

# **Influence of Indulgence on Entrepreneurial Opportunity Exploitation among Small and Medium Enterprises Owners in Tanzania: Mediating Effect of Innovativeness**

Baraka Hebron Kamwela<sup>1\*</sup>, Emmanuel Tonya<sup>2</sup>

<sup>1</sup>PhD student, Faculty of Business Management, Open University of Tanzania

<sup>2</sup>Senior Lecturer, Department of Business, Mbeya University of Science and Technology

\*Corresponding Author: email kamwelah@yahoo.com

## **Abstract**

*The purpose of this study was to examine the direct and indirect influence of indulgence on entrepreneurial opportunity exploitation among small and medium enterprise owners in Tanzania. The specific objectives were to examine the influence of indulgence on entrepreneurial opportunity exploitation and to examine the mediating effect of innovativeness on the relationship between indulgence and entrepreneurial opportunity exploitation. The study employed an explanatory research design in which 370 small and medium enterprise owners were studied using a cross-section survey questionnaire. Partial least square structural equation modelling was used to test the hypotheses for the direct and indirect effects of indulgence on entrepreneurial opportunity exploitation. Empirical results indicated that indulgence has a positive and significant direct influence on entrepreneurial opportunity exploitation among small and medium enterprise owners. Also, mediation effects indicated that innovativeness had positive and significant indirect effects on the relationship between indulgence and entrepreneurial opportunity exploitation. Theoretically, the study implies that innovativeness is the mechanism through which indulgence influences entrepreneurial opportunity exploitation. Moreover, the study implies that indulgent values influence SME owners' behaviour toward entrepreneurial opportunity exploitation. Policymakers should incorporate indulgent values and innovativeness characteristics when formulating business policies and strategies that aim at promoting entrepreneurial opportunity exploitation.*

**Key words:** Cultural values, innovativeness, entrepreneurship, opportunity exploitation.

DOI: <https://dx.doi.org/10.4314/ajasss.v5i1.3>

## **1. Introduction**

Entrepreneurial opportunity exploitation is one of the key activities of entrepreneurship (Gehman and Etzion, 2014). It involves developing a product or service after perceiving a business opportunity, acquiring appropriate human resources, securing the needed financial resources and starting the business

enterprise (Kuckertz, 2017). Entrepreneurial opportunity exploitation is concerned with acting on identified opportunities to create services or products. Entrepreneurial opportunity exploitation is conducted mainly in the form of small and medium enterprises (SMEs) because they form almost 90% of businesses in both developed and developing countries (Mbuyisa and Leonard, 2017; Muriithi, 2017). In Tanzania, SMEs account for 83.3% of business firms (URT, 2018). However, the rate and capability of exploiting identified entrepreneurial opportunities vary among countries (Assman and Ehrl, 2021, Erhardt and Haenni, 2018, Stephan, 2022). Differences are experienced globally, across different regions, in Africa and even in East African countries. For instance, among East African countries, Tanzania is lagging behind Rwanda, Kenya and Uganda in entrepreneurial opportunity exploitation (Dimitropoulou, 2021).

Economic, legal, psychological, technological and political factors have been widely discussed to explain the existing diversity in entrepreneurial opportunity exploitation (Bwisa and Ndolo, 2011). Khan et al. (2022) assert that political and economic factors are not adequate in explaining the variations. Cultural values have a critical role in explaining the diversity because entrepreneurial opportunity exploitation occurs in a specific cultural context (Gehman and Etzion, 2017; Erhardt and Haeni, 2018; Çelikkol et al., 2019). Cultural values affect entrepreneurial opportunity exploitation by preparing conducive situations for SME owners to exploit entrepreneurial opportunities (Assmann and Ehrl, 2021). Cultural values influence people's behaviour (Zhao et al., 2020) and hence can hinder or accelerate entrepreneurial opportunity exploitation. Thus, differences in cultural values lead to variations in entrepreneurial behaviours (Ajekwe, 2017), including entrepreneurial opportunity exploitation.

