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MICROFINANCING INFLUENCE ON MICRO-ENTREPRENEURS BUSINESS GROWTH: MEDIATING ROLE OF PSYCHOLOGICAL AND SOCIAL CAPITAL

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Abstract
This paper is set out to uncover the phenomena of micro-enterprises business growth by hypothesizing microfinancing, social and psychological capital as factors. This research is important due to the fact that the paucity of information on how microfinancing, social and psychological capital relate to micro-enterprises business growth would obscure the ways in which they survive. In Malaysia, microfinance is used as one of the tools to alleviate poverty, as well as to improve the livelihood and standards of living of the poor and those who are financially excluded. However, almost three decades after the introduction of microfinancing programmes, the performance of microfinancing recipients' i.e. micro-enterprises in Malaysia is not satisfactory. Besides providing loans to these micro-entrepreneurs, other aspects of facilitation, including the inculcation of the entrepreneur's intangible resources, need to be addressed. Therefore, this research examines the mediating effect of micro-entrepreneurs' psychological and social capital on the relationship between microfinance provisions and the business growth of micro-enterprises. The samples are identified from two microfinance providers, i.e., Amanah Ikhtiar Malaysia (AIM) and the National Entrepreneur Group Economic Fund (TEKUN) micro credit financing scheme recipients' databases. A total of 250 useable survey questionnaires was collected and analysed to test the hypothesised relationship. The data was analysed using Partial Least Square-SEM and the structural model was examined to test the hypotheses. The findings show that micro-entrepreneurs' psychological and social capital have a significant mediating effects on the relationship between provision of microfinance and the business growth of micro-enterprises in Kelantan. This research offers the practical implication that the effects of micro finance provision on the business growth of micro-enterprises are better exerted through micro-entrepreneurs' psychological and social capital. This theoretically supports the applicability of the Resource-based View (RBV) theory to explain the mediating effect of psychological and social capital on the relationship between microfinance provisions and business growth.

Research paper

Keywords: Micro-enterprise, Business growth, Psychological capital, Social capital, Mediation, Microfinance institutions

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Introduction

Microfinancing is the provision of financial services to the poor, i.e. low-income families and those who have no access to formal financial support (Conroy, 2003). In Malaysia, microfinance is used as one of the tools to alleviate poverty, as well as to improve the livelihood and standards of living of the poor and those who are financially excluded. Two key microfinance institutions (MFIs) in Malaysia are Amanah Ikhtiar Malaysia (AIM), a Non-Government Organisation (NGO) established in 1987 to alleviate poverty, and the Entrepreneur Group Economic Fund (TEKUN), established in 1998 for the purpose of entrepreneurial development (Mohd Noor & Norhaziah, 2012). While AIM offers group borrowing schemes, TEKUN provides for individuals as well as group borrowing schemes (Mohd Noor & Norhaziah, 2012).

One of the key objectives of these two MFIs is to provide greater access to financing for the poor, as they usually do not have collateral as a guarantee for their loans. The MFIs' loan recipients then use the funds received to establish a small business or micro-enterprise so as to improve their income and standards of living. Ensuring the survival and growth of the businesses of the MFIs' clients is also beneficial for microfinance institutions (MFI) as it encourages timely repayment and avoids loan defaults, thus contributing to MFIs' sustainability. This is crucial given that MFIs in Malaysia are now required to be financially independent and do not rely on government financial support (Nadzri et al., 2018).

However, almost three decades after the introduction of microfinancing programmes, the performance of their recipients' micro-enterprises in Malaysia is not satisfactory. Therefore, besides providing loans to these micro-entrepreneurs, other aspects of facilitation, including the inculcation of the entrepreneur's intangible resources, need to be addressed (Newman et al., 2014). For better outcomes, the role of the MFI should be more than that of a financial-services intermediary; it should be a close advisor in business operations and create a true supply chain partnership with the micro-entrepreneurs. Consequently, nurturing of micro-entrepreneurs' psychological and social capital should be introduced as part of microfinancing programmes.

