Effect of Power distance on entrepreneurial opportunity exploitation among small and medium enterprises owners in Tanzania. Mediation Effect of innovativeness

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Abstract
This study examined the effects of power distance on entrepreneurs' use of business opportunities among Tanzania's small and medium-sized business owners. Specifically, the study examined the direct effects of power distance on entrepreneurial opportunity exploitation and the mediation effect of innovativeness on the relationship between power distance and entrepreneurial opportunity exploitation. An explanatory research design was used to study 370 small and medium enterprise owners. The survey strategy was used to collect data over a specified period using a questionnaire. Partial least square structural equation modeling (PLS-SEM) was used to examine the reliability, validity, and significance of the results. According to empirical findings, the exploitation of entrepreneurial opportunities is positively and significantly influenced by power distance. Furthermore, mediation effects revealed that the association between power distance and the exploitation of entrepreneurial opportunities occurs through the innovativeness of SMEs owners. Theoretically, the study suggests that innovativeness is a mechanism through which power distance transmits its effects on entrepreneurial opportunity exploitation. As far as managerial implications are concerned, SMEs owners should embrace lower power distance values, which include better interaction with their subordinates, exercising less control, and involving their subordinates in decision-making to promote innovativeness and better exploitation of entrepreneurial opportunities.

*****Keywords***: Entrepreneurial opportunities, SMEs, Innovativeness, Power distance*

1.0   INTRODUCTION

Exploitation of entrepreneurial opportunities is a fundamental activity involved in entrepreneurship (Gehman and Etzion, 2014). Kuckertz (2017) defines entrepreneurial opportunity exploitation as the activity of developing a product or service after recognizing a business opportunity, securing the needed financial resources, mobilizing appropriate human resources, and starting a business organisation. Almost 90% of businesses across the world are small and medium enterprises (Mbuyisa and Leonard, 2017). SMEs form 90% of enterprises in the

Pakistan private business sectors (Manzoor, Wei, and Siraji, 2021). There are more than three million SMEs and they constitute 95 percent of all businesses in Tanzania (Tanzania Investment Centre, 2022). One-third of the gross domestic product (GDP) of Tanzania comes from the SMEs sector (Katuli, 2020). SMEs are more concentrated in the Dar es Salaam region, which is the largest commercial and port city in Tanzania (Katuli, 2020). Therefore, SMEs have a central role in the exploitation of business opportunities, considering the proportion that they take in business activities.

SMEs contribute 60 percent to employment creation and 40-60 percent of gross domestic product in Subsaharan Africa (Ussif and Salif, 2020). However, SMEs owners' exploitation of entrepreneurial opportunities differs across the globe (Erhardt and Haenni, 2018; Assman and Ehrl, 2021; Stephan, 2022). Limited progress in undertaking entrepreneurial activities is common among the micro, small, and medium business owners in Tanzania and other low-income countries. Tanzania has made various efforts to boost the capacity of SMEs owners to act on business opportunities. The efforts include the formulation of Tanzania's Small and medium enterprises policy, the formulation of institutions that support business development like the Small Industry Development Organization, and the establishment of various funds like the President Trust Fund, National Entrepreneurship Development Fund, and Youth Development Fund (Anderson, 2017). Despite the above efforts, SMEs owners have a low capability of acting on business opportunities provided by the East African community (Yahya & Mutaburukwa, 2015). Also, Tanzania ranks below Rwanda, Kenya, and Uganda in total entrepreneurship activities (Dimitropoulou, 2021), despite its larger geographical area. Dar es Salaam is the largest business centre comprising approximately 13% of all SMEs in the country (URT, 2012) owned by owners who have migrated from different parts of the country. However, SMEs owners in Dar es Salaam city face the challenge of lack of competitiveness and their businesses have kept weakening (Katuli, 2020).