Despite the critical role of cultural values in influencing entrepreneurship, little has been done to examine its impact on entrepreneurial activities (Facchini et al., 2021). The extant studies have mainly examined the influence of individualism, masculinity, uncertainty avoidance and power distance on entrepreneurial opportunity exploitation (Hicks et al., 2015). There is a paucity of studies on the effect of the new Hofstede cultural values like long term orientation and indulgence (Hicks et al., 2015). However, indulgence is the most current Hofstede cultural values which was introduced in 2010 (Hofstede et al., 2010). Being the most recent dimension, it has not adequately been examined by extant literature (Heydari et al., 2021). Enkh-Amgalan (2016) posits that indulgence is a least researched dimension among the six Hofstede cultural values. Thus, this study is motivated to extend understanding of its influence on entrepreneurial opportunity exploitation.

Indulgence involves relatively free fulfillment of basic and natural human desires associated with life enjoyment and having fun (Hofstede, 2011). Indulgent people are optimistic and have more perception of personal life control (Koc et al., 2017). Furthermore, studies about cultural values and entrepreneurship have mainly been conducted in Western countries which are economically better (Urban Ratsimanetrimanan, 2015; Achim et al., 2021). Economically poor countries have different environments in terms of formal institutions, markets and cultural values (Achim et al., 2019). Diverse formal institutions like economic, legal, technological and political systems make people in less developed countries behave differently on perceptions of enjoyment and life control, personal freedom, adventuring and optimism. Therefore, the effects of cultural values on entrepreneurial opportunity exploitation in countries with better economies may have different effects in countries with poor economies.

Achim et al. (2018) posit that indulgence has the strongest influence on entrepreneurship compared to other Hofstede cultural values. Furthermore, Odzemir (2018) asserts that indulgence significantly and positively affects entrepreneurship. Padela and Khanani (2022) contend that indulgence has a significant influence on entrepreneurial activities. Indulgent values such as freedom, control over life and fulfilment of human desires motivate people to undertake entrepreneurship activities to maintain enjoyment and happiness (Celikkol et al., 2019). Freedom to enjoy life, relax and adventure enhances openness to change and tolerance of mistakes and failures thus increasing entrepreneurial potentials among indulgent societies (Bate, 2023). Therefore, it is hypothesized that indulgence positively and significantly influences entrepreneurial opportunity exploitation.

On the other hand, indulgence positively influences entrepreneurial innovativeness (Tehseen et al., 2021). Prime et al. (2017) found a relationship between indulgence and the degree of innovation at the national level. Andrijauskiene and Dumciuviene (2017) posit that indulgence positively relates to the level of innovativeness. Indulgent values such as individuals' perception of life control, optimism and positive attitude are more supportive of innovativeness (Kose and Ugurlu, 2022). Indulgent people have a greater ability to face new experiences which enhance their innovativeness (Lopez-Cabarcos et al., 2021). Indulgence encourages innovativeness among people as a means through which life enjoyment can be sustained (Khan and Cox, 2017).

Moreover, innovativeness has a positive and significant impact on entrepreneurial opportunity exploitation (Mayanja et al., 2019, Salem and Beduk,

2021). SME owners convert business thoughts into products through innovativeness (Salem and Beduk, 2021). Better and novel goods, services and production methods originate from the innovativeness of entrepreneurs (Hamdan and Ah Alheet, 2020). Innovativeness offers a supportive condition for business owners to act upon opportunities (Mayanja, et al., 2019)

From the above studies a sequential relationship between indulgence, innovativeness and entrepreneurship has been established; hence it is hypothesized that innovativeness positively and significantly mediates the relationship between indulgence and entrepreneurial opportunity exploitation. Little is empirically known about the indirect effect of innovativeness on the influence of indulgence on entrepreneurial opportunity exploitation. Zhao et al. (2010) contend that disregarding indirect effects may lead to prejudiced interpretation of results. Innovativeness was selected as a mediator variable in this paper because it is a major and vital element of entrepreneurial orientation (Hernández-Perline et al., 2020). Also, the sequential effect established among the three constructs (indulgence, innovativeness and entrepreneurship) justifies the use of innovativeness as a mediator variable.

