Human Capital and Exploit Opportunity among Malaysia Rural Entrepreneurs: The Mediating Effect of Opportunity Discovery

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Abstract: Rural entrepreneurship plays significant role in a country regional development and become the main agent of lagging economic growth for many developing countries. Despite the significant contribution made by the entrepreneurs, until now limited of previous study that focused on rural entrepreneurs especially on the aspect of human capital and opportunity entrepreneurship. This study is therefore aims to explore the rural opportunity entrepreneurship in Malaysia. Specifically, this study try to determine the relationship between entrepreneurial human capital on exploit entrepreneurial opportunity for Malaysia rural entrepreneurs and the mediating effect of opportunity discovery on the relationship. To achieve the objectives this study relied on quantitative survey involved 345 respondents (rural entrepreneurs). Data captured from the survey were analysed using SPSS Version 20 for descriptive analysis and Smart PLS Version 2.0 Software for inferential analysis to explore the variables are related. The survey revealed that at the significant level 0.01 human capital has a positive relationship with exploit entrepreneurial opportunity and direct effect to entrepreneurial opportunity discovery. The entrepreneurial opportunity discovery is partially mediate between human capital and exploit entrepreneurial opportunity. The study concludes that human capital plays an important role or main element that contributes to the new venture creation in rural entrepreneurship. Hence, in the opportunity entrepreneurship rural entrepreneurs must consider entrepreneurial opportunity discovery aspects. This study makes a significant contribution to the research on rural entrepreneurship field, especially in relations to rural opportunity entrepreneurship.

Key words: Rural entrepreneurship, human capital, exploit opportunity, opportunity discovery, especially

INTRODUCTION

Rural entrepreneurship is identified as one of rural regional development and plays as main catalyst in lagging areas across the nation (Skuras *et al.*, 2005; Labrianidis, 2006; Siemens, 2010; Pato and Teixeira, 2014). In the case of Malaysia as the economic development of the country still rely on contributions from the agriculture based activities especially from rural entrepreneurs, more attentions need to be given or specifically economic transformation of the rural region. Despite the significant role and contribution made by the rural entrepreneurs, until present lack of studies that focused on rural entrepreneurs especially on the aspect of human capital and entrepreneurial opportunity oriented (Pato and Teixeira, 2014). Based on that this study attempts to determine the relationship between entrepreneurial human

capital on exploit entrepreneurial opportunity and the mediating effect of opportunity discovery on the relationship among rural entrepreneurs in Malaysia.

Firstly this study begins with a brief introduction and followed by related literature review with concept model that related with existing literature on exploit opportunity and relational constructs such as opportunity discovery and human capital. The following part discusses the research methodology used and PLS-SEM statistical analysis with an assessment of construct in measurement model with the construct validity, convergent validity, discriminant validity and reliability analysis. It follows with the subsequent part deal with structural model data analysis with using path analysis for test hypotheses generated. The last part is on result discussion and conclusion with the opportunity for future study.

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Literature review

Opportunity entrepreneurship: Every start-up or new business venture creation is required to bring together and mobilize the pull of resources or capital to exploit entrepreneurial opportunities (Shane and Venkataraman, 2000). In fact, entrepreneurship researchers make the argument that entrepreneurial opportunities are at the heart of entrepreneurial activity and yet, there is still debating on the nature of opportunities in process perspective (Korsgaard, 2011). The dominant theoretical views of entrepreneurship, the discovery view of opportunities, found in parts by Kirzner (1978, 1997)'s work and the nexus perspective of entrepreneurship (Shane, 2003; Shane and Venkataraman, 2000) define entrepreneurial opportunities as something pre-existing in the market that the alert entrepreneur responds to existed opportunities related.

Most entrepreneurs face various obstacles throughout their diligent to discover and exploit entrepreneurial opportunities and deal with uncertainty risk in the process of new business ventures entrepreneurs retrieve to skills, knowledge and own financial assets, others will increase their perceived ability to tackle these obstacles and increase the advantages of pursuing opportunities into real business venture.

