industries.

Social entrepreneurship, though considered to be effective in helping the society, does not have sufficient evidence to support its effectiveness in bringing social change and resolving social issues. According to a study conducted by Diochon (2013), social entrepreneurship is considered to combat poverty, and yet, there has been no positive impact of social entrepreneurship on the community's employment and entrepreneurial capacity. Considering the challenges in this field, one challenge of social entrepreneurship is the lack of method to measure the impact made on the people or society. While the profits and revenue generation can be measured, it often becomes difficult to evaluate and precisely measure the social, environmental or sustainable impacts. Without this measurement, it becomes tedious to understand the changes required within the current business model or venture it to ensure better results. Apart from this, the other challenges faced by social entrepreneurs are difficulties in managing diversification, lack of resources, lack of funds, and poor collaboration with other authorities (Zainol et al., 2014).

## RESEARCH METHODOLOGY

This review adopts descriptive methodology where secondary data such as books, research papers, reports and articles are explored to meet the objectives of the study. As the study aims to explore social entrepreneurship and its linkage to social innovation and disruptive innovation and to understand how students perceive social entrepreneurship, 28 articles were reviewed from 2006 to 2019. Articles were selected based on their quality and relevance to the research topic and aim. The study is subjective in nature that utilizes a phenomenon or setting to understand the topic of research. The literature exploration and synthesis are performed as a secondary data collection method by using the computer and electronic databases on web such as Google Scholar, Google Search Engine, academia database, online newsletters, existing thesis on this subject, journal of social entrepreneurship, and other peer reviewed journals. Secondary sources on social entrepreneurship, innovation and disruption are referred; which are as follows:

1. Research papers and books related to the current topic of study.
2. Websites and online published materials on social enterprises and their development.
3. Reports of government bodies and industrial agencies on social entrepreneurship.

4. Web resources on social entrepreneurship and its role in economic development.

## FINDINGS AND DISCUSSION

Here, the major inferences are drawn from the existing body of literature so as to reach the conclusion. In this section different studies are discussed, as shown in Table 2.

## DISCUSSION

It is evident from the review that there is strong impetus for additional research in this field. There is a need to explore and evaluate the goals and motivation of students and of social enterprises to gain a more in-depth knowledge on the area and also on the practical application of social entrepreneurship. More evidence on the inclusion of social capital in the concept of social entrepreneurship is needed, along with measurement strategies to evaluate the impact of social entrepreneurship on the society. Additional information and empirical investigations in this field will clarify the extent of social entrepreneurship and provide more insights into this field of research.

## Conclusion

In a nutshell, social entrepreneurship is very crucial topic in today's world. Universities should start implementing social entrepreneurship in the curriculum in order to increase the awareness on students. Academicians should research more on social entrepreneurship. Disruptive innovation and disruptive thinking are the hallmarks of technology world that if properly implemented can boost the business prospect and profit. The term helps individual or company to come up with different strategic approaches; these two terms, *disruptive innovation*, are critical elements of the evolution of technology. This can be either positive or negative. However, it is beneficial for the company to come up with rewarding models so that they can be prioritized their choice of design. Most of the social entrepreneurship business suffered significantly due to lack of creativity, lack of finance and fear of risk taking. Personalities and individual behavior can also affect business success. Most of the entrepreneurs start business for profit making but those that focus on social entrepreneurship, they have social mission. Thus, it is very crucial to understand social entrepreneurship in order to solve social issues. Table 3 demonstrates the research gaps and research problems identified from the current review.