## **2. Methodology**

This study used positivist philosophy and an explanatory research design. The design helped to test the association among various variables. A cross-sectional survey research strategy was employed to study a sample of 370 registered SME owners in Dar es Salaam region. The sample was obtained using a formula from the population of 147,903 registered SME owners. The lists of SME owners for each district were obtained from the district trade officers. The study was conducted in Dar es Salaam because it is the largest business and economic area in Tanzania (Todd et al., 2019), with the largest number of SME owners, approximately 13 per cent of all SME owners in Tanzania (URT, 2012). Because a large number of SME owners and the diverse nature of businesses in the region, they are appropriate to explain ways in which indulgence influences entrepreneurial opportunity exploitation.

Proportionate stratified and systematic random sampling techniques were used to select SME owners who were studied. Proportionate stratified sampling was used to determine the total number of respondents from each district because of the diverse number of SME owners from each district. Furthermore, systematic random sampling was used to select SME owners who filled out the questionnaire copies. Systematic random sampling was chosen because it is cheap, simple to use and convenient in a large population (Kothari, 2009). Data were collected

using a structured questionnaire which included a Likert scale on which SME owners rated the extent to which they agreed or disagreed with the statements that comprised the scale. The scale ranged from strongly disagree to strongly agree. The English questionnaire was translated into Kiswahili by Baraza la Kiswahili Tanzania (BAKITA) because a large number of SME owners are conversant with Kiswahili.

Indulgence was measured by perception of personal life control, fulfilment of desires, preference for leisure time, and personal freedom, adapted from Dos Santos Góis Graça, (2011) and Ratsimanetrimanana (2014). Entrepreneurial opportunity exploitation was measured by the opening of new markets, acquisition of new markets, securing financial resources and organisation of teams which were adapted from Kuckert et al. (2017) and Liu et al. (2019). Innovativeness was measured by items such as novel ideas, creativity, product improvements, new products, new techniques and new business processes which were adapted from Jalali, Jaafar and Ramayah (2020) and Hamdan and Alheet, (2020).

Data analysis was conducted using smart Partial least square structural equation modelling (smart PLS-SEM). PLS-SEM analysis involved the assessment of the inner or measurement model and the outer or structural model. Smart PLS-SEM was selected because it does not consider multivariate normality of data, is flexible to estimate both measurement and structural analysis using the same model, and is more powerful in determining the level of significance (Hair et al., 2019).