Microfinancing (i.e. financial capital assistance) is an essential resource, but social capital and psychological capital convert it into business growth. By itself, microfinancing assistance only sets limits on what micro-enterprises can attain in the short term, i.e. surviving, and it will soon wither. After all, empirical research on MFIs has largely ignored the role of intangible resources (social and psychological capital) in promoting overall entrepreneurial growth (Bourlès et al., 2017). Hence, there is a need for research that examines whether entrepreneurs' psychological and social capitals have a positive impact on the performance of micro-enterprises (Mohd et al., 2014; Gorostiaga et al., 2019). Understanding this issue would assists MFIs and also governmental agencies involved with microfinancing and micro-entrepreneurial development to better manage their financing programmes. As such, the aim of this research is to examine a model that ex-

hibits a combination of factors that are associated with the growth or performance of micro-enterprises.

To answer the above question, the samples selected in this study are micro-entrepreneurs in Kelantan, a state located on the east coast of Malaysia. Kelantan was chosen due to its vibrant micro-enterprise sector (Rafi, 2010) with the largest population of borrowers from the two key MFIs in Malaysia, i.e., AIM and TEKUN. Besides, Kelantan has a tradition of female micro-entrepreneurs and both microfinance providers, especially AIM, targets women participants. The location of the state, bordering Thailand, also opens up various possibilities for small traders. The Kelantan-Thailand border, i.e. Tak Bai in Pengkalan Kubor and Sungai Golok in Rantau Panjang, enables trade activities between these two countries. Moreover, Kelantan is also famous for its cottage industries such as the production of various fish crackers and snacks, handicraft production of silk batik, songket weaving and woodcarving (Rafi, 2010).

Specifically, three factors of interest that are hypothesised to contribute to the business growth of micro-enterprises are provision of microfinancing, and entrepreneurs' psychological capital and social capital (Gupta & Mirchandani, 2018; Schwarz, 2018; Wang et al., 2018; Idris & Agbim, 2015). The provision of microfinancing can assist micro-entrepreneurs to earn more income through the expansion of their business. However, selling more of its current product to new customers, i.e. in another town, or developing new products for existing and new customers requires not only economic (i.e., capital), but also non-economic resources (i.e., psychological

motivation and networking through social contacts) (Smith & Lohrke, 2008). Hence, the focus of this research is on the three factors that influence business growth: (i) the provision of microfinancing; (ii) psychological capital; and (iii) social capital. These three factors referring to micro-enterprises' resources are explained by the RBV theory. The relationships in the model propose that psychological and social capitals are the mediators of the impact of microfinancing on the performance of micro-enterprises.

Therefore, this research's theoretical contribution comes from understanding the phenomenon of micro-enterprise business growth by reorganising the causal maps of factors that contribute to business growth. Instead of examining the direct effect of microfinancing, and social and psychological capital on business growth, this research presents social and psychological capital as mediators. This study enhances the theoretical framework of micro-enterprise business growth by integrating these concepts (social and psychological capital) to enable the relationships to be fully understood, and to link them to the utility of the RBV theory.

Literature Review

Micro-Enterprise

Micro-enterprises in Malaysia, as defined by SME Corp, are business entities with less than five employees or a sales turnover of less than RM 300,000 (Aziz et al., 2017). Among the common business activities undertaken by micro-entrepreneurs in Malaysia are operating food stalls, mo-

bile groceries on wheels such as a motorbike or van, cottage industry manufacturing, small construction and agricultural or aquaculture farming. Micro-entrepreneurs rely on financing to establish and also expand their businesses. As such, the availability of credit financing and friendly government policies that facilitate micro-enterprises has contributed to the start up and growth of micro-enterprises (Al Mamun et al., 2019). The increase in the number of micro-entrepreneurs in Malaysia is also due to factors such as retrenchment, the break-up of the nuclear family, single parenting and the increased cost of living.

Business Growth

The business performance and growth of small and micro-enterprises has attracted considerable attention due to their significance in poverty alleviation (Ukanwa et al., 2018) and the improvement in the income level of the poor (Hussain et al., 2019). The main indicators used in empirical research to measure the growth of small businesses encompass dimensions such as perceptions of micro-entrepreneurs of the (i) changes in customer demand (higher interest in the offered products/services from the customers); (ii) changes in sales/ turnover (due to higher demand from customers); and (iii) changes in the organisation needed to support this increase in demand (i.e. increase in number of employees and working hours, and improvement in productivity) (Wiklund et al., 2009, 2003; Wiklund & Shepherd, 2005; Wiklund, 1998). Hence, these business growth measures

are selected in this study because they are easily available and commonly used in the literature.

