

## The Impact of Microfinance on Households' Socioeconomic Performance: A Proposed Mediation Model\*

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### Abstract

Economic deprivation of households remains a significant economic issue in the world. Researchers have shown great concern in identifying crucial factors to enhance poor households' socio-economic performance. Therefore, this paper aims to develop a new conceptual framework to investigate the influence of different microfinance services on households' socioeconomic performance using moderated mediation analysis of various crucial factors. Focus-group interviews with managements of the microfinance institution, i.e. Amanah Ikhtiar Malaysia (AIM), and a systematic literature review were conducted for this purpose, and a new framework for the future study has been developed. The result from focus-group interviews and systematic literature review propose microfinance financial services, training programs, and business coaching as independent factors, whereas household socioeconomic performance as a dependent factor in the proposed model. Specifically, this study provides the direction to scholars to empirically test the direct relationship between financial services and household socioeconomic performance and the indirect relationship between training programs, business coaching, and household socioeconomic performance. Further, microfinance institutions' service efficiency is also included as a moderator that can strengthen microfinance services' effectiveness. The study also provides useful implications for policymakers, financial institutions, households, micro-enterprises, and researchers to better understand microfinance interventions and household economic mechanisms.

**Keywords:** Microfinance Services, Financial Management Practices, Entrepreneurial Competencies, Socioeconomic Performance

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## 1. Introduction

Poverty and economic vulnerability have always remained a major concern in the world. Approximately 2.4 billion people are facing extreme poverty conditions around the globe (World Bank, 2018). Certainly, the developing world is facing a higher level of poverty and deprivation as one out of every five individuals is suffering from extreme poverty (UNDP, 2017). Similarly, household economic performance is more volatile in developing countries as compared to developed. This is the reason that household economic deprivation has become a prime socioeconomic concern in developing countries (Al-Mamun et al., 2018). Socioeconomic deprivation can be described as the lack of social and economic benefits which are considered to be basic necessities of a society or community or in a broader sense of a region. Specifically, increasing unemployment levels in developing countries have caused a substantial upsurge in the problem (Zainol & Al-Mamun, 2018).

In addition to this, negative events such as economic crises and natural disasters also trigger the intensity of poverty and economic vulnerability (Tran & Korflesch, 2016). Currently, the world has been hit by COVID-19, it is having extreme effects on households' socioeconomic performance. The rapid spread of Covid-19 has been affecting economic and social conditions in developing countries. Economic growth, which was already weakening before the outbreak, is facing significant pressure and may weaken further.

Basically, after the global economic crisis of 2008, households' economic vulnerability and well-being have attained great attention from researchers of economics and finance (Heltberg et al., 2015). Sustainable development and economic growth have become a major goal for any country. Sustainable economic growth means a rate of growth that can be maintained without creating other significant economic problems, especially for future generations. Hence, it is the responsibility of the authorities to focus on factors that affect individuals' economic status and accelerate economic expansion (Abdullah et al., 2021). Two such factors are highlighted in the literature which is crucial for the economic development of households; these include modern technology inventions on energy sources (Abdullah et al., 2018) and access to financial services (Ukanwa et al., 2018). Researchers have been continuously looking for an appropriate solution to enhance socioeconomic status among households. In the last couple of decades, many developing countries have started adopting microfinance as an effective tool to fight poverty (Armendariz & Morduch, 2010). Microfinance targets poverty using the strategy of financial inclusion by providing key financial services to unemployed or low-income individuals or groups who otherwise would have no other access to financial services (Ledgerwood, 1998). It primarily provides various financial services, such as microcredit, micro-insurance, and micro-savings, to poor individuals to help them in escaping economic deprivation through entrepreneurship and self-employment (Elhadidi, 2018). Thus, empowering them to enhance their socioeconomic performance.

Despite notable growth in adoption of the microfinance, yet there is a great conflict among researchers regarding the poverty alleviation impact of microfinance. Some researchers are of the view that microfinance does not help the poor rather it increases their indebtedness and vulnerability thus failing to achieve its prime objective of serving the poor (Mader, 2013). On the other hand, some studies have shown a positive impact of microfinance on women empowerment and households' economic well-being (Al-Mamun et al., 2018; Al-Shami et al., 2018). In short, it has been deduced from the literature that the impact of microfinance on poverty and households' well-being is still uncertain (Ganle et al., 2015). The poverty alleviation impact of microfinance has always remained a focus in the existing body of knowledge. Compared to this, there is

a lack of literature on the underlying mechanism that can explain the microfinance pathway towards socioeconomic success (Newman et al., 2014). Hence, it is strongly needed to conceptualize households' socioeconomic performance through multiple microfinance services and household level factors to identify potential elements that can play a crucial role in poverty alleviation.