Formal and informal institutional factors like economic, legal, psychological, technological, political factors, and cultural values play a significant part in explaining the low capability of exploiting entrepreneurial opportunities (Bwisa and Ndolo, 2011). However, there is serious attention on explaining the influence of the economic, legal, and political factors which are formal factors (Khan et al., 2022). Cultural values, which are informal factors contribute significantly in explaining the rate of entrepreneurial undertaking (Çelikkol et al., 2019; Erhardt and Haeni, 2018), but they have been given little attention by existing studies. Cultural values influence people's behaviour (Zhao et al., 2020) including their actions toward the recognition and exploitation of entrepreneurial opportunities.

Since business activities are conducted within a cultural setting, ignoring cultural aspects in addressing challenges relating to the exploitation of business opportunities may not bring fruitful solutions. Culture is important because it helps to build the mind and character of entrepreneurs (Lee & Peterson, 2000) Although cultural values have a significant impact on entrepreneurship, there is a paucity of studies that have examined their influence on entrepreneurship (Facchini et al., 2021). Available studies have mainly used Hofstede's (1980) cultural values (masculinity, individualism, power distance, and uncertainty avoidance) in examining the relationship between culture and entrepreneurial opportunity exploitation (Hicks et al., 2015). However, among the scanty studies available, there are several inconsistencies and contradictions on the influence of cultural values on entrepreneurship especially on the power distance dimension (Achim et al., 2021). For instance, Zhao, Li, and Rauch, (2012) posit that high power distance accelerates entrepreneurship by creating individuals who rely on entrepreneurship as the only means to gain power. Higher power distance may motivate dissatisfied individuals to strive for independence by involving themselves in entrepreneurship. On the other hand, Bradley et al. (2013) and Tang et al. (2020) contend that participatory decision-making, fewer controls, a delegation of duties, and socialization among people regardless of power position foster innovation and entrepreneurial opportunity exploitation. Also, Liu et al. (2019) and Xuhui et al. (2028) found an insignificant influence of power distance on entrepreneurial opportunity exploitation decisions. Based on the contradiction posed in extant studies on the influence of power distance on entrepreneurship and the scarcity of studies in the context of developing countries, this study considers the contradictions as the important gap for further examination of the effect of power distance on entrepreneurial opportunity exploitation through mediation effect of innovativeness. Moreover, there is a paucity of studies that have examined how power distance influences the innovative behavior of SME owners and how this relationship consequently influences the utilization of business opportunities.

Power distance has a positive and significant influence on the innovativeness of entrepreneurs (Bate, 2023; Bugaje et al., 2023, Espig et al., 2021 and Manshad, 2017). Participative and democratic leadership which has less control, and collective decision making stimulates the sharing of knowledge and enhances the development of innovativeness (Tang et al., 2020). Low power distance values lead to an innovation-friendly situation (Costantiello et al.,2021). Surprisingly, higher innovativeness has been experienced in both countries with high power distance such as China and Japan, and low power distance countries such as Norway (Abderlrahim, 2020).

Additionally, the exploitation of entrepreneurial opportunities is positively and significantly impacted by innovation (Mayanja et al., 2019, Salem and Beduk, 2021). Through innovation, SME owners turn company ideas into tangible products (Salem and Beduk, 2021). Entrepreneurial innovation gives rise to better and original products, services, and production techniques (Hamdan and Ah Alheet, 2020). To take advantage of opportunities, business owners need to be innovative (Mayanja et al., 2019).

It is suggested that innovativeness significantly and positively mediates the relationship between power distance and the exploitation of entrepreneurial opportunity because the studies mentioned above show a sequential relationship between power distance, entrepreneurship, and innovativeness. The indirect impact of innovation on the influence of indulgence on the utilisation of entrepreneurial opportunities is not well understood empirically. According to Zhao et al. (2010), ignoring indirect effects may result in a biased interpretation of data. Since it is a significant and essential component of entrepreneurial orientation, innovativeness has been chosen as a mediator variable (Hernández-Perline et al., 2020). Additionally, the inclusion of innovativeness as a mediator variable is justified by the sequential relationship found between the three categories.