Social Capital

Klein (2019) defined social capital as the sum of actual and potential resources embedded in social networks that are crucial to the functioning of individuals. It includes both the structure of the network and the assets that may be leveraged from the network. The various networks are sorted into informal communities and these systems of relationship act as an interface between people and other individuals. The advantages of social capital are joint or group critical thinking, data trading and asset sharing within the network (Hassan, 2018). Through their social networks, micro-entrepreneurs gain the opportunity to obtain new ideas and solutions to the issues facing them, as well the potential entrance to new markets and customers. A study by Hassan (2018) provides evidence that social ties are essential resources for business growth. The connection between microfinance provision and social interaction has received attention from past researchers (Newman et al., 2014; Feigenburg et al., 2010; Sanyal, 2009).

Psychological Capital

Psychological capital is defined as a condition of the mind, possessing positive psychological impacts (Avey et al. 2011; Luthans and Youssef-Morgan 2017; Baluku et al., 2018). Therefore, it could be considered as a

positive mind set. Luthans et al. (2019) have constructed the criteria of psychological capital as the positive psychological components of hope, efficacy, resilience and optimism. These have been clearly shown to be higher-order core constructs, positively related to a variety of a person's attitudinal, behavioural and performance outcomes. Baluku et al. (2018) proposed that psychological capitals are essential for entrepreneurs when dealing with challenging situations and difficulties. This psychological capital can be developed and exploited for micro-enterprises' business effectiveness (Newman et al., 2014). Hence, it is posited that these psychological resources tend to work together, resulting in a superior performance beyond what the entrepreneur has (financial capital) or knows (human capital), or even who the entrepreneur knows (social capital) (Baluku et al., 2018). The four psychological resources (hope, efficacy, resilience and optimism) represent the strength of an entrepreneur and they have the potential to be developed through training and intentional practice (Luthans et al., 2017).

Hypotheses Development

Microfinancing and Business Growth

The lack of financing at the bottom of the pyramid creates a vicious cycle of poverty due to limited wealth, access to goods and jobs (Rao et al., 2018). The poor require funding, especially to start up and expand their businesses. However, financing for the poor and micro-enterprises is problematic as in general, they do not have collateral as a guarantee for their

loans or reliable and complete financial and accounting information to support their loan applications (Ayi Gavriel Ayayi & Maty Sene, 2010), Hence, the role of MFIs in financial inclusion and supporting micro-entrepreneurs is vital.

Various researchers have found that microfinancing is a factor that is likely to significantly influence the business growth of micro-entreprises. The findings of Newman's (2014) study also provide evidence that the provision of microfinancing can inculcate good entrepreneurship skills and thus promote business growth. Although developmental economists have begun to examine the impact of microfinance provision using randomised experiments, the findings of prior empirical work are inconclusive (Banerjee., 2015) as are other predictors that mediate the effect of microfinancing on business growth. Based on the above literature, the following research hypothesis is developed:

H_1: *Microfinancing has a positive influence on micro-enterprises' business growth.*

Social Capital as Mediator

Armendáriz and Morduch (2010) propose that the success of microfinancing depends on both economic and non-economic factors. Besides economic capital, social norms also have an influence on entrepreneurial orientation, behaviour and outlook, including their future orientation, decision-making skills and the ability to manage relationships with others within

their social network. As mentioned, MFIs need to expand their services from focusing on funding to also providing advisory services, especially related to operational and financial planning, to ensure that the borrowers utilise the loan properly (Nilakantan et al., 2019).

Skills development and entrepreneurial orientation are important for the development of micro-entrepreneurs and an entrepreneur can learn best from an environment and network that they can trust (Nilakantan et al., 2019). Thus, besides the networking intervention by MFIs, micro-entrepreneurs usually utilise available resources such as their existing social network from among family and friends, in order to ensure their business survival as well as to support its growth (Nabiswa & Mukwa, 2017). This refers to social capital whereby the entrepreneurs enhance their entrepreneurial skills through a direct and indirect learning process from their social network (Sabiu, 2018). Social capital has a positive value for micro-entrepreneurs because it builds on their network and cooperation and can be used as a resource to support their business. For this reason, social capital is also a contributing factor to micro-enterprises' business growth. Thus, inculcating and facilitating micro-entrepreneurs' social capital is an area that requires increased attention from the MFIs.