### **3. Results and Discussion**

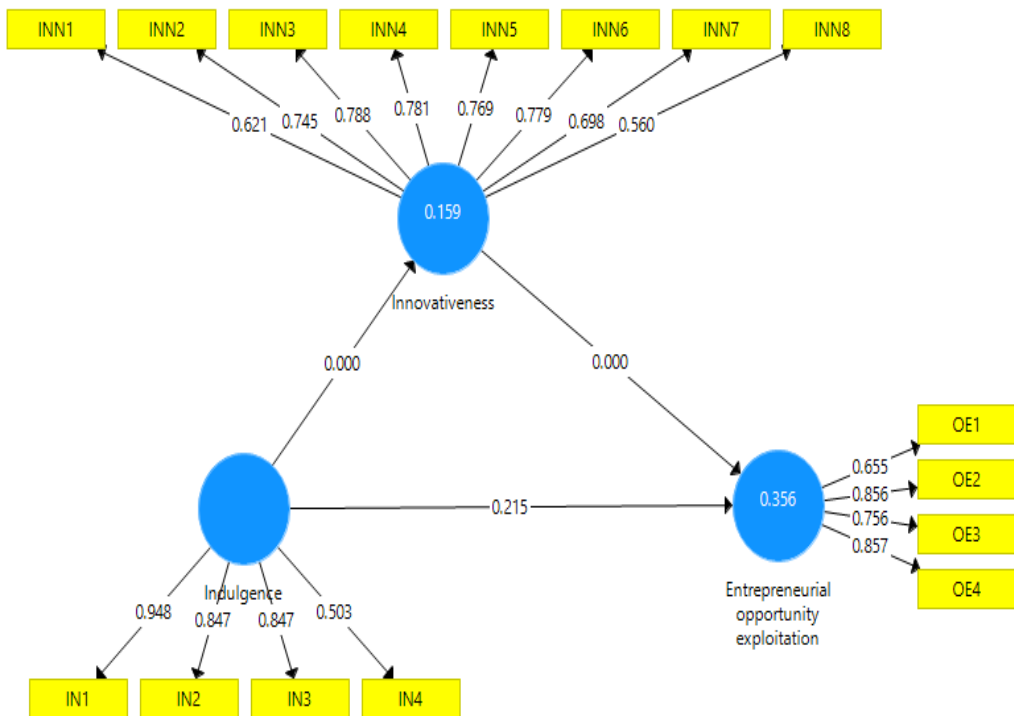
Smart PLS-SEM was used to analyse data because it is a well-developed and widely used system of estimating relationships in business management and related disciplines (McDonald, 1996). This part presents the results of the assessment of measurement and structural model.

#### **3.1 Measurement Model or Inner Model**

When using smart Partial least square structural equation modelling, the first step is to assess the measurement model. The measurement model includes an assessment of factor loadings of indicators, Cronbach's alpha, composite reliability, convergent validity and discriminant validity.

### 3.1.1 Factors Loadings

Factor loadings measured individual item reliability. Factor loadings above 0.70 mean an indicator contributes more than 50% of the definition of the latent construct hence an indicator’s acceptable reliability (Hair et al., 2019). IN4 from indulgence, INN1, INN7 and INN8 from innovativeness and OE1 from opportunity exploitation were removed because they had less than 0.7 factor loadings. Figure 3.1 indicates the original model before the removal of indicators with low factor loadings.



**Figure 3.1 Original model**

*After removing indicators with less than 0.7 factor loadings the model was run to come up with the edited model in which all indicators met the required threshold of not less than 0.7 factor loadings.*