2.0 METHODOLOGY

An explanatory research approach and positivist philosophy were employed in this study. The study design assisted in examining the causal relationship between power distance, innovativeness, and entrepreneurial opportunity exploitation. A sample of 370 registered SME owners from the Dar es Salaam region was studied using a cross-sectional survey research strategy. Dar es Salaam region was chosen because it has a large number of SMEs compared to other regions, comprising approximately 12.8% of all SMEs in the country and it is the most populated city with a large numer of people from different regions of Tanzania (URT, 2012, Makwi, 2020). The sample was calculated from the already established population using the formula $n = \frac{NX^2pq}{(N-1)e^2+X^2pq}$ (Kothari, 2009). The study sample was drawn from 147903 registered SME owners (District Trade Officers, 2020). The population was obtained from district trade officers in the five districts in the Dar es Salaam region. Dar es Salaam was chosen because it is the largest business and economic area in Tanzania (Todd et al., 2019), with the highest number of SME owners approximately 13 % of all SME owners countrywide (URT, 2012). However, SMEs in Dar es Salaam city keep on dwindling (Katuli, 2020). Due to the significant number of SME owners and the variety of firms in the area that do not make better use of business

opportunities; it is appropriate to discuss how power distance cultural values affect the exploitation of entrepreneurial opportunities.

The SME owners who participated in the study were chosen by systematic and proportionate random sampling. Only micro, small, and medium enterprises that fall within the criteria of SMEs as provided by Tanzania's small and medium enterprises policy of 2013 were included in the study. The criteria considered capital investment and number of employees. Due to the unequal number of SME owners in each district, proportionate sampling was utilized to calculate the total number of respondents from each district. The proportionate sample for each district was calculated by dividing the total number of SMEs in a particular district by the overall number of SMEs in the Dar es Salaam region, after that the resulting fraction was multiplied by the established sample size. Furthermore, SME owners who responded to the questionnaires were chosen by stratified random selection. Stratified random sampling is affordable, easy to use, and practical in a large population, (Kothari, 2009). A well-structured questionnaire was used to gather the data. SME owners rated how much they agreed or disagreed with the statement using the Likert scale. Strongly disagree to strongly agree were the two extremes of the scale. Baraza la Kiswahili Tanzania (BAKITA) translated the English questionnaire into Kiswahili since many SME owners are conversant with Kiswahili.

Power distance was measured by the SMEs owner's delegation of duties, involvement of subordinates in business decision processes, and social interaction with subordinates adapted from Yoo et al., (2011) and Ratsimanetrimanana, (2014). An opportunity for entrepreneurship, the establishment of new markets, acquisition of new markets, security of financial resources, and team organisation were used as the metrics for measuring exploitation, which were taken from Kuckert et al. (2017) and Liu et al. (2019). Innovativeness was evaluated using criteria taken from Jalali, Jaafar, and Ramayah (2020) and Hamdan and Alheet (2020) and included unique ideas, inventiveness, product enhancements, new products, new techniques, and new business processes.

Smart Partial Least Square Structural Equation Modelling (smart PLS-SEM) was used to analyse the data. The inner or measurement model and the outer or structural model were both evaluated using PLS-SEM. Smart PLS-SEM was chosen since it is more effective at determining the degree of significance and does not consider the multivariate normality of the data (Hair et al., 2019). It is also flexible enough to estimate both measurement and structural analysis using the same modal.

3.0   RESULTS AND DISCUSSION
Because Smart PLS-SEM is a well-established and popular system of predicting associations in business management and related fields (McDonald, 1996), it was utilized to examine data the findings of the measurement and structural model evaluation are presented in this section.

3.1   Measurement model
The measurement model must be evaluated before evaluating the structural model. Indicator factor loadings, Cronbach's alpha, composite reliability, convergent validity, and discriminant validity are all evaluated as part of the measurement model.