The role of social capital has been widely investigated in prior research (see for example, Krikken, 2013; Radović Marković & Salamzadeh, 2012; Yli-Renko et al., 2002; Shane & Cable, 2002). The findings of empirical research have shown that social capital and networks facilitate the sharing of knowledge and resources between individuals (Ramos-

Rodriguez, 2010). Structural capital, i.e., the presence of network ties that enhance access to resources and information and the position of the individual within the network, facilitate micro-entrepreneurs' timely access to relevant resources and information, which are critical to the identification and exploitation of entrepreneurial opportunities. Relational capital, on the other hand, focuses on the nature of relationships that people have in terms of respect, trust and emotional support; i.e., it denotes the quality of their network. Although entrepreneurs might hold similar positions in a network, the strength of their ties with other members of the network might differ, which in turn will affect their ability to obtain access to external information and resources. Hence, this study proposes and tests the following hypotheses:

H_3: *Social capital has a positive influence on micro-enterprises' business growth*

H_{med5}: *Social capital mediates the relationship between microfinancing and micro-enterprises' business growth.*

Psychological Capital as Mediator

Psychological capital is an unlimited resource that micro-enterprises possess. It can be leveraged into business growth (Luthans et al., 2015). Paradoxically, MFIs and micro-enterprises invest in costly technical training yet forget to leverage developing psychological capital resources. Psychological capital resources can be nurtured in more cost-effective ways such as strengthening one's optimism, resilience, efficacy and confidence to grow.

Research in the field of psychology has demonstrated that giving positive feedback, attention, encouragement and motivation to employees reinforces their psychological capital (Luthans et al., 2015). Therefore, the effects of microfinancing on business growth are effective as they nurture positive psychological capital within the micro-enterprise. Hence, micro- entrepreneurs' psychological capital, i.e., their positive psychological state characterised by self-efficacy, optimism, goal setting, and resilience, are hypothesised to contribute to their business growth. Tehseen and Ramayah (2015) posited that being hopeful about attaining success is an important factor for micro-entrepreneurial business performance. Psychological positivity can also enhance creativity and innovation, which is translated into better firm performance (Al Mamun et al., 2019). Accordingly, the following hypotheses are proposed:

H_2: *Psychological capital has a positive influence on micro-enterprises' business growth. Hmed4: Psychological capital mediates the relationship between microfinancing and the business growth of micro-enterprises.*

Resource-based View

This research argues that a micro-enterprise's source of competitive advantage lies in its tangible and intangible resources. Therefore, micro-enterprises that utilise their internal resources such as social and psychological capital will have a source of competitive advantage when these are combined with microfinancing assistance from MFIs. Therefore, the mediat-

ing effects of social and psychological capitals on microfinancing's effects on the business growth of micro-enterprises are hypothesised in this study. The relationships between the predictors and outcomes are based on the RBV theory. According to Karimi et al. (2019, p.231) the RBV refers to the fact that 'essential raw materials for capability-building and their availability determine the firm's ability to build such capabilities, which are often critical drivers of firm performance'. Besides, the firm's competitive advantage can be enhanced if the firm can increase its efforts to ensure that the resources are heterogeneous, non-substitutable and incompletely imitable. In transforming entrepreneurial opportunities into real ventures, entrepreneurs have intangible assets consisting of individual-specific resources that facilitate the recognition of new opportunities; the personal ability to manage, organise, and utilise other capitals; and the capability to overcome risk and failure. Hence, RBV is used as the underlying theory in this research with the argument that the growth of micro-enterprises is not only dependent on financial resources, but also on other non-economic predictors such as the entrepreneurs' social and psychological capital (Nabiswa & Mukwa, 2017).

RBV theory forms a link between the cognitive ability of valuing and organising the different capitals of individual entrepreneurs and their attitude towards an entrepreneurial venture (Kim, 2017). Newman et al. (2014) propose that the extent to which microfinancing leads to higher psychological capital among clients is dependent on the extent to which business training or support is provided by MFIs to their clients during the lending process. The need to support the development of business skills for low-

income entrepreneurs is well established in the literature. For inexperienced entrepreneurs, especially those with the lowest socio-economic status and those operating in remote rural settings, organisations such as MFIs represent an important avenue of obtaining business knowledge, practical tools and strategies, in addition to providing basic financial support.