Therefore, this study intends to fill this gap and provide a significant contribution to the existing body of knowledge by developing a new moderated mediation model to identify potential variables that have direct or indirect roles in the effectiveness of microfinance services. Specifically, this study incorporates different human capital factors as the mediating mechanism which can explain how microfinance services lead towards successful entrepreneurial outcomes among households. This is due to the reason that the success of a financial intervention depends on human capital factors such as the capabilities of an individual to pursue and manage entrepreneurial activities (Luthans & Youssef, 2004). Additionally, microfinance institutions' service efficiency is proposed as a moderator since service delivery is crucial for strengthening the influence of microfinance on household socioeconomic performance. Similarly, it is implied that the provision of financial capital alone cannot assure human capital development and entrepreneurial success (Berge et al., 2015). Thus, this study also incorporates both microfinance financial and non-financial services in the proposed model to enhance households' socioeconomic success. In general, it is argued that the provision of financial services along with training programs and business coaching to the clients, can help them in enhancing their entrepreneurial competencies and practicing financial management. This, in turn, can develop a competitive advantage and lead towards entrepreneurial success.

This research is arranged as follows. In the subsequent sections, this study briefly discusses the theoretical foundation followed by the development of a new conceptual model. Whereas discussion of model components and conclusion are presented in the later sections.

## 2. Theoretical Foundation

Several theoretical works from different researchers provide significant insights for this study. The modern development theory addresses the socioeconomic development gap between developed and developing countries (Martin, 1991). It suggests strong actions to be taken for the equitable distribution of wealth in the world. Further, it is strongly believed that microfinance can help in the reduction of economic inequality and vulnerability (Al-Mamun et al., 2018). Therefore, literature following modern development theory, indicates that providing financial services can play a significant role in poverty alleviation and the wellbeing of households (Al-Shami et al., 2018). Microfinance has been

generally regarded as an effective policy tool in the fight against poverty. Yet, the question of whether access to credit leads to poverty reduction and improved wellbeing remains open (Milana & Ashta, 2012). Though microfinance is still considered a major economic development tool, its impact assessment is very crucial (Alia et al., 2017). The Household economic portfolio (HEP) model (Chen & Dunn, 1996) is the major impact assessment model for microfinance. The HEP model is premised on the fact that individuals within the household have one or more socially ascribed identities: notably gender but also seniority, marital status, parental status, and others. Therefore, this study uses the HEP model as a theoretical base to develop a new conceptual framework explaining the impact of microfinance services on household socioeconomic performance through different pathways.

## 2.1. Household Economic Portfolio Model

The Household Economic Portfolio (HEP) model is the most commonly used microfinance impact assessment model among researchers. It addresses the question that how micro-financial services being provided, influence households' socioeconomic outcomes (Dunn, 2002). According to the HEP model (Chen & Dunn, 1996), households' economic portfolio consists of a set of economic resources, economic activities, and circular interaction between both resources and activities. Household economic resources comprise a financial, human, and physical form of resources whereas activities include production, consumption, and investment-related actions. As per the HEP model, economic resources are allocated to conduct a certain set of activities to achieve various socioeconomic outcomes.

The HEP model, suggests that there are only two factors i.e financial (credit) and social (social network), which can externally contribute to the households' economic resources, thus ultimately affecting households' economic outcomes through certain household activities such as consumption, production, and investments (Chen & Dunn, 1996). The financial factor provides direct support to the existing economic resources while the social factor helps in borrowing financial resources from outside. It implies that the HEP model considers financial capital as the major intervention that should be sufficient for achieving better socioeconomic outcomes. However, credit is fungible in nature which means it can be allocated to any household activity depending on various factors such as socioeconomic constraints, economic opportunities, preferences, and decision-making structure within the household (AIMS, 2001). For instance, if a household allocates credit to production and investing activities, it may help in enhancing the resource base whereas the same is not expected in the case of allocation to consumption activities.

Thus, the HEP model views this resource allocation to economic activities as the major factor contributing

to households' socio-economic performance. It implies that decision-making being shaped by various individual-specific factors such as risk attitude and management strategies can play a crucial role in enhancing households' socioeconomic outcomes (AIMS, 2001). Furthermore, the HEP model also states that some external factors such as macroeconomic conditions and market dynamics can also have significant contributions to the decision-making process and effectiveness of households' economic portfolio.