3.1.1 Factors loadings
Factor loadings assessed the reliability of each item. An indicator's acceptable reliability is indicated by factor loadings above 0.70, which indicates that the indicator contributes more than 50% of the definition of the latent construct (Hair et al., 2019). Since their factor loadings were less than 0.7, PD2 and PD4 from Power Distance, INN1, INN7, and INN8 from Innovativeness, and OE1 from Opportunity Exploitation were eliminated. Before indicators with low factor loadings were removed, the original model is shown in Figure 3.1.
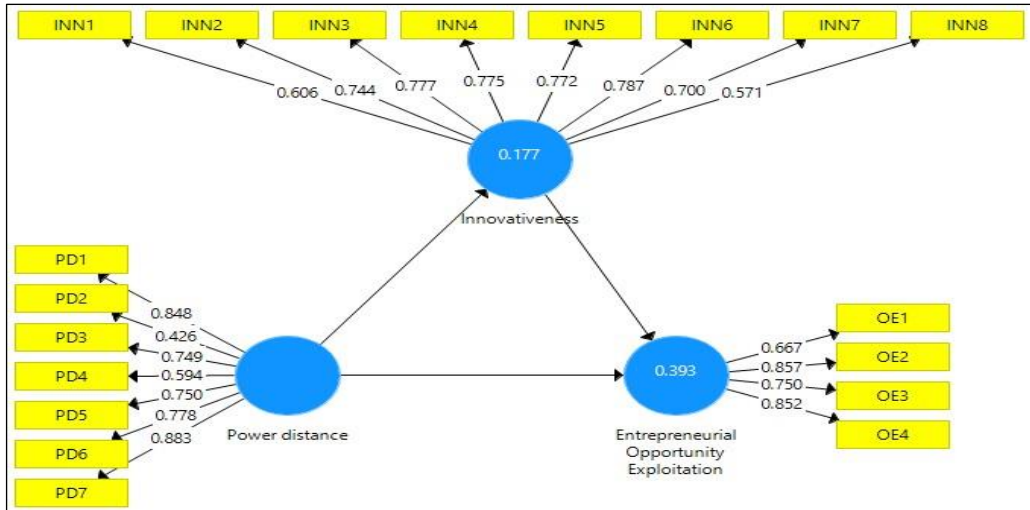

Figure 3.1 Original measurement model.

After removing indicators that have factor loadings that are not greater than 0.7; the model was run afresh to come up with the edited model in which all indicators have met the required threshold of greater than 0.70 factor loadings.
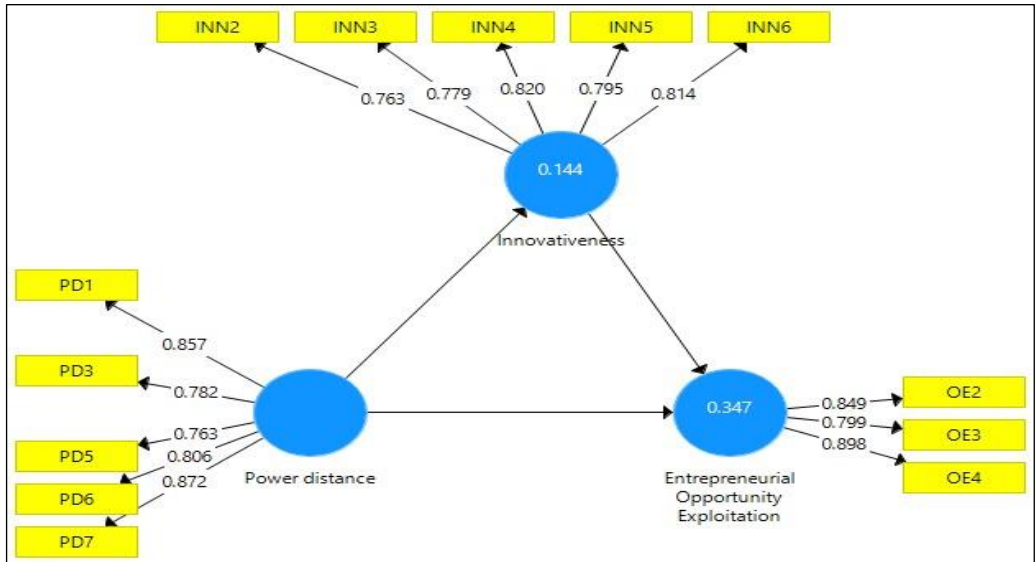
Figure 3.2 Modified Measurement Model