Human capital and exploit opportunity: Human capital among the most frequently studied in various relevant resources or types of capital (Autio and Acs, 2010; Davidsson and Honig, 2003). The recognition of human capital in promoting rural economic, social and environmental development has long been said and many programs to promote development of human capital in rural areas that embodies of skills, knowledge and values on the individual entrepreneurs. As entrepreneurship involves human mediation or cognition, personal lives that make the efforts to proceed entrepreneurial opportunity have been identified as important component of human capital (Baron, 2007). Nevertheless, most findings in entrepreneurship only focus on the psychological factors of how entrepreneurs itself identify opportunities mentioned above when it start a new business venture (Baron and Shane, 2008; Ucbasaran *et al.*, 2008, 2009).

Entrepreneurial human capital will determine the ability of an entrepreneur to assess the discovery and exploit an entrepreneurial opportunity before establish a business venture. This includes both formal and informal skill of acquisitions which have been recognised as important aspects in creating entrepreneurial success. Is was argued that human capital of individuals can shape their entrepreneurial venture prospects. In fact, the relationship between entrepreneur's human capital profiles and outcomes relating to firm entry/exit and performance have been identified by a numbers of studies (Bosma *et al.*, 2012).

At a very common level, human capital and knowledge accumulation by rural entrepreneurs have different processes. This include both explicit knowledge obtained through formal processes accumulation such as formal training and tacit knowledge or informal processes (Meccheri and Pelloni, 2006). For instance, Zampetakis and Kanelakis (2010) found that entrepreneur's prior knowledge is significant predictors of entrepreneurial exploit opportunity entrepreneurship. This implies that formal process of entrepreneurial human capital accumulation is the level of formal education and/or of consequent training in business. While informal process of entrepreneurial human capital accumulation is the experience gained through work or training in similar businesses before pursuing the business venture.

It has been acknowledged that role model increases the intention to be an entrepreneur and the roles of entrepreneur's self-efficacy positively affect entrepreneurial intentions and at most, entrepreneurship activities (Krueger *et al.*, 2000). For example, Bosma *et al.* (2012) stated the importance and indication of entrepreneurial role models. This indicated that entrepreneurs are interested to role models who are perceived to be similar in terms of their characteristics, behaviour or goals (the role aspect) and from whom they are able to learn certain abilities or skills (Bosma *et al.*, 2012).

Exploit opportunity is considered as an important step in creating a business venture in the entrepreneurial process. Exploit opportunity is the process in which entrepren eurs materialize the idea in the ways of acquiring business resources and enter or create a market (Farmer *et al.*, 2011). Whereas an exploitation is defined as the actions taken to bring the business concept into being a reality. For entrepreneurs, exploit opportunity is a necessary step to produce the returns and then create business success. However, there has been limited concepts and empirical findings on this subject in the previous literature (Choi and Shepherd, 2004; Pato and Teixeira, 2014).

The entrepreneurs are more likely to exploit opportunities in which the expected value received from the exploitation of entrepreneurial opportunities (both monetary and psychic) exceed from the opportunity cost for alternative use of their time, plus the premiums that they would like for bearing uncertainty and

liquidity (Shane, 2003). The expected reward value is influenced by three factors; the nature of entrepreneurial opportunity, the industrial and institutional environment; psychological factors and non-psychological characteristics of the entrepreneurs (Shane, 2003). Results for the exploit opportunities can be measured based on the value of rewards available is relatively better than existing alternatives is based on rewards obtained by other entrepreneurs.