## 2.2. Limitations

The HEP model has certain limitations that are needed to be tackled. For instance, it considers only financial and social factors as an external intervention to the household economic resources. However, the model itself indicates that decision-making is one of the key factors that determine the composition of the economic portfolio and the effectiveness of flow between household resources and activities. This justifies that low-income households that have limited resources and capabilities, need external support specifically targeting their human capital aspects. In practice, it is also observed that various non-financial interventions such as training programs and coaching services are becoming a vital component of microfinance. Implementing training programs and business development services can be used to enhance capacity building among entrepreneurs. Establishing and nurturing business associations so that they can organize workshops, provide support and mentoring programs, facilitate access to credit and markets, undertake advocacy, and provide best practice exchanges. However, it is observed that due to the lack of special focus on entrepreneurship development program on the side of microfinance and the insufficient willingness to invest resources, this additional type of intervention has not yet been widely used in most developing countries (AIMS, 2001).

Similarly, AIMS (2001) highlights that the HEP model does not consider growth oriented-entities separately. It relates growth and evolution to the household's objectives. This limitation can be interpreted in the sense that the HEP model provides only impact assessment and lacks relating the factors which can enhance the influence of microfinance interventions. On the other hand, some households are not growth-oriented rather they are struggling to meet surviving needs. Such households strongly require support services targeted at their capabilities and financial management. Therefore, this study argues that it is crucial to extend human capital intervention along with financial support to specifically enhance household competencies and management skills.

In addition to these, many other studies that have cited the HEP model, describe it as one of the complex models for assessing microfinance impact (Alia et al., 2017). Literature (AIMS, 2001) also highlights that the HEP model provides a

strong understanding for analyzing internal factors whereas it lacks in the relevance of external factors. The HEP model generally states that external factors such as macroeconomic conditions and market dynamics can also play important role in the decision-making process and effectiveness of the household economic portfolio. However, it lacks in providing sufficient detail on such external factors. Hence, it is also strongly needed to explore and include specific external factors in the model that influence household economic mechanism and their effectiveness. Thus, an effective and holistic conceptual model is required that can explain microfinance's influence on household socioeconomic performance.

Considering above mentioned limitations, this study develops a new conceptual framework by modifying the HEP model with the inclusion of some potential moderating and mediating factors which can help in understanding the household economic mechanism and have a significant role in the effectiveness of microfinance services.

### 3. Developing the Conceptual Framework

This study proposes a moderated mediation model presented in figure 1, to understand and investigate the role of various factors in households' socio-economic performance. The conceptual framework is developed following the theoretical work of Chen and Dunn (1996) (HEP Model). It consists of seven components; microfinance financial services, microfinance training programs, microfinance business coaching, household financial management practices, household entrepreneurial competencies, microfinance institutions' service efficiency, and household socioeconomic performance. In this framework, household socioeconomic performance indicators are included as outcome variables representing socioeconomic wellbeing.

First, microfinance financial services are included as a major determinant of household socioeconomic development. Such financial services generally include microcredit, micro-savings, and micro-insurance (Ledgerwood, 1998). Microcredit is the extension of very small loans (microloans) to impoverished borrowers who typically lack collateral, steady employment, or verifiable credit history. It is designed to support entrepreneurship and alleviate poverty. Microcredit is the major microfinance product under which small loans are extended to poor households to help them in consumption and entrepreneurship (Mago, 2014). Therefore, factors associated with the given credit are assumed crucial for the households to improve their small businesses. For instance, factors such as easy access to financial services, time responsiveness, and proper guidance play a critical role in enhancing the socioeconomic performance of households. Further, micro-savings and micro-insurance provide security to households in dealing with uncertain events (Robinson,

2001). As discussed earlier, providing financial services alone is not enough for the households to effectively utilize and manage their resources. Proper guidance and training are essential elements in the process of socio-economic development. Therefore, training programs and business coaching services are also included in the model as microfinance interventions to enhance clients' capabilities and skillset which can be viewed as their human capital. Thus, these non-financial services also play a crucial role in socio-economic development as these help households to effectively handle their financial and business affairs.

This moderated mediation model incorporates households' financial management practices and households' entrepreneurial competencies as mediating factors that must be specifically targeted through microfinance services in the household economic mechanism. Household financial management practices are the process of wisely budgeting, spending, saving, and investing the money earned. Entrepreneurial competencies are defined as underlying characteristics possessed by a person, which result in new venture creation. These characteristics include generic and specific knowledge, motives, traits, self-images, social roles, and skills that may or may not be known to the person. This study assumes both these mediating factors as human capital elements that lead poor households to efficiently manage and expand their SMEs. The notion behind this is that microfinance services enhance households' financial management practices and entrepreneurial competencies which further help them in achieving better socioeconomic outcomes, thus, playing a critical role in poverty alleviation. Considering the importance of the decision making process from the HEP model (Chen & Dunn, 1996), it is argued that both financial management and entrepreneurial competencies are the human capital factors that can lead households toward effective decision making, thus, playing a mediating role in the effectiveness of microfinance to achieve poverty eradication. Contingency theory states that the association between two variables depends on the third variable (Alhntiy et al., 2016). Therefore, including moderators in the model help in reducing misleading results and achieving more accuracy (Rosenberg, 1968). This study argues that simply providing microfinance services is important, however, the way such services are delivered to the clients is very critical in the effectiveness of the whole microfinance mechanism. Therefore, efficiently delivered services can play a far better role in socioeconomic development as compared to the services that are poorly delivered. Hence, this study also includes a potential moderator which is microfinance institutions' service efficiency. The proposed model assumes microfinance institutions' service efficiency as an external factor that can play a moderating role in the effectiveness of microfinance services to enhance households' socioeconomic outcomes.