3.1.2 Constructs validity and reliability

Cronbach's alpha and composite reliability for the constructs are both above 0.7, as shown in Table 3.1, indicating that construct reliability has been obtained. Reliability can be established with a composite reliability of 0.70 or higher (Hair et al., 2019).

According to Hair et al. (2019), conceptions have achieved the necessary convergent validity when the Average variance extracted (AVE) is more than or equal to 0.5. Table 3.1 shows that all constructs have an Average Variance Extracted value greater than 0.50, thus convergent validity has been attained.

Table 3.1. Cronbach's Alpha, Composite reliability, and Average Variance Extracted

Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Entrepreneurial opportunity exploitation	0.808	0.886	0.722
Innovativeness	0.856	0.895	0.631
Power distance	0.875	0.909	0.668

Discriminant validity can be measured using the Heterotrait Monotrait ratio (HTMT), Cross loadings, and Fornnel-Larker criterion. In contrast, to cross loadings and the Fornel-Larker criterion, HTMT is more efficient in identifying discriminant validity issues (Hair et al., 2019).

Starting with the Heterotrait Monotrait ration; the HTMT value of less than 0.85 for different constructs indicates the presence of discriminant validity (Hair et al., 2019). HTM is less than 0.85 for several constructs, as shown in Table 4.2, indicating that discriminant validity has been obtained.

Table 3.2: Heterotrait Monotrait ratio

Construct	Entrepreneurial opportunity exploitation	Innovative ness	Power distance
Entrepreneurial opportunity exploitation			
Innovativeness	0.637		
Power distance	0.471	0.426	

Cross loadings are the second evaluation of discriminant validity, and this evaluation requires that the outer loadings of an item be greater on the construct they represent than its cross-loadings on the other construct. According to Table 3.3, outer loadings indicate a larger latent variable than cross-loadings on other latent variables.

Table 3.3: Cross loadings

	Entrepreneurial opportunity exploitation	Innovativen ess	Power distance
INN2	0.425	0.763	0.256
INN3	0.290	0.779	0.242
INN4	0.432	0.820	0.262
INN5	0.490	0.795	0.338
INN6	0.495	0.814	0.372
OE2	0.849	0.484	0.350
OE3	0.799	0.386	0.290
OE4	0.898	0.521	0.376
PD1	0.357	0.311	0.857
PD3	0.310	0.318	0.782
PD5	0.358	0.265	0.763
PD6	0.249	0.307	0.806
PD7	0.356	0.345	0.872

The Fornell-Larker criterion, which requires that each construct's square root of AVE be greater than its correlation with other constructs, is the final evaluation of discriminant validity. According to Table 3.4, each construct's square root of AVE is higher than its connection with another construct.

Table 3.4: Fornell-Lacker criterion

	Entrepreneurial opportunity exploitation	Innovative ness	Power distance
Entrepreneurial opportunity exploitation	0.850		
Innovativeness	0.551	0.794	
Power distance	0.402	0.379	0.817

3.2   Assessment of the structural model

After the measurement model had been verified, the structural model was evaluated. All constructs are reliable and valid; thus the measurement model was approved and the structural model was evaluated. The evaluation of collinearity problems, model fit, model predictive power, and the importance of route coefficients (direct and indirect effects) were all part of this process.