Despite extensive studies on the role of prior knowledge and learning asymmetries in the individuals discover entrepreneurial opportunities (Corbett, 2007; Shane, 2000), very few studies have focused on the decision to exploit entrepreneurial opportunities (Fuentes *et al.*, 2010). For example (Choi and Shepherd, 2004) analysed the elements of the resource-based view to investigate entrepreneur's decisions to exploit entrepreneurial opportunities and they found that entrepreneurs are likelihood of exploit opportunity when entrepreneurs believe that customers will value their new product(s) have more knowledge of customer demands for new products have the enabling technologies for full-scale operations or a highly capable management team. In addition, the successful entrepreneurial exploit opportunity found to be positively related with entrepreneur's knowledge from previous business start-up (Davidsson and Honig, 2003; Fuentes *et al.*, 2010). In this context, we propose the following hypothesis:

- H_1: human capital among rural entrepreneurs has a direct positive effect on the extent of their exploit opportunity

Human capital and opportunity discovery: An entrepreneur's human capital profile is an understanding to the extent of opportunity discovery and pursuit, especially with respect to the incorporation of prior business ownership experienced (Ucbasaran *et al.*, 2008, 2009). An entrepreneur's human capital profile, particularly prior knowledge (Shane, 2000; Shepherd and DeTienne, 2005) can be associated with opportunity identification (Davidsson and Honig, 2003). From an inductive viewpoint, business opportunities are available in the environment and are waiting to be discovered. Kirzner (1978, 1997)'s "entrepreneurial alertness" perspective suggests that some individuals have the ability to see where products (or services) do not currently exist or where they have unexpectedly emerged as being valuable. Previous studies have explored the relationships between an entrepreneur's human capital

profile and the likelihood of firm survival and/or venture performance. For example in the creation new entrepreneurial firms (Davidsson and Honig, 2003) found that the increasing new firms established to determine by entrepreneur's possession of ability and knowledges and the influence of human capital on the discovery process of entrepreneurial opportunities. In another study by (Ucbasaran *et al.*, 2009) which highlighted how the performance of previous business ownership experience affected their discovery of entrepreneurial opportunities behaviour. Following this line of reasoning we propose the next hypothesis:

- H_2: human capital among rural entrepreneurs has a direct positive effect on the extent of their opportunity discovery

Opportunity discovery and exploit opportunity: Opportunity discovery is a process that entails an initial recognition and elaboration of a venture idea. The discovery process is inherently conceptual (Shane and Venkataraman, 2000). As Davidsson and Honig (2003) points out cognitive behavioral approaches is particularly useful in investigating the discovery processes of the entrepreneurship phenomenon as distinct from the exploitation processes which might draw more heavily on sociological or behavioral-economic theory. Rural opportunity discovery consists of opportunity recognition or alertness and evaluation (Tang *et al.*, 2012).

This study adopts the definition detailed in Davidsson and Honig (2003) which explain discovery process refers to "the conceptual side of venture development, from an initial idea to a fully worked out business concept", thus discovery itself is assumed a process. According to that venture business creation is a multi-scale phenomenon that is at once directional in time and driven by symbiotically coupled discovery and exploit opportunity (Psaltopoulos *et al.*, 2005). In the discovery process phase, opportunity recognition has been identified as is the key element and a main contributor in the entrepreneurial process (Kirzner, 1978, 1997; Venkatraman, 1997; Shane and Venkatraman, 2000). Neverthelss, the opportunity recognition in rural entrepreneurship still given less attention and understudied topic by previous scholars, especially in developing countries (Ozgen and Minsky, 2007).

Three elements of opportunities alertness consist scanning and searching for information, connecting previously disparate information and making evaluations on the existence of profitable entrepreneurial
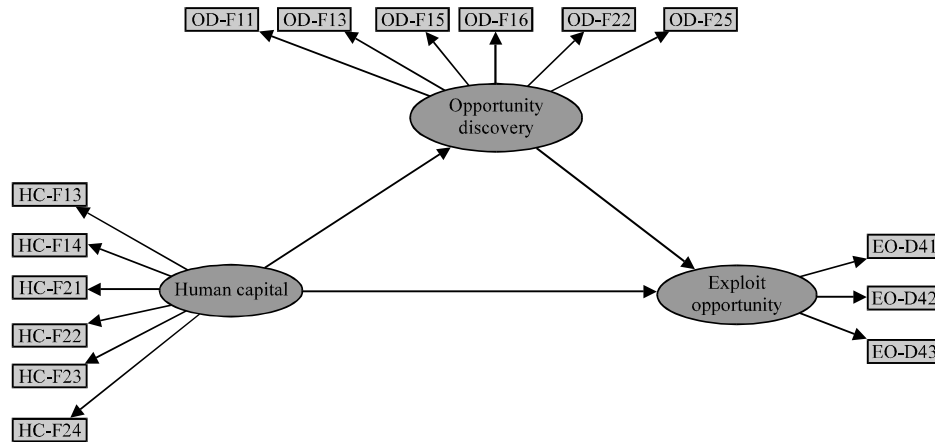
Fig. 1: Research model of the study