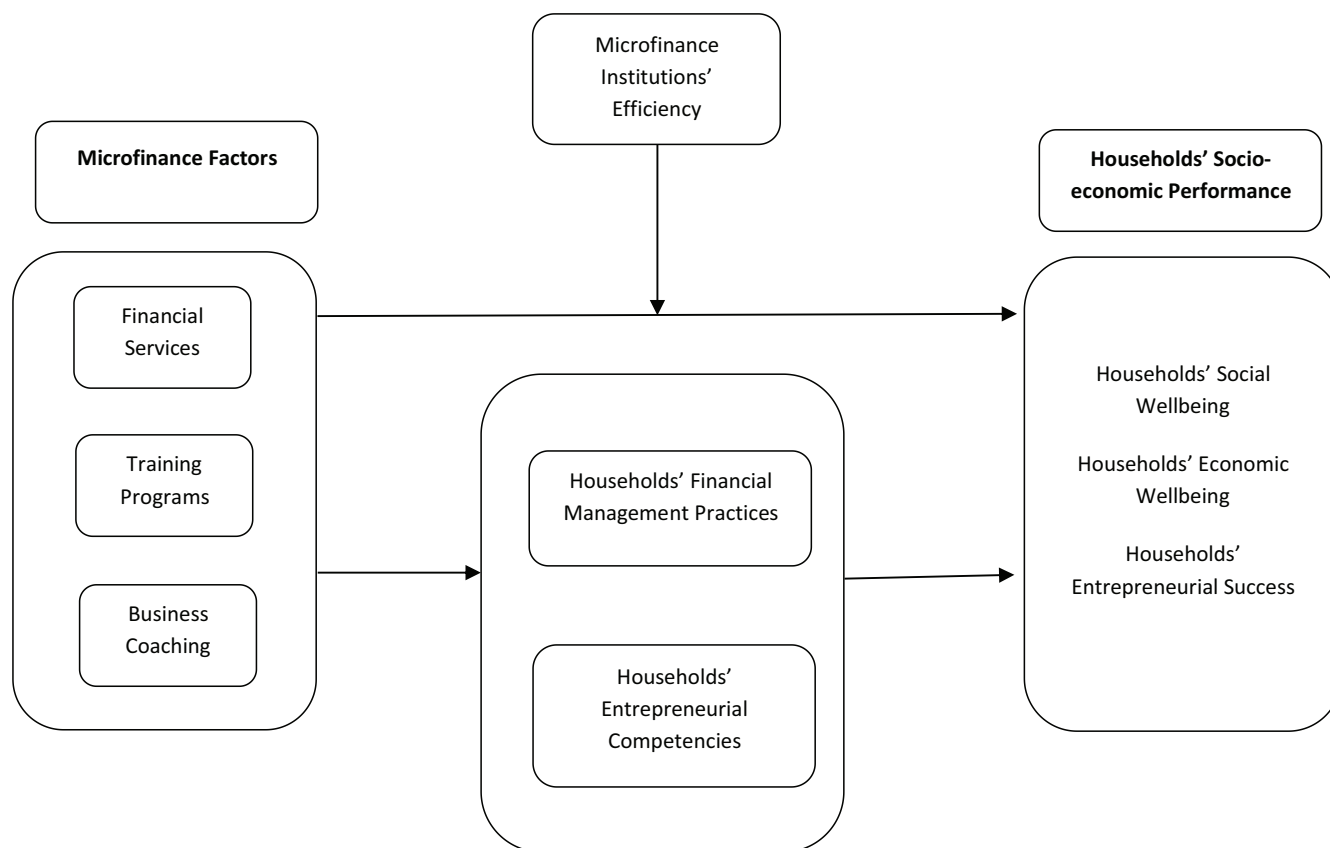


Figure 1: Proposed Conceptual Model

## 4. Discussing Key Components

### 4.1. Independent Variables

#### 4.1.1. Microfinance Financial Services

Microfinance is generally considered as a means to tackle poverty and enhancing households' wellbeing (Samer et al., 2015). The major argument behind its influence is that households can enhance their economic performance through entrepreneurship and income-generating activities if they are provided with easy access to financial services (Ukanwa et al., 2018). Therefore, microfinance financial services are included in the model as a major independent variable that can be helpful for poor households to fight against economic deprivation. Financial services assist poor households in smoothening their consumption and generating more income thus enhancing their capacity to deal with future economic vulnerability (Robinson, 2001).