The aforementioned research problems are few areas

**Table 2.** Summary of research findings.

Authors	Objective	Methodology	Findings
Urban and Kujinga, (2017)	To understand the dimensions and concept of social entrepreneurship	- Cross sectional - Survey conducted in South Africa - SEM	Social entrepreneurship and its growth are dependent on the regulatory environment which impacts the feasibility and desirability towards the social venture.
Kraus et al. (2014)	To provide knowledge on the current state of social entrepreneurship	Secondary data research based on research papers and books	Research on social entrepreneurship is at an infancy stage. The personal characteristics of social entrepreneurs play a key role, where most are observed to be highly innovative.
Erfp et al. (2019)	To evaluate the dimensions of social entrepreneurship	Quantitative approach; survey with organizational leaders	Social ventures provide solutions to social issues by using revolutionary innovation. The users and all stakeholders are observed to be highly satisfied to be a part of the social system defined by the entrepreneurs.
Alarifi et al. (2019)	To examine social entrepreneurship and the role of entrepreneurial orientation	- Empirical study - Data collection from 303 social enterprises	Entrepreneurial orientation is revealed to positively affect social entrepreneurship. Innovativeness and proactiveness, but not risk-taking behavior, are other variables that positively affect the performances of social enterprises.
Bahena-Álvarez et al. (2019)	To study responsive innovation in the context of social entrepreneurship	- Data collection from 100 SMEs - Cluster analysis	The organizations are categorized into (1) The techno-scientific organization, (2) The techno-social organization, (3) The capitalist-social organization and (4) The capitalist organization. Responsive innovation is used for leveraging the technological and scientific capabilities for solving society problems. The social impact is observed to not affect the business initiatives of the social entrepreneurs.
Richomme-Huet and De Freyman (2011)	To focus on the mentality of students towards social entrepreneurship	Data collection from 36 students participating in educational program focused on different types of entrepreneurship	Students are not familiar with the importance and implications of social entrepreneurship.
Obembe et al. (2014)	To understand students' perspectives towards social entrepreneurship	- Survey with 280 students - Logistical hierarchical regression	The factors that affect the perspectives of students towards social entrepreneurship are capital, university education, survival and familiarity.
Bendell and Thomas (2013)	To study theories of disruptive innovation in light of sustainable luxury entrepreneurs	Interview with 30 luxury entrepreneurs and managers.	Concern for sustainable development is inspiring some luxury entrepreneurs to create entirely new products. There are new interventions that change patterns of consumption, production or exchange, for a positive societal outcome.
Chou (2018)	To introduce the design thinking method and also to apply it into social entrepreneurship	- Qualitative study - Review of literature - Case studies	Design thinking emphasizes on observation, collaboration, fast learning, rapid concept prototyping, and business analysis, which influences innovation and strategy in social entrepreneurship.

**Table 3.** Research gap, problems and hypotheses.

Research gaps	Suggested research problems	Hypotheses
Why has social entrepreneurship not gained popularity in underdeveloped nations and why is its growth still in infant stage?	Study the growth of social entrepreneurship and provide evidence on its implications on the society.	- Social entrepreneurship has not gained popularity in underdeveloped nations. - There is no growth of social entrepreneurship in underdeveloped nations.
There is no adequate measurement technique that is able to provide precise information on the impact of social entrepreneurship on resolving social issues.	Study measurement strategies and techniques that can provide information on the effectiveness of social entrepreneurship in resolving social issues and problems.	There is no technique that measures the impact of social entrepreneurship on social issues.
What barriers are there that affect the contribution of social entrepreneurs?	Explore the barriers affecting the contribution and effectiveness of social entrepreneurship.	There are different challenges that affect the success of social entrepreneurship.
What is the role of government in helping social entrepreneurs and young students who are motivated to launch their social venture?	Study government's contribution in building environment that is beneficial for social entrepreneurs.	Government initiatives are launched to help young social entrepreneurs in establishing businesses.
Is there a knowledge gap where students are not well versed with the concepts of social entrepreneurship?	Study and develop strategies to promote social entrepreneurship education.	Students are not aware of the key concepts of social entrepreneurship.

in which further research can be conducted. This review paper can assist the scholars pursuing a similar field of research who can further enrich the body of knowledge through more extensive investigations.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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