opportunities (Tang *et al.*, 2012). In general, Haynie *et al.* (2009) found that entrepreneurs evaluate opportunities relate to one's existing abilities, skills and knowledge that will be more attractive. Three conditions that will stimulate entrepreneurs to be interested in exploit opportunities that may be not consistent with the existing entrepreneur human capital include; the rarity of the opportunities; limits on competition associated with exploitation and the age of the firm when called with an opportunity value (Haynie *et al.*, 2009). Based on the literature review done, the authors proposed the following hypotheses:

- H₃: opportunity discovery among rural entrepreneurs has a direct positive effect on the extent of their exploit opportunity
- H₄: the impact of human capital among rural entrepreneurs on exploit opportunity is mediated by the opportunity discovery

Based on the discussion of previous literature provide a basis and support to the formulation of the research framework for examining the relationship between human capital, opportunity discovery and exploit opportunity of rural entrepreneurs in Malaysia (Fig. 1).

MATERIALS AND METHODS

This study employed a quantitative approach. The unit of analysis in this study is all registered Malaysia rural entrepreneurs with ministry of regional and rural development of Malaysia. The population of the study was 1.961 Malaysia rural entrepreneurs who list under directory by as of 31 December 2013. The data was

collected using a structured questionnaire developed based on a seven-point Likert scale multiple item measurement scale adapted from previous research namely (Farmer *et al.*, 2011; Autio and Acs, 2010; Bosma *et al.*, 2012; Meccheri and Pelloni, 2006; Psaltopoulos *et al.*, 2005; Ucbasaran *et al.*, 2009; Zampetakis and Kanelakis, 2010; Farmer *et al.*, 2011; Tang *et al.*, 2012. The questionnaire then has been modified and has been developed to measure the constructs to capture the required information to meet the research objectives.

One thousand two hundred fifty self-administered questionnaires were distributed for to the respective respondents. A multiple method of data collection was employed including mailed survey and personal interview with the respondents. The process of data collection took almost 6 months. A total of 446 questionnaires were received and only 345 accepted to be used for this analysis which translates to about a 44.6% response rate. Data captured from the survey were analysed using SPSS version 20 for descriptive analysis and SmartPLS Version 2.0 Software for inferential analysis.

RESULTS AND DISCUSSION

Measurement model results
Goodness of measures: Sound measurement must meet the test of validity and reliability. The two main criteria used to attests goodness of measures are validity and reliability. Reliability is the extent to which a variable or set of variables is consistent in what it is intended measure whereas validity is the extent to which a measure or set of measures correctly represents the concept of study (Hair *et al.*, 2010).

Table 1: Loadings and cross loadings

Variables	Exploit opportunity	Human capital	Opportunity discovery
EO_D41	0.8353	0.4450	0.4508
EO_D42	0.8943	0.3835	0.4591
EO_D43	0.8219	0.3309	0.3864
HC_F13	0.3586	0.7065	0.3116
HC_F14	0.3236	0.7101	0.3169
HC_F21	0.3198	0.8109	0.3995
HC_F22	0.2858	0.8037	0.3783
HC_F23	0.4208	0.7844	0.4663
HC_F24	0.3500	0.7208	0.4573
OD_F11	0.4186	0.3847	0.7220
OD_F13	0.3288	0.3518	0.7543
OD_F15	0.3032	0.3939	0.8130
OD_F16	0.3200	0.3626	0.7880
OD_F22	0.4184	0.3589	0.7126
OD_F25	0.4560	0.4600	0.7010