Microcredit as the key financial service is considered very crucial for individuals in improving their socioeconomic outcomes (Al-Shami et al., 2014). The microcredit movement

has been undeniably successful in opening up financial services to poor people across many countries. In presence of proper financial capital, poor households have more capacity to avail and utilize maximum opportunities, thus enhancing their socioeconomic performance (Elhadidi, 2018). It is strongly believed that income inequality and poverty can be reduced through microcredit programs (Al-Mamun et al., 2018). Furthermore, literature also argues that microcredit services are helpful for poor women in enhancing their capabilities thus building their confidence to tackle cultural asymmetries (Garikipati, 2008). Similarly, micro-savings are viewed as a source of security for the households as these help in strengthening capabilities to secure viable financial capital, decrease lending costs, thus dealing with future uncertainties (Ledgerwood, 1998). In addition to this, managing saving accounts facilitate households in availing large loans and easy repayments therefore again improving their ability to tackle future economic weakness (Al-Shami et al., 2014). Micro-insurance is another vital microfinance financial service that also provides security to individuals against unforeseen events and economic losses (Cabraal, 2011). Microinsurance is the protection of low-income

people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved (Al-Shami et al., 2014). Such financial security is very crucial for the household's socioeconomic performance else they may face nominal economic losses in their outcomes.

The importance of microfinance financial services can be viewed from multiple angles. First, it is an important tool that empowers households by providing them self-employment and helping them in generating more income (Elhadidi, 2018). Second, it also provides better and sustainable livelihood by enhancing the quality of life (Garikipati, 2008). Most importantly, it is crucial for economic development as it promotes entrepreneurship and helps in creating jobs (Al-Mamun et al., 2016). Hence, microfinance financial services are included as one of the major independent variables in the proposed model, and it is argued that these financial services have a positive impact on households' socioeconomic outcomes.

On the other hand, the effectiveness of microfinance financial services can be channelized through the development of human capital (Streletzki & Schulte, 2013), as it assists individuals to develop and enhance their skills (Mawa, 2008). So, this study proposes an indirect impact of microfinance financial services on households' socioeconomic performance through two important human capital factors which are households' financial management practices and entrepreneurial competencies. Microfinance financial services develop households' human capital through education. Microcredit is considered a significant tool for education and enhancing essential capabilities (Al-shami et al., 2014). This study argues that financial services, particularly microcredit positively affect clients' education, which further assists them in developing their management and earning skills, thus, also influencing their financial literacy, financial management behavior, and entrepreneurial competencies. Micro saving is a form of microfinance where organizations and financial institutions encourage individuals to save money. Micro savings accounts are similar to traditional savings accounts but are designed for small deposits. Micro-savings also play a crucial role in enhancing financial management practices as it encourages saving behavior and wealth accumulation among households (Kalu & Nenbee, 2013). So overall, it can be deduced that microfinance financial services help households in enhancing their capabilities such as financial management and entrepreneurial competencies which further lead them to achieve better socioeconomic performance.

#### 4.1.2. Training Programs

Based on the inputs from the industry, this study includes microfinance training programs as a crucial intervention that is targeted to enhance human capital factors. Initially,

microfinance institutions only focused on providing financial services to the clients, however, later on, it was realized that the development of human capital is also equally crucial for the effectiveness of microfinance services. It is claimed that a lack of knowledge and skills is one of the main reasons for the economic failures (Radipere & Scheers, 2005). Microfinance clients especially micro-business holders are usually unable to utilize their financial capital effectively due to a lack of certain capabilities and awareness. In general, microfinance training programs enhance such certain capabilities (Glaub & Frese, 2011), therefore, play a crucial role in enhancing the socioeconomic outcomes of a household (Mustapa et al., 2018). Low-income households form a significant portion of the developing nations' population. To improve the socioeconomic condition of low-income households, development organizations must offer a wide range of development training, discussions, and group or center meetings. Training programs can be viewed as a process of developing human capital in low-income households as these enhance their experience, knowledge, and skills required for the entrepreneurship (Ul-Hameed et al., 2018). This study argues that training programs help individuals or households in enhancing their human and productive capitals by developing their skills and capabilities that can play a positive role in generating better socioeconomic outcomes.