3.2.1 Collinearity issues

The variance inflated factor (VIF) is a tool for determining the degree of concept independence. According to Hair et al. (2019), a collinearity number of less than 3 signifies the absence of a collinearity issue. As indicated in Table 3.5, there is a 1.000 correlation between power distance and innovativeness, a 1.168 correlation between power distance and opportunity exploitation, and a 1.168 correlation between innovativeness and opportunity exploitation. There is no collinearity issue because the level of collinearity for all constructions is below the suggested threshold of less than 3.

Table 3.5: Collinearity

Construct	Entrepreneurial opportunity exploitation	Innovative ness	Power distance
Entrepreneurial opportunity exploitation			
Innovativeness	1.168		
Power distance	1.168	1.000	

3.2.2 Models Predictive Power

R Square was used to assess the models' prediction ability. Model predictive power is indicated by a value of 0.10 or above (Raithel et al., 2012). R^2 values are 0.144 for innovativeness and 0.347 for exploitation of opportunities, hence the predictive ability is developed.

Table 3.6 Models predictive power

	R Square
Entrepreneurial opportunity exploitation	0.347
Innovativeness	0.144

3.2.3 Model fit

The model's acceptance and fit were evaluated using the standardised root mean square residual (SRMR). According to Hair et al. (2019), PLS-SEM uses SRMR to test model fit, in contrast to covariance-based SEM, which has several fit indices. Based on Hair et al. (2019), SRMR is the average of the standardised residual between the observed and hypothesised covariance matrices. A value less than 0.10 indicates that model fit has been attained (Dakduk, et al., 2019). The result for SRMR was 0.08, hence the model fits the data.

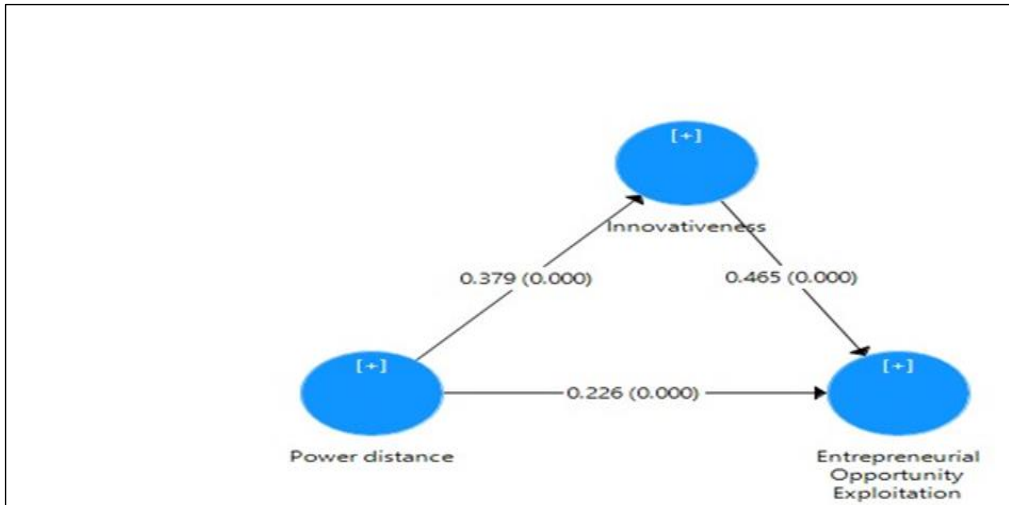### 3.2.4 Significance of paths (direct and indirect effects)

Figure 3.3 Structural Model-Path coefficients

3.2.4.1 Power distance and entrepreneurial opportunity exploitation

It has been proposed that power distance considerably and favourably affects the exploitation of entrepreneurial opportunities. According to Table 3.7, power distance has a favourable and significant impact on how well SME owners act on business opportunities (P-Value 0.000). Findings indicate that lower power distance values, such as task delegation, including subordinates in decision-making and socialization, affect how well SME owners in Tanzania take advantage of entrepreneurial opportunities.