Based on its review of the results of microfinance programmes, the Asian Development Bank calls for microfinance providers to adopt a more integrated approach to economic development by offering more vocational and technical training and market information services (Zhuang et al., 2009; Newman et al., 2014). In response to this need, microfinance providers worldwide are working towards preparing support services for early business starters (Karlan & Valdivia, 2011). Hence, based on the literature, it can be inferred that the provision of microfinance, and micro-entrepreneurs' social and psychological capitals are the predictors that contribute to micro-enterprises' business growth.

Research Framework

Drawing on previous literature, this research argues that microfinance provision, along with the support and opportunities for interaction and networking afforded to MFIs' clients throughout the lending process, can create positive conditions for micro-entrepreneurs' psychological and social capital to flourish. This, in turn, can stimulate new venture creation and contribute to the growth of existing ventures, especially for poor entrepreneurs

who have limited access to all forms of capital (financial, social and psychological). Specifically, this research proposes that the extent to which microfinance provision will enhance psychological and social capital is contingent on the business support given to the client by the MFI, and the extent to which it facilitates social interaction among clients throughout the lending process. The framework for this research is presented in Figure 1.

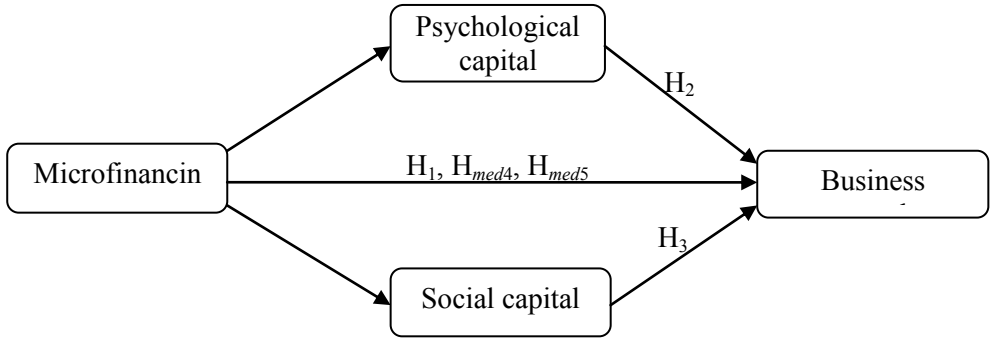

Figure 1. Research Framework

The conceptual framework and research propositions developed in this study should be useful to both policymakers and microfinance providers, by helping them to understand the mechanisms through which microfinancing can promote new businesses and assist in the business growth of micro-enterprises. They will provide them with a reference to consider when designing microfinance initiatives to enhance the wellbeing of clients and maximise entrepreneurial outcomes. It is also hoped that the theoretical framework will prove to be a useful guide for future research by linking the domains of entrepreneurship and organisational psychology.

Methodology

Sampling and Data Collection

The target population for this research was limited to micro-enterprises registered on the databases of TEKUN and AIM in Kelantan. This research employed a self-administered survey questionnaire. The surveyed micro-entrepreneurs in this study met the following criteria: (a) recipient of AIM or TEKUN microfinance; (b) the contact person/respondent was the owner of the micro-enterprise; and (c) the micro-enterprise must have been in operation for at least one to three years, in order to measure business growth. Using G*Power software, it was calculated that the sufficient sample size for this research was 250, which signifies an 80 per cent satisfactory degree of sample power for the present study (Chin, 2001). Therefore, a total of 250 valid and completed questionnaires were collected. The demographic profiles of the respondents are shown in Table 1.