Specifically, these training programs help to enhance financial awareness and develop financial management skills among households for better management of their financial matters. Similarly, training programs also focus to develop entrepreneurship competencies among their clients to help them in the effective management of their micro-enterprises (Samer et al., 2015). Moreover, empirical literature also reports that training programs develop entrepreneurial competencies among clients which consequently result in improved business performance (Al-Mamun et al., 2019). The training program was designed to create awareness of the microfinance sector and its effective usage in alleviating poverty by providing the poor with access to credit. Thus, considering these arguments, this study proposes that microfinance training programs lead households to adopt effective financial management practices and develop entrepreneurial competencies that help them in selecting the best opportunities and appropriately managing their economic operations to achieve better socioeconomic outcomes.

#### 4.1.3. Business Coaching

As proposed by the industry, this study also incorporates business coaching as a separate independent variable in the model, a newly emerged microfinance intervention that has become crucial in the socioeconomic success of micro-entrepreneurs. Business coaching is a process of collaboration that seeks to enhance knowledge and competencies to

increase self-awareness and develop effective strategies. It is defined as a cooperative relationship between entrepreneurs and coaches within which business coaches try to bring productive change to achieve the socioeconomic goals of an entrepreneur (Dobrea & Maiorescu, 2015).

It is argued that business coaching can be crucial for the micro-enterprises owned by low-income households, as such household members usually lack capabilities, knowledge, and strategy development. Specifically, the dearth of entrepreneurship competencies can be the main hurdle in entrepreneurial success. Thus, entrepreneurs must be provided special support in developing their competencies to achieve business goals (Idris & Abu Bakar, 2020). Considering this, microfinance institutions have initiated business coaching facilities for their clients to help them in developing their capabilities and providing proper guidance which consequently enhances their socioeconomic performance. Further, it also intends to bring behavioral change in individuals through personal coaching and development, which also enhances their capacity to achieve better outcomes. This is the reason, business coaching service is emerging as a significant tool for achieving entrepreneurial success (Gray, 2006).

The concept of business coaching is new, therefore, empirical literature relating to its effectiveness is very limited. However, it is evident that business coaching has a positive effect on enterprise performance (Dobrea & Maiorescu, 2015). In a short span of time, business coaching has emerged as a powerful tool for business growth performance. It enhances areas of proficiency and develops required skills among individuals (King & Eaton, 1999), thus enhancing their socioeconomic outcomes. This study argues that business coaching plays important role in enhancing financial management practices and entrepreneurial competencies among households when they are provided day-to-day guidance and support services by creating collaborative relationships (Ellinger et al., 2009). Specifically, it helps to enhance the managerial performance of entrepreneurs as well as competitiveness among microenterprises (Zeus & Skiffington, 2000). Similarly, business coaching also facilitates clients by developing effective entrepreneurship skills among them which can be quite useful in effective decision making (Audet & Couteret, 2012). Given these opinions, it is proposed that business coaching services can be a crucial source to develop entrepreneurial competencies and adopt effective financial management practices among microfinance clients. Hence, leading them to achieve better socioeconomic outcomes.

## 4.2. Mediators

### 4.2.1. Financial Management Practices

Financial capital is any economic resource measured in terms of money used by entrepreneurs and businesses

to buy what they need to make their products or to provide their services to the sector of the economy upon which their operation is based. Financial capital is the major resource for both individuals and enterprises. In terms of business, financial capital is needed to buy assets, materials, and employ a workforce to generate profitability (Ross et al., 2008). The proposed model assumes that financial management is crucial for microfinance clients to enhance their socio-economic performance. Hence, this research proposes household financial management as a potential mediator in the moderated mediation framework. It is argued that microfinance interventions encourage households to adopt effective financial management which helps them efficiently utilizing their financial capital, thus, enhancing their socioeconomic outcomes. Low-income households usually lack financial awareness to manage their financial capital which causes them to face vulnerable situations. Therefore, financial management has particular importance for such households and their businesses, as it focuses to bring efficiency in the utilization of limited financial capital (Krah et al., 2014). Financial management practices are generally viewed as a way to control mismanagement of money and excessive spending. Therefore, effective financial practices are very critical in defining the financial success of any individual either in terms of earning or wellbeing (Bakar & Bakar, 2020). Considering this, microfinance institutions have to focus on the financial management skills of their clients because such skills can bring a remarkable change in their socioeconomic success.

Researchers unanimously view financial management behavior as a crucial factor in determining socioeconomic success (Lusardi & Mitchell, 2014). It is argued that financial management practices help households in preparing them for future economic disruptions, thus enhancing their socioeconomic performance (Loke, 2016). Whereas, poor financial literacy and financial management practices can be a major reason for households' indebtedness and vulnerability which eventually halt their economic performance (French & Mckillop, 2016). Literature also mentions that financial knowledge lead households towards better financial behavior such as savings, building assets, and credit management, thus ultimately improving their wellbeing (Bakar & Bakar, 2020). Financial awareness refers to people's understanding of financial concepts, as well as their skills and ability to manage money and make informed financial decisions. Therefore, authorities are being suggested to take aggressive actions to improve financial awareness among individuals (Lusardi, 2019). Implying with this, the adoption of effective financial management practices is very much crucial for the socioeconomic performance of households.