Bold values are loadings for items which are above the recommend value 0.5

Table 2: Result of measurement model

Model construct	Measurement item	Loading	CR	AVE
Exploit opportunity	EO_D41	0.8353	0.8873	0.7243
	EO_D42	0.8943		
	EO_D43	0.8219		
Human capital	HC_F13	0.7065	0.8894	0.5736
	HC_F14	0.7101		
	HC_F21	0.8109		
	HC_F22	0.8037		
	HC_F23	0.7844		
	HC_F24	0.7208		
Opportunity discovery	OD_F11	0.7220	0.8847	0.5619
	OD_F13	0.7543		
	OD_F15	0.8130		
	OD_F16	0.7880		
	OD_F22	0.7126		
	OD_F25	0.7010		

Table 3: Summary result of model construct

Variables	SD (STDEV)	t-values
Exploit opportunity		
EO_D41	0.0228	36.5602
EO_D42	0.0145	61.4974
EO_D43	0.0335	24.5569
Human capital		
HC_F13	0.0414	17.0640
HC_F14	0.0429	16.5411
HC_F21	0.0275	29.4413
HC_F22	0.0307	26.1471
HC_F23	0.0229	34.2175
HC_F24	0.0373	19.2991
Opportunity discovery		
OD_F11	0.0382	18.9043
OD_F13	0.0373	20.2195
OD_F15	0.0260	31.3090
OD_F16	0.0317	24.8542
OD_F22	0.0442	16.1337
OD_F25	0.0333	21.0449

Table 4: Discriminant validity of construct

Variables	1	2	3
Exploit opportunity	0.8511		
Human capital	0.4583	0.7574	
Opportunity discovery	0.5105	0.5218	0.7496

Construct validity: Construct validity was defined as the extent to which study is accurate and the discussion centred on validating summated scales (Hair *et al.*, 2010). Thus, it deals with a set of measured items that actually reflects the theoretical latent construct those items are designed to measure. Convergent and discriminant validity has been accessed to measure instrument tap the concept as theorized. First with referring from Table 1 at the related loadings and cross loadings values, we evaluate if any problems exist with any particular items. We used rule of thumb the loadings value should be >0.5 as significant (Hair *et al.*, 2014). As indicated in Table 1, all the indicators loaded on their respective constructs from a lower bound of 0.701 to an upper bound of 0.8943. Additionally, all the indicators loaded more highly on their respective constructs than on any other construct thus confirming construct validity.

Convergent validity: Next, we tested the convergent validity which is the items that are indicators of a specific construct should converge or share a high proportion of variance in common. According to Hair *et al.* (2014) the authors used the factor loadings, composite reliability and average variance extracted to assess convergence validity. While, the loading values (Table 2) for all items higher the recommended value of 0.5 (Hair *et al.*, 2014). Composite reliability values, a measure of internal consistency reliability should be above 0.7 (Hair *et al.*, 2014), construct are ranged from 0.8847-0.8894 (Table 2). The Average Variance Extracted (AVE) measure the degree to which a latent construct explains the variance of its indicators and it should be >0.50 to justify using a construct (Barclay *et al.*, 1995). Convergent validity assessment builds on the AVE value as the evaluation criterion. In this case (Table 2), the AVE values of exploit opportunity (0.7243), human capital (0.5736) and opportunity discovery (0.5619) are well above the required

minimum level of 0.5. Thus, the measures of the three reflective constructs have high levels of convergent validity.

Table 3 summarizes the results of the measurement model. The results show that all the nine constructs role model relationship, knowledge or training, recognition, evaluation, opportunity cost, idea development, finance or investment, human needs and market needs are all valid measures of their respective constructs according on their parameter estimates and statistical significance (Chow and Chan, 2008).