Table 1. Demographic profile of respondents (n=250)

Characteristics	Categories	Frequency	%
Age	18-20 years' old	0	0
	21- 24 years' old	4	1.6
	25-30 years' old	55	22.0
	31- 35 years old above	191	76.4
Gender			
	Male	116	46.4
	Female	134	53.6
City			
	Pasir Puteh	58	23.2
	Kota Bharu	93	37.2
	Tanah Merah	25	10.0
	Bachok	44	17.6
	Pasir Mas	12	4.8

Characteristics	Categories	Frequency	%
	Pengkalan Chepa	18	7.2
Educational level			
	SPM	191	76.4
	Diploma/STPM	51	20.4
	Degree	8	3.2
Marital Status			
	Single	49	19.6
	Married	192	76.8
	Divorced	9	3.6
MFIs			
	AIM	112	44.8
	TEKUN	138	55.2
Number of subsequent loans taken from the same MFI			
	First time borrower	5	2.0
	Twice	164	65.6
	3 times	59	23.6
	4 times	21	8.4
	More than 4 times	1	.4
Amount Borrowed			
	Less than RM 5,000	101	40.4
	RM5,001 - RM 10,000	115	46.0
	RM10,001 - RM 15,000	17	6.8
	RM15,001 - RM 20,000	14	5.6
	RM20,001 - RM 25,000	3	1.2
	More than RM 25,000	101	40.4
Amount Received Adequate or not?	Yes	129	51.6
	No	121	48.4
Borrow from other sources?	Yes	201	80.4
	No	49	19.6
Which Sources?			
	Commercial Banks	46	18.4
	People's Org/NGOs/Coop	26	10.4
	Pawnshops	34	13.6
	Traders/Wholesalers/Retailers	24	9.6
	Friends/Relatives	32	12.8
	Government assistance	40	16.0

Characteristics	Categories	Frequency	%
	Not Borrowed	48	19.2
Amount Borrowed			
	Less than RM 5,000	20	8.0
	RM5,001 - RM 10,000	58	23.2
	RM10,001 - RM 15,000	42	16.8
	RM15,001 - RM 20,000	29	11.6
	RM20,001 - RM 25,000	20	8.0
	More than RM 25,000	33	13.2
	Not Borrowed	48	19.2
Type of Business			
	Online Business	63	25.5
	Services	70	28.3
	Manufacturing	22	8.9
	Retail Shop	1	.4
	Restaurant/Food stall	79	32.0
Who owns the business?	You	96	38.2
	You + spouse	148	59.4
	You + business partner	3	1.2
	You+businesspartner+ spouse	3	1.2
Revenue			
	RM1,001 and RM2,000	5	2.1
	RM2,001 and RM3,000	57	23.5
	RM3,001 and RM4,000	88	33.3
	More than RM4,000	100	41.2

Measures

This study aims to explain the mediating role of psychological and social capital in the relationship between microfinancing and micro-entrepreneurs' business growth, using a quantitative approach. The research instrument for measuring business growth is adapted from Wiklund et al. (2003) microfinancing items are adapted from Mokhtar (2011). Items assessing psychological capital are adapted from Samuel et al. (2018) and items for social capital are adapted from Wang et al. (2016). In this study,

the variables are measured using a 5-point Likert scale from 1 (strongly disagree) to 5 (strongly agree).

Data Analysis

Data are analysed using a Partial Least Squares (PLS) method employing SmartPLS Version 3.2 to assess the conceptual model. This study applies the PLS algorithm procedures to determine the significant levels of loadings, average variance extracted (AVE) and path coefficients. The standardised factor loadings and AVE of each construct were calculated to verify the convergent validity. The composite reliability (CR) for each construct is used to verify the convergent reliability. The bootstrapping technique is employed to determine the significance level of the proposed hypotheses. Lastly, blindfolding procedures are used to determine and assess the accuracy of the tested hypotheses and to obtain Q2.

Results

Measurement Model

For the measurement model, the standardised factor loadings are above the recommended threshold of 0.50 and the AVE estimate was higher than the threshold of 0.50 (Bagozzi & Yi, 1989; Fornell & Larcker, 1981). The CR values are greater than the value of 0.60 (Fornell & Larcker, 1981). The overall results show that the indicators are valid and reliable. As shown

in Table 2, all items have exceeded the recommended values. The data of this study indicated strong evidence of construct validity and reliability for the scales of business growth, microfinancing, and social and psychological capital.