Despite such importance, the direct association between households' financial management practices and household well-being has acquired less attention from researchers around the globe. Microfinance literature has also overlooked

to investigate the role of financial management practices in the socio-economic well-being of their clients. Although it has been suggested in the literature (Nawaz, 2015) that the effectiveness of microfinance can be enhanced only when joined with effective financial management awareness. Considering these arguments, this study argues that financial management practices are crucial for improving households' socio-economic performance. Hence, it is proposed that household financial management practices mediate the influence of microfinance interventions on household socioeconomic performance.

#### 4.2.2. Entrepreneurial Competencies

Entrepreneurship is considered a vital part of economic development as it helps individuals in creating wealth (Do & Tran, 2020). Hence, this study argues that entrepreneurial competencies are very crucial for microfinance clients as these relate to a set of skills or capabilities which play an important role in successful entrepreneurship and efficient economic performance (Mitchelmore & Rowley, 2010). This is the reason, authorities and policymakers started developing initiatives to enhance the entrepreneurial capacity of individuals, thus, fostering socioeconomic development (Fayolle et al., 2006). Considering its importance, this research incorporates household entrepreneurial competencies as a mediating variable in the proposed conceptual framework. It is argued that individuals with strong entrepreneurial competencies are more able to discover and avail themselves of economic opportunities; have better capability to deal with economic problems, thus, generating better economic outcomes (Suddaby et al., 2015). Based on the resource-based theory, it can be deduced that economic units have different capabilities due to their varying set of resources, which can be enhanced by promoting multiple entrepreneurial competencies (Ratnawati et al., 2018).

Entrepreneurial competencies are found to have a positive influence on competitive advantage thus positively contributing towards socio-economic development (Fazal et al., 2019). Basically, individuals with better entrepreneurial competencies can formulate effective strategies to utilize potential opportunities and enhance their economic performance (Mitchelmore & Rowley, 2010). Man et al. (2002) classified entrepreneurial competencies into six major dimensions; conceptual, commitment, strategic, opportunity recognition, organizing, and relationship competencies; which can play a crucial role in the socio-economic performance of any economic entity. The conceptual dimension relates to the cognitive ability of an individual to critically analyze multiple options and coming up with unique concepts and ideas (Al-Mamun et al., 2016). It helps an individual at multiple tasks such as problem-solving, coping with risk, and decision making, thus enabling them to

survive in adverse economic times. Similarly, commitment competency leads individuals to set long-term goals and objectives, which confirm sustainability in their outcomes (Al-Mamun et al., 2019). It implies that individuals with good commitment competency, do hard work, and allocate more time to achieve long-term socioeconomic goals (Man et al., 2002).

Similarly, Man et al. (2002) also state that opportunity recognition competency can also help in enhancing economic performance as it assists individuals to analyze and avail potential economic opportunities. In addition to this, strategic competency leads individuals to make plans and formulate effective strategies by analyzing financial requirements and implementing creative ideas, thus, ensuring better economic performance (Zainol & Al-Mamun, 2018). Furthermore, it is also argued that organizing competency is also crucial for economic performance as it helps an individual in better management of various resources such as financial, human, physical, and technological, thus, ensuring smooth daily transactions (Man et al., 2002). Lastly, relationship competency helps to develop and maintain strong networking with different stakeholders to analyze and avail required economic resources (Al-Mamun et al., 2019). To improve the socioeconomic condition of low-income and poor households, developing nations' governments must design various policies and programs, which offer many types of loans, training, advisory services, and platform for promoting entrepreneurial activities. In general, this study argues that entrepreneurial competencies can play an important mediating role in the influence of microfinance services as these lead households to initiate and conduct successful business operations, hence, enhancing their socioeconomic performance.

#### 4.3. Moderator

##### 4.3.1. Microfinance Institutions' Service Efficiency

Financial capital has the necessary role in enhancing the economic capacity of any poor individual, however, access to financial capital is still a major concern for the poor as they are excluded from the traditional financial system (Wijesiri et al., 2015). Similarly, service quality is also considered a crucial factor for the clients of financial institutions (Abdullah et al., 2019). Microfinance institutions develop their services and operations with the motive to help their poor clients in the best possible manner. Any service provider is viewed as efficient if it delivers services to the clients in the best scenario (Chowdhury & Mukhopadhyaya, 2011). Specifically, efficiency in service delivery is necessary for the significant contribution to poverty alleviation and well-being of poor households. Microfinance institutions only offer their services to low-income clients; hence, it is



considered different from traditional financial institutions in multiple aspects. Therefore, microfinance institutions must have to be more efficient in their operations and service delivery because their broader objective is to cover their costs and to strive for the better well-being of their clients (Kabir Hassan et al., 2012).