Discriminant validity: Next we proceeded to test the discriminant validity. The discriminant validity is the extent to which a construct is truly distinct from other constructs. This means that the shared variance

Table 5: Result of reliability test

Constructs	Measurement items	Cronbachs alpha	Loading range	No. of items
Exploit opportunity	EO_D41, EO_D42, EO_D43	0.8099	0.8219-0.8943	3
Human capital opportunity	HC_F13, HC_F14,HC-F21,HC_F22,HC_F23,HC_F24	0.8512	0.7085-0.8109	6
Discovery	OD_F11,OD_F13,OD_F15,OD_F16,OD_F22,OD_F25	0.8441	0.701-0.81300	6

Table 6: Path coefficients and hypothesis testing

Hypothesis	Relationship	Coefficient (β)	t-values	p-values
H_1	Human capital->Exploit opportunity***	0.4626	9.83160	0.000**
H_2	Human capital->Exploit opportunity****	0.2637	4.21270	0.000**
H_3	Human capital->Opportunity discovery	0.5218	12.4875	0.000**
H_4	Opportunity discovery->Exploit opportunity	0.3729	6.46580	0.000**

*Significant at <0.001 (two-tailed) when t>2.57; **significant at <0.05 (two-tailed) when t>1.96; ***without mediator variable; ****with mediator variable
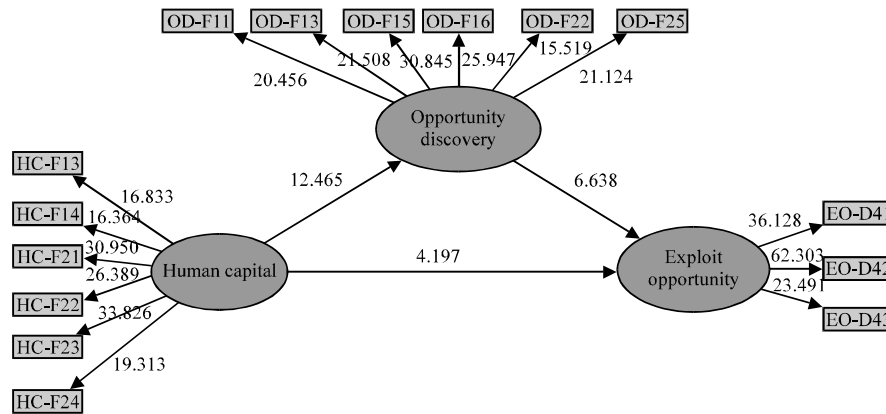

Fig. 2: Results of the path analysis

between each construct and its measures is greater than the variance shared among distinct constructs (Compeau *et al.*, 1999). In order to assess the discriminant validity of the measurement model, this study used the criterion suggested by Fornell and Larcker (1981). As in correlation matrix illustrated in Table 4, the diagonal elements are the square root of the average variance extracted of all the latent variables. The discriminant validity is assumed if the diagonal elements are greater than other off-diagonal elements in their rows and columns. This situation is apparently the case in the correlation matrix and thus the discriminant validity is confirmed.

Reliability analysis: Cronbach's alpha coefficient also used to assess the inter item consistency of the measurement item. Table 5 summarizes the cronbachs alpha values and loadings range. The result that emerges from Table 4, mostly all the alpha values are above 0.6 as suggested by Nunnally and Bernstein (1994). The composite reliability values also ranged from 0.701-0.8943. Interpreted like a Cronbach's alpha for internal consistency reliability estimate, a composite reliability of 0.70 or greater is considered acceptable (Fornell and Larcker, 1981). As such we can conclude that the

measurements are reliable. Since, the study use a single source data, there is a potential for common method variance. However, the Harman single factor test was conducted to determine the extent of this bias. Podsakoff and Organ (1986) mentioned that common method bias is problematic if a single latent factor would carry the majority of the explained variance. The un-rotated factor analysis indicated that the first factor explained 21.066% of the total variance explained and thus the common method bias is not a serious issue in this study. Having established the validity and the reliability of the measurement model, the next step was to test the hypothesized relationship by running PLS algorithm and Bootstrapping algorithm in Smart PLS 2.0.