Table 3.7: Direct effect of power distance on entrepreneurial opportunity exploitation

Direct effect	Beta value	P Values
Power distance -> Entrepreneurial opportunity exploitation	0.226	**0.000**

The findings are comparable with those of Bugaje, et al. (2023), who discovered

a positive impact of power distance on the level of entrepreneurship in Nigeria. However, this study focused on formally registered SMEs owners, whereas Bugaje et al. (2023) evaluated the link in the informal sector. The results concur with those of Bate (2023), who discovered a positive and notable influence of low power distance on entrepreneurship. However, there are sometimes contradictory results. Findings are also consistent with Tang et al. (2020) who found that participatory decision-making, fewer controls, delegation of duties, and socialization among employees of the firm regardless accelerate innovation and entrepreneurial opportunity exploitation. For instance, Liu et al. (2019) discovered that power distance had no appreciable effect on the exploitation of new enterprises. The findings are not consistent with those of Xuhui, et al. (2018), who discovered that the decision to pursue an entrepreneurial opportunity is not significantly impacted by power distance. Differences in the sample that was analyzed may have contributed to inconsistent results. While the aforementioned studies ignored the nationality of the SMEs owners, this analysis only used Tanzanian business owners. Additionally, variations in the indicators used to calculate power distance may account for variations in results.

3.2.4.2 Mediation effect of innovativeness on the relationship between power distance and entrepreneurial opportunity exploitation

Results in Table 3.8 indicate that the indirect association between power distance and entrepreneurial opportunity is significant (p-values-0.000), the hypothesis is validated and innovativeness mediates the relationship between the independent and dependent variable favorably and considerably. Since the direct and indirect effects as shown in Tables 3.7 and 3.8 are substantial, a partial mediation effect has been discovered.

Table 3.8: Specific indirect effects

Indirect effect	Beta value	P Values
Power distance -> Innovativeness -> Entrepreneurial opportunity exploitation	0.176	**0.000**

The Zhao et al. (2010) technique, which emphasizes evaluating the significance of the indirect effect to evaluate the mediation effect even when the direct effects do not exist, has been used to guide the testing of the mediation effect. Findings are in line with Bate (2023), Bugaje et al. (2023), and Espig et al. (2021) who found a positive and significant influence of low power distance on innovativeness on one hand as well as aligned to Julian et al. (2021), Hamdan and Ah Alheet, (2020) and Salem and Baduk, (2021) who found positive and significant influence of innovativeness on entrepreneurial opportunity exploitation. Findings imply that low power distance values through proper

delegation of duties to subordinates, participatory decision making, and exercising less control on subordinates enhances knowledge sharing which influences innovativeness and consequently entrepreneurial opportunity exploitation.

4.0   CONCLUSION AND RECOMMENDATIONS
This study examined the influence of power distance on entrepreneurial opportunity exploitation among SME owners in Tanzania. Power distance positively and significantly influences the exploitation of entrepreneurial opportunities. Power distance values like proper delegation of tasks, participatory decision-making, and proper social interaction with subordinates do positively and significantly affect how SME owners exploit entrepreneurial opportunities. Additionally, innovativeness partly mediates the effects of power distance on the exploitation of entrepreneurial opportunities.

The study had theoretical and practical implications. Theoretically, the study implies that power distance, directly and indirectly, influences entrepreneurial opportunity exploitation through the mediation effect of innovativeness. Practically, SMEs owners should embrace lower power distance values such as better interaction and socialization with their subordinates in their business firms, exercising less control over subordinates, delegating their responsibilities to subordinates, and involving their subordinates in decision-making to promote innovativeness and better exploitation of entrepreneurial opportunities.

Based on study limitations, the following recommendations are made for future research. Firstly, this study is quantitative, future studies can use both quantitative and qualitative methods to provide a broader understanding of the relationship. Furthermore, due to time limitations, the study was cross-sectional in nature, and therefore future studies can be conducted using a longitudinal time framework to capture the nature of the interrelationship over a longer period.

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