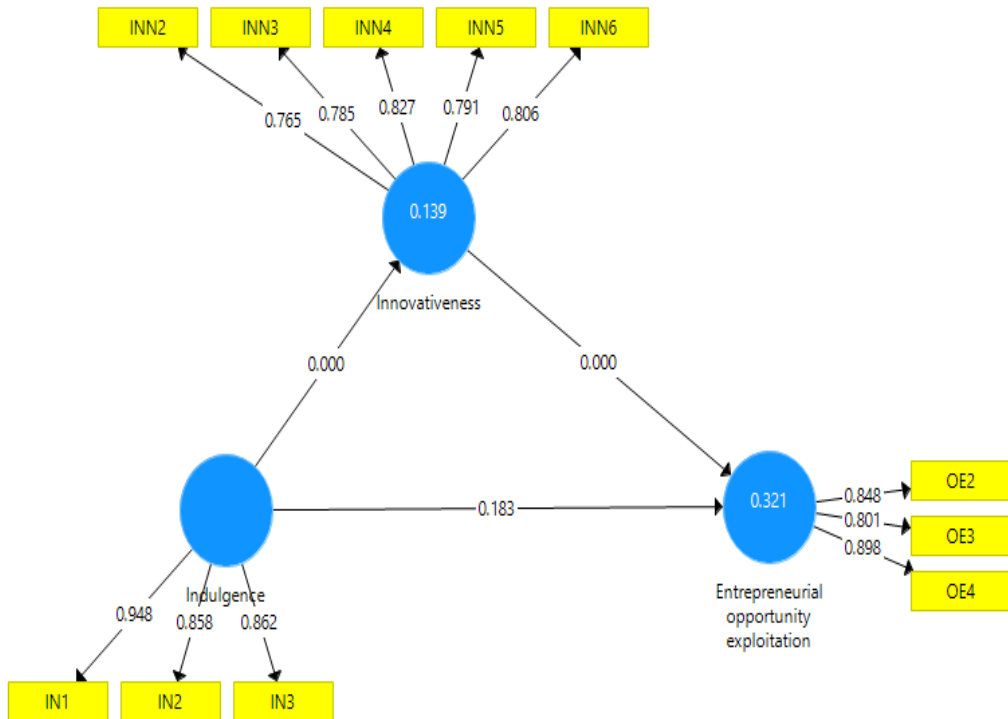


Figure 3.2: Edited model after removing items with loadings below 0.7

### 3.1.2 Constructs Validity and Reliability

Table 3.1 shows that the constructs that were used had Cronbach’s alpha and composite reliability values above 0.7. This means construct reliability was attained. Composite reliability of 0.70 or above is adequate to establish reliability (Hair et al., 2019). The Average Variance Extracted (AVE) above or equal to 0.5 shows that constructs have met the required convergent validity (Hair et al., 2019). Table 3.1 shows that all the constructs had an AVE value greater than 0.50; thus convergent validity was attained.

Table 3.1: Cronbach’s alpha, composite reliability and average variance extracted (AVE)

Constructs	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Entrepreneurial opportunity exploitation	0.807972736	0.886163655	0.722258244
Indulgence	0.868240961	0.919688449	0.792769542
Innovativeness	0.85560197	0.89570537	0.63219183

Discriminant validity can be measured using the Fornel-Larker criterion, Cross loadings and Heterotrait Monotrait ratio (HTMT). However, HTMT is more capable of detecting discriminant validity problems compared to cross loadings and the Fornel-Larker criterion (Hair et al., 2019). HTMT value less than 0.90 for similar constructs and HTMT value less than 0.85 for different constructs indicate the presence of discriminant validity (Hair et al., 2019). Table 4.2 shows that HTM is less than 0.85 for different constructs; hence discriminant validity has been attained.

**Table 3.2: Heterotrait Monotrait ratio**

	Entrepreneurial opportunity exploitation	Indulgence
Indulgence	0.403576117	
Innovativeness	0.636938984	0.425387844

The second assessment of discriminant validity is cross loadings. In assessing cross loadings, the outer loadings of an item must be larger on the constructs they represent than its cross loadings on the other constructs. Table 3.3 shows that that outer loadings were greater in the latent variable they represented than the cross loadings on other latent variables.

**Table 3.3: Cross loadings**

Cross Loadings	Entrepreneurial opportunity exploitation	Indulgence	Innovativeness
IN1	0.30292741	<b>0.948252159</b>	0.36838388
IN2	0.317048997	<b>0.857530855</b>	0.261733738
IN3	0.285080391	<b>0.862419446</b>	0.357975203
INN2	0.424857365	0.253608039	<b>0.765264044</b>
INN3	0.289426327	0.272363473	<b>0.785389845</b>
INN4	0.432079578	0.313886181	<b>0.827130185</b>
INN5	0.489666809	0.31902174	<b>0.790715882</b>
INN6	0.495286447	0.312032026	<b>0.805677935</b>
OE2	<b>0.848301964</b>	0.280921857	0.482852386
OE3	<b>0.800872892</b>	0.265309494	0.38282831
OE4	<b>0.897641978</b>	0.312396555	0.518157629

The third assessment of discriminant validity is the Fornell-Larker criterion whereby the square root of AVE of each construct must be greater than its correlation with other constructs. Table 3.4 shows that the square root of AVE of each construct was greater than its correlation with another construct.