Table 2. Item validity and reliability

Items	Loading
Dependent variable: Business Growth (AVE = 0.928; Composite Reliability = 0.889)	
This year's sales has increased over last year's sales	0.767
The number of hours spent on business has increased	0.822
The net profit margin has increased	0.886
The number of customers has increased	0.837
I need to hire additional employee	0.928
Independent variable: Provision of Microfinance (AVE = 0.884; Composite Reliability = 0.719)	
I received microloans from MFI to start my business/enterprise	0.854
I received microfinancing to increased my household incomes	0.899
I received microfinance provision to increase my business financial security	0.787
Mediator variable: Psychological Capital (AVE = 0.960; Composite Reliability = 0.856)	
I have confidence analyzing my enterprise long-term problem and finding the solution	0.936
I have hope for pursuing my enterprise goals	0.932
I am able to manage difficulties at my enterprise	0.898
If something goes wrong in enterprise, I know I can work it wisely	0.933
Mediator variable: Social Capital (AVE = 0.921; Composite Reliability = 0.701)	
My enterprise solves problems through intimate communication and effective collaboration	0.827
My enterprise maintains long-term relationships with customers	0.802
My enterprise has excellent suppliers	0.844
My enterprise is well connected with Microfinance Institutions	0.895
My enterprise shared a good vision, to facilitate business management	0.814

Note: AVE = Average Variance Extracted.

After assessing the validity and reliability of the indicators, the next step is to assess the discriminant validity of the constructs. Discriminant va-

lidity refers to the extent to which the measures are not related to each other. It is indicated by low correlations between the measure of interest and the measure of other constructs. Table 3 shows the Heterotrait-Monotrait Ratio (HTMT) to establish discriminant validity. In this research, all of the values are below 0.90; hence, it is confirmed that the measurement model's discriminant validity is established.

Table 3. Discriminant validity

Heterotrait-Monotrait Ratio (HTMT)

	PC	PM	SC	BG
Psychological Capital (PC)	-			
Provision Microfinance (PM)	0.855	-		
Social Capital (SC)	0.665	0.660	-	
Business Growth (BG)	0.748	0.810	0.611	-

Structural Model

A bootstrapping procedure with 2,000 iterations and 250 cases was used to assess the significance of the path coefficients of the structural model and hypotheses. The accuracy of the model's predictions is determined by examining the proportion of variance explained (R^2). The R^2 is a way of evaluating the explanatory power of the model. The R^2 values for endogenous latent variables are classified as strong, moderate, or weak, whenever R^2 is greater than the threshold values of 0.67, 0.33, or 0.19, respectively (Chin et al., 2008; Ali et al., 2018). Consequently, microfinancing explains 57.3% (R^2=0.573) of psychological capital and 33.9% (R^2=0.339) of social capital. Consequently, the result of the present study

shows that psychological and social capital and microfinancing jointly explain 56.3% (R^2=0.563) of the variance of business growth. These R^2 values can be interpreted as indicating that the model has moderate explanatory power.

Mediation Analysis

As recommended by Preacher and Hayes (2004, 2008), the study bootstrapped the sampling distribution for assessment of the indirect effect. The direct and specific indirect effects of the structural model are presented in Table 4. The direct effect results show that the effect of microfinancing, and psychological and social capital on business growth are all significant: microfinancing (β = 0.346), psychological capital (β = 0.347), and social capital (β = 0.144). The indirect effect of microfinancing on business growth through psychological capital is significant (β = 0.263), as is its effect on business growth through social capital (β = 0.084). Taking *t-value* > 1.96; two-tailed, $p < 0.05$ as evidence for mediation (Preacher & Hayes, 2004; Zhao et al., 2010), it is concluded that the multiple mediator model proposed in this research is significant and supported.

Table 4. Hypotheses testing result

Hypothesis	Beta	t-value	Decision
Direct effects			
H1: Microfinancing →Business Growth	0.346	3.785**	Supported
H2: Psychological Capital → Business Growth	0.347	2.920**	Supported
H3: Social Capital → Business Growth	0.144	2.081*	Supported
Specific indirect effects			
H*med*4: Microfinancing → Psychological Capital → Business Growth	0.263	2.775**	Supported
H*med*5: Microfinancing → Social Capital → Business Growth	0.084	1.974*	Supported

Notes: Critical t-values *1.96($p<0.05$); **2.57($p<0.01$)