Recently, the role of microfinance institutions' efficiency as a service provider has gained attention from the authorities and researchers. However, most of the existing studies involve measuring microfinance institutions' technical efficiency (Jaiyeoba et al., 2018). In addition to this, the mechanism involving the provision of financial services is very crucial for poor households. For instance, Kwon (2010) stated that poverty eradication and better well-being of the poor depend on successful microfinance institutions' operations which require better efficiency and service delivery. There are very few existing studies that focus on measuring microfinance institutions' service efficiency (Chowdhury & Mukhopadhyaya, 2011). Hence, there is a gap in the literature relating to the microfinance service efficiency and its role in the socio-economic performance of clients.

Considering this gap, microfinance institutions' service efficiency is included in the conceptual framework as a potential moderator in the effect of microfinance services on households' socio-economic performance. This study argues that clients' socioeconomic outcomes are expected to be significantly dependent on the factor that how efficiently microfinance services are being provided to them. Literature also indicates that it is crucial to analyze service delivery that to what extent services provided are benefiting microfinance clients (Chowdhury & Mukhopadhyaya, 2011). Hence, this study conceptualizes that although the provision of financial capital is the major factor in enhancing the well-being of households, how financial services are being provided is very crucial for better utilization of such services. Therefore, it is important to incorporate microfinance institutions' service efficiency to investigate the effectiveness of microfinance services in enhancing the socioeconomic performance of households. Thus, this study includes microfinance institutions' service efficiency as the moderating variable in the effectiveness of microfinance interventions.

#### 4.4. Dependent Variable

##### 4.4.1. Household Socioeconomic Performance

Finally, households' socioeconomic performance indicators are included as the outcome variable. Considering multiple aspects of microfinance clients, the HEP model suggests examining microfinance's impact on all different outcome perspectives of the client. Hence, this study also includes multiple dimensions of household socioeconomic performance as the outcome variable. These include

households' social wellbeing, economic wellbeing, and business performance. Here, households' social wellbeing is a subjective measure that captures wider aspects of wellbeing such as managing social problems, meeting basic needs, and provision of opportunities (Midgley, 1995). Similarly, household economic indicators such as income level (Al-Mamun et al., 2018) and possession of physical assets (Al-Shami et al., 2018) are suggested to capture the economic wellbeing of household individuals. Further, microenterprise performance is a crucial element for microfinance clients. Hence, this study also includes the entrepreneurial success of households as an important indicator of socio-economic development.

Summarizing the microfinance mechanism, this study proposes a new moderated mediation model. This model depicts that microfinance financial and non-financial services have significant influence through the mediation of household's financial management and entrepreneurial competencies on all three aspects of socioeconomic performance which are social wellbeing, economic wellbeing, and entrepreneurial success. Additionally, it is also proposed that microfinance institutions' service efficiency has a significant moderating role in the impact of microfinance services on households' socioeconomic outcomes.

#### 5. Concluding Remarks

Human kinds' economic deprivation and poverty have remained a matter of great concern for the authorities across the globe. Specifically, this has become a major issue for developing countries. In the last couple of decades, microfinance has emerged as a powerful tool against economic deprivation. Despite its notable growth, yet there is a conflict among researchers regarding its poverty alleviation impact. Its proponents believe that microfinance has the potential to empower poor individuals against economic deprivation whereas opponents state a lack of strong evidence that microfinance empowers the poor and reduces poverty. Considering this conflict, researchers continue to assess microfinance interventions and their impact on clients' socioeconomic performance. Therefore, this study attempts to develop a new model to conceptualize the impact of microfinance on households' socio-economic outcomes through various significant factors. For this, it includes multiple microfinance (microfinance financial services, training programs, business coaching, and microfinance institutions' efficiency) and household level (financial management practices and entrepreneurial competencies) factors determining the socioeconomic wellbeing of households. The purpose of the research is to explore crucial factors and understand the mechanism through which microfinance services influence the socioeconomic performance of the households.

A new moderated mediation framework is developed that provides an opportunity for future empirical research to evaluate the impact of microfinance on households' socio-economic performance. This study highlights two important mediating mechanisms, financial management practices, and entrepreneurial competencies which may explain how microfinance services influence business operations and household socioeconomic performance. This model also introduces microfinance institutions' service efficiency as a moderator that can contribute to the effectiveness of microfinance interventions. The outcomes of this study contribute to the literature by providing clear knowledge and understanding regarding multiple factors to enhance the socioeconomic performance of the households. This can help institutions to enhance their performance. In general, this study provides a substantial opportunity for future empirical research that might provide useful implications for authorities, researchers, and households.

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