**Table 3.4: Fornell-Lacker criterion**

Fornell-Larcker Criterion	Entrepreneurial opportunity exploitation	Indulgence	Innovativeness
Entrepreneurial opportunity exploitation	<b>0.849857779</b>		
Indulgence	0.337799526	<b>0.890376068</b>	
Innovativeness	0.548223746	0.372936366	<b>0.795104918</b>

### 3.2 Assessment of the Structural Model

The structural model was assessed after validating the measurement model. Since reliability and validity had been met for all the constructs, the measurement model was validated, the structural model was assessed. It involved the assessment of collinearity issues, model predictive power, models predictive relevance or accuracy and the path coefficients.

#### 3.2.1 Collinearity Issues

Variance inflated factor (VIF) is used to assess the extent to which constructs are independent. Hair et al. (2019) contend that a collinearity value of less than 3 indicates that there is no collinearity problem. Table 3.5 shows that the collinearity for indulgence and innovativeness was 1.000; for indulgence, and opportunity exploitation it was 1.162; and for innovativeness and entrepreneurial opportunity exploitation it was also 1.162. The collinearity values for all the constructs were below the recommended threshold of less than 3; hence there was no collinearity problem.

**Table 3.5: Collinearity**

	Entrepreneurial opportunity exploitation	Indulgence	Innovativeness
Entrepreneurial opportunity exploitation			
Indulgence	1.162		1.000
Innovativeness	1.162		

#### 3.2.2 Model fit

Standardized root mean square residual (SRMR) was tested to determine the acceptability and fit of the model. Hair et al. (2019) suggest that, unlike covariance based on SEM which has several fit indices, PLS-SEM uses SRMR to test model fit. SRMR is the index of the average of the standardized residuals between the observed and hypothesized covariance matrices (Hair et al., 2019). A value less than 0.10 or less than 0.08 indicates that model fit has been attained

(Dakduk et al., 2019). The result for SRMR was 0.073; hence the model well fitted the data.

### 3.2.3 Models' Predictive Power and Relevance

Models' predictive power was measured by R-Square ( $R^2$ ). A value equal to 0.1 or above indicates good model predictive power (Raithel et al., 2012). The  $R^2$  values were 0.139 and 0.321 for innovativeness and opportunity exploitation respectively; hence the predictive capability was established.  $Q^2$  measures the extent to which the structural model has predictive relevance or accuracy. A  $Q^2$  value greater than 0 shows that the model meets the threshold for predictive relevance (Hair et al., 2019). The constructs had predictive relevance since they had  $Q^2$  values of 0.214 for entrepreneurial opportunity exploitation and 0.079 for innovativeness; hence predictive relevance was met.

### 3.2.4 Path Analysis

#### 3.2.4.1 Indulgence and Entrepreneurial Opportunity Exploitation

To test the relationship between indulgence and entrepreneurial opportunity exploitation, it was hypothesized that indulgence positively and significantly influences entrepreneurial opportunity exploitation. The results in Table 3.6 suggest that indulgence had a positive and significant influence on entrepreneurial opportunity exploitation among SME owners (p-value 0.007). The findings suggest that indulgent values which include person's positive attitudes towards life, freedom and fulfilment of human desires do influence entrepreneurial opportunity exploitation among SME owners in Tanzania.