Structural model and hypothesis testing: Next we proceeded with the path analysis to test the four hypotheses generated. Figure 2 show result of bootstrapping of the structural model and Table 6 presents the results of the path coefficients (β values) for all path relationship in the model.

The results of the structural model indicated a positive and significant relationship between rural entrepreneurs human capital and their exploit entrepreneurial opportunity, β = 0.4626, t = 9.8316 and

p<0.001. Further, analysis of the structural model showed a positive and significant relationship between rural entrepreneurs opportunity discovery and their exploit entrepreneurial opportunity, β = 0.3729, t = 6.4658, p<0.001. The results also revealed that the rural entrepreneurs human capital and their opportunity discovery was positively and significantly related, β = 0.5218, t = 12.4875, p<0.001.

To assess the mediating effect (Baron and Kenny, 1986) of opportunity discovery on the relationship between rural entrepreneur's human capital and their exploit opportunity, the following steps were followed. First, the relationship between rural entrepreneur's human capital and their exploit opportunity was examined without the mediator variable (opportunity discovery) in the model. The result was significant, β = 0.4626, t = 9.8316, p = 0.000. Second, the mediator variable was added to the model and the results were assessed. From the results, the relationship between rural entrepreneurs human capital and their exploit opportunity also significant, β = 0.2637, t = 4.2127, p = 0.000.

To perform a Sobel test, the beta values (path coefficients) together with their standard errors for the relationship between rural entrepreneurs human capital and their opportunity discovery, β = 0.5218, standard error 0.0419 and for the relationship between opportunity discovery and exploit opportunity, β = 0.3729, standard error = 0.0561 were used. The results of the test showed that the mediating effect was significant, t = 5.8559, p = 0.000 (two-tailed prob), p = 0.000 (two-tailed prob). The results indicate that extent of opportunity discovery mediates the relationship between rural entrepreneurs human capital and exploit opportunity. This showed that opportunity discovery partially mediated to rural entrepreneur's human capital and their exploit opportunity.

CONCLUSION

This study supports conventional views of the influence of independent variables of entrepreneurial human capital and entrepreneurial opportunity discovery on the perceived extent of exploit entrepreneurial opportunities among the rural entrepreneurs in Malaysia using the Partial Least Square (PLS) techniques in testing hypotheses. It also examines how this perceived extent of entrepreneurial opportunity discovery may predict the exploit entrepreneurial opportunity.

The findings of this study confirmed that entrepreneurial human capital impact on exploit entrepreneurial opportunities among rural entrepreneurs in Malaysia. This findings is consistent with the findings

of previous studies (Zampetakis and Kanelakis, 2010; Davidsson and Honig, 2003; Fuentes *et al.*, 2010). It implies that the higher of entrepreneurial human capital, the greater of the exploit entrepreneurial opportunity. It also implies that entrepreneurial human capital is a predictor of exploit entrepreneurial opportunity among Malaysia rural entrepreneurs. Furthermore, as hypothesized and the test result on the structural model indicated that opportunity discovery partially mediated the relationship between entrepreneurial human capital and exploit opportunity. Entrepreneurial opportunity discovery was positively and significantly related to entrepreneurial human capital and exploit opportunity. It means that the higher the opportunity discovery concentration, the higher the entrepreneurial human capital accumulation and by extension the greater exploit entrepreneurial opportunity. This indicates that part of the effect of human capital on exploit entrepreneurial opportunity has been taken over by opportunity discovery.

In view of the complexities of entrepreneurial process, it suggested that future studies can be done that include elements from other resources from Resource Based View (RBV) theory, namely, financial capital and social capital as additional independent variables because they have been found to be impact on successful relationship between new business venture creation firm and individual resources.

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