Discussion and Conclusion

Micro-entrepreneurs' social and psychological capitals are important measures that contribute to micro-enterprise growth and competitiveness. Besides the provision of microfinancing, the micro-entrepreneurs' networking i.e., their social capital, which promotes strong engagement among MFIs' clients and provides social ties and trust, provides strong support for their business growth. Psychological capital, referring to a micro-enterprise owner's positive psychological state of development (i.e. self-efficacy, optimism, hope, and resilience) is the driver for their business growth (Luthans, 2006). These findings are consistent with previous research by Baluku et al. (2018). For micro-entrepreneurs, social relations provide an opportunity to excel in a number of entrepreneurial activities such as networking, fundraising, obtaining labour, and the marketing of their products or services. These facilitate entrepreneurial performance and offer an avenue

for the application of the entrepreneurs' positive psychological resources. Therefore, the application of psychological capital to entrepreneurial activities and the impact it has on firm performance and entrepreneurs' wellbeing may partly depend on the quality of relationships within the firm's social environment. For example, the findings of empirical research have shown that negative attainment discrepancy, which indicates performance below the aspiration level, leads to changes in products, organisational structure, and strategy. Previous studies have also found firms that have satisfactory performance and are reluctant to change because they believe that they are on the right track and want to maintain the status quo.

In this paper, the researchers do not take into account differences in opportunities for entrepreneurs. Prior research suggests that not all entrepreneurs have equal opportunities or potential to create economic values in the market (Alvarez & Barney, 2014). Alvarez and Barney (2014) further argue that entrepreneurs need different information and skills to exploit different types of opportunity. This suggests that social capital from the microfinance community might be more beneficial for a certain type of opportunity. Indeed, some researchers propose that MFI clients are likely to pursue less risky entrepreneurial opportunities (Alvarez et al., 2015).

The findings of this paper reveal the significant mediating effect of social capital and psychological capital on the relationship between the provision of microfinance and business growth. The findings are consistent with prior research, i.e. Luthans et al. (2019), which supports psychological capital as a higher-order and core positive factor for each of the recognised

constructs of self-efficacy, hope, optimism, and resilience. Previous research by Hassan et al. (2018) also supports this hypothesis and proposes that social interaction, particularly among people who have connections, is helpful for business growth.

The findings have several important implications for government and its agencies responsible for the development of micro-enterprises. Recommendations are as follows: a) develop a strategy of building social capital among MFIs' clients; and b) invest in inculcating micro-entrepreneurs' psychological and social capital. In fact, policymakers could use these findings as a reference to determine the economic issues faced by micro-enterprises. Furthermore, governments and socio-economic developmental organisations could emphasise micro enterprise growth by developing micro entrepreneurs' skills and competencies, market-oriented approach and social networking through suitable policies and appropriate training programmes.

Managerial Implications

The findings of this study contribute to the understanding of the role of intangible resources in entrepreneurship. They confirm the assumption that entrepreneurial success does not only accrue from tangible resources, but also from the psychological and social resources that the entrepreneur brings to the business. Psychological capital and social capital are specifically important resources for entrepreneurial success. They enable entrepreneurs to flourish despite the challenges and demands that they face. These

intangible resources, which are nested in entrepreneurs' personal attributes, facilitate opportunity recognition, decision making, networking, business negotiations, coping with stress, harnessing resources and dealing with different stakeholders. These are all important tasks for entrepreneurs that contribute to their business success. Moreover, strong psychological and social capitals also increase the likelihood of the survival and success of the business. Having the ability to remain optimistic, hopeful, resilient and confident, as well as the ability to effectively interact with others, is a recipe for persisting in entrepreneurial activities. In practical terms, therefore, the findings presented in this paper suggest that assisting micro-entrepreneurs to strengthen their psychological strength and social capital is essential.

Theoretical Implications

This research provides detailed insights regarding micro-enterprises' business growth strategies. It advocates improving microfinancing for the poor, while also exploring the nature and extent of their social and psychological capital, and its effect on the relationship between microfinancing and the business growth of micro-enterprises. This research informs the utility of the RBV theory and thus, it proposes operational activities for the development of intangible resources such as micro-enterprises' social capital and psychological capital. These implications would lead to the design and implementation of more specific and effective poverty reduction strategies.

Limitations and Avenues for Future Research

As this study focuses on micro-enterprises' growth in a single state, it may reduce the generalisability of the findings and their contribution. Thus, it is proposed that future researchers widen their investigation sample and population in examining the mediating effect of psychological capital and social capital on the relationship between microfinance provisions and business growth among micro-entrepreneurs in Malaysia, so as to deepen our understanding of these relationships.

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