**Table 3.6: Direct effect of indulgence on entrepreneurial opportunity exploitation**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
IN -> OE	0.155	0.158	0.063	2.465	<b>0.007</b>

The findings of this study are in line with findings by Ozdemir et al. (2018), who reported that indulgence has a significant positive influence on entrepreneurship. The findings are also consistent with Achim et al. (2019) who found strong influence of indulgence on entrepreneurial practices. The findings are also consistent with Çelikkol et al. (2019), who found that indulgence is one of the determinants of entrepreneurial success. The findings are also aligned with Padela and Khanani (2022) who found a significant influence of indulgence on motivating people to undertake entrepreneurship. The findings are also related to

Bate (2023) who found positive effects of indulgence on entrepreneurship. Lopez-Cabarcos et al. (2021) contend that happy societies have a great capacity to participate in entrepreneurial activities. Although indulgence influences individuals to pursue entrepreneurship to maintain happiness and fun (Celikkol et al., 2019), it is also likely to be hindering entrepreneurial opportunity exploitation among SME owners since it may encourage them to remain in their perceived comfort zones while entrepreneurship needs risk-taking propensity.

**3.2.4.2 Mediation Effect of Innovativeness on the Relationship between Indulgence and Entrepreneurial Opportunity Exploitation**

Testing of the mediation effect has been guided by Zhao et al. (2020) approach which emphasises on testing the significance of the indirect effect to determine the mediation effect even when the direct effects are insignificant. The results in table 3.7 suggest that innovativeness positively and significantly mediated the relationship between indulgence and entrepreneurial opportunity since the indirect relationship was significant (p = 0.000); hence the hypothesis was supported. Partial mediation effect was found since the direct effect discussed above was significant, and the indirect effect was also significant.

**Table 3.7: Specific indirect effects**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values
IN -> INN -> OE	0.183	0.184	0.033	5.496	<b>0.000</b>

The findings suggest that indulgence influences innovativeness which in turn influences entrepreneurial opportunity exploitation. The relationship between indulgence and entrepreneurial opportunity exploitation is influenced by the degree of innovativeness. Kose and Ugurly (2022) posit that indulgent values like a greater level of optimism, positive attitudes and awareness of their capability to life control are more supportive for innovativeness. The results are consistent with the already found positive and significant influence of indulgence on entrepreneurial innovativeness (Prim et al., 2016; Andrijauskiene and Dumciuviene, 2017; Espig et al., 2022; Kose and Ugurlu, 2022) as well as the already established influence of innovativeness on entrepreneurial opportunity exploitation (Mircevska, 2015; Mayanja et al., 2019; Hamdan and Ah Alheet, 2020; Salem and Baduk, 2021). Therefore, indulgent values influence SMES owners’ innovativeness which in turn affects their capability to exploit entrepreneurial opportunities.

#### 4. Conclusions and Recommendations

This study aimed to examine the influence of indulgence on entrepreneurial opportunity exploitation among SME owners in Tanzania. Both direct and indirect effects were examined. Indulgence has a positive significant direct influence on entrepreneurial opportunity exploitation. Indulgent values like positive perceptions towards control of one's life, freedom and fulfilment of human desires do not influence entrepreneurial opportunity exploitation among SME owners in Tanzania. Also, innovativeness positively and significantly mediates the relationship between indulgence and entrepreneurial opportunity exploitation. The partial mediation effects of innovativeness found suggests that indulgent values and innovativeness of SME owners are both important in influencing entrepreneurial opportunity exploitation. Little was known about the mediation effect of innovativeness on the relationship between indulgence and entrepreneurial opportunity exploitation. The study informs policymakers to consider interventions that promote indulgence and innovativeness among SME owners when formulating policies and strategies in order to provide a suitable environment that enhances the ability of people to identify and exploit entrepreneurial opportunities.

Therefore, basing on the results and conclusions of this study, it is recommended that SME owners and policymakers should incorporate indulgence values in business plans, interventions and policies since they play an important role in influencing the behaviour of SME owners to be innovative as well as to exploit entrepreneurial opportunities. Also, future studies should extend knowledge by examining the relationship using six Hofstede cultural values using innovativeness as mediating variable or using a different mediating variable in order to provide a broader understanding of the influence of cultural values on entrepreneurial opportunity exploitation in Tanzania. Lastly, to improve generalizability of results, future studies should cover a larger study area.

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