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Economic Performance of Family-Based Micro-enterprise –  
the Moderating role of Competencies**

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# **Conceptualizing Recourses as Antecedents to the Economic Performance of Family-Based Micro-enterprise – the Moderating role of Competencies**

## **Abstract**

**Purpose:** The development of family-based Micro-enterprises has attracted the attention of regulators, micro-finance institutions and other stakeholders either in developing or least developed countries. In the finance literature, prior studies have examined the determinants of the development of the microenterprise. However, several avenues need to be examined for family-based microenterprises. The study aims to explain the economic performance of microenterprises from resource-based theory and human capital perspectives.

**Design/methodology/approach:** Based on critical review and theoretical grounding, this study proposes a conceptual framework that bridges tangible and intangible resources with the economic growth of micro-enterprises.

**Originality/value:** The study finds that human capital in the form of competencies is one of the variables that has received little attention and yet to be examined as a moderating role. As enterprises that possess competencies and capabilities are more likely to have higher levels of growth and profitability.

**Keywords:** Family-based Microenterprise; microfinance; resource-based view; human capital; competencies, business performance

## **1. Introduction**

Microenterprises are the backbone for most countries in the world (Harvie, 2003; Jamak et al., 2014). The economic importance of microenterprises has been recognized as an essential factor for country growth (Berrone et al. 2014). Therefore, microenterprise creates an opportunity to generate income and employment for a significant number of workers in rural and urban areas through the production of essential goods and services such as the making of traditional foods, fisheries, livestock & poultry, handicrafts, small trade & business, timber business/carpentry, phone/fax, garments & tailoring, etc. for the need of rapidly growing populations (Jamak et al., 2014).

Income from microenterprise sources is, therefore, seems to have a more significant effect on poverty reduction (Khandker et al., 2013). There are two types of microenterprises. One is family-based livelihood microenterprise, which provides a livelihood to the micro-entrepreneur; and another one is microenterprise, which has the potential for growth, and the generation of employment opportunities (Harvie, 2003). There is no unified definition regarding the specific investment that can be addressed as microenterprise or small-enterprise, although it is defined as Small and Medium Enterprises. Few scholars have determined it based on the size of the assets acquired by the business; as well as, based on the loan as equity to the business; and sometimes on the number of employees that the firm has employed (Khalily and Khaleque, 2013). Brown et al. (2000) and Nixon (2005) also propose firm size as an effective parameter to categories microenterprise firms with one to five full-time employees, including family members.

However, it is often argued that the formal financial sector has failed to serve the poor to reduce poverty (Chowdhury, 2009). Consequently, it is always claimed by the entrepreneurs that they are suffering from financial constraints. In this concern, to reduce poverty and raise the small-scale micro-enterprises, microfinance institutions are providing financial support along with some non-financial assistance to the poor people (Muridan and Ibrahim, 2016). According to the Microcredit Summit (2004), microfinance institutions designed their program for extending small loans to impoverished people for self-employment projects that generate income in allowing them to take care of themselves and their families. The World Bank has recognized the programs of microfinance institutions as an approach to address income inequalities and poverty (Ahamad et al., 2016). The lending programs of these institutions serving the poor with reasonable services by alternative approaches such as group lending, peer monitoring, compulsory saving, and progressive

lending, which enables them to reduce both transaction costs and default risk. By providing financial services to the poor, microfinance institutions contributing to reducing poverty by breaking the circle of poverty (Nghiem, 2007).

However, the financial assistance of microfinance institutions helps in obtaining funds to developing and maintaining their loan borrower's business activities (Muridan and Ibrahim, 2016). By using this assistance, the borrowers can startup or scale up their business. Consequently, these business activities know as microenterprise are the primary medium of the borrowers to improve their household standards as well. As microenterprise is an emerging sector in many countries, the literature is growing in this area. Business performance is mostly assessed by previous studies using different types of measures. Vos et al. (2007), Gubert and Rwbowd, (2011), Santos and Brito, (2012), Bradley et al., (2012), Mahmood and Rosli, (2013), Mohamad and Sidek, (2013), Fauster, (2014), Berron et al., (2014), Muneer and Khalily, (2015), Wen et al., (2016), Atmadja et al., (2016) measured overall performances include enterprise income, return on assets, gross profitability by a respondent's subjective self-reporting except the studies conducted by Muneer and Khalily, (2015). For reasonable reliability, these authors acknowledged that this measurement is not ideal. Thus, to see the actual and particular picture of the business, there is a scope to measure the performance by economic profit using the respondent's objective self-reporting. Economic profit should be measured considering the opportunity cost to find out the net benefit from microenterprise business which did not recognize by the previous study. Opportunity cost is related to the costs of the resources provided by the owner of the enterprise, including capital and the expenses related to entrepreneurial competencies. At the same time, the explicit cost is also essential, which refers to a direct payment made to others in the course of running a business, such as a wage, rent, and materials. To fill up this gap and to observe the actual performance, it is crucial to examine the economic profit after deducting the implicit and explicit cost following the profit growth theory which aligned with the theory of small firm growth.

Furthermore, the present study aims to review, analyze and synthesize the existing body of literature on the microenterprise business performance and their influencing resources by providing a systemic literature review of empirical articles. This supports this study to understanding, what factors of microenterprise business performance have been studied so far, what types of performance it can lead to, and what areas are still lacking rigorous investigation. Prior literature shows that financial and non-financial resources influence business performances. Mohmood and Rosli (2013), Fauster (2014), Beck et al.

(2015), Muneer and Khalily (2015) found from their study that microfinance loans can improve micro-enterprise performance. However, Rahman and Ahamad, (2010), Berron et al., (2014), Atmadja (2016) argued that finance is only one facet of the broader set of issues and finance (microcredit) by itself cannot be the single element for success. Some other influential factors include training, business monitoring and advisory, and family member's supports in the form of physical and emotional support are also need to consider. Most of the previous studies examined the effect of training on performance evident by mixed results. Monitoring and advisory services are identified as an essential factor but overlooked by previous studies. Beyond this, family members support recognized as critical factors to run the business as most of the microenterprises are family-based livelihood enterprises. Therefore, this factor still scant in microfinance literature. A combination of these different forms of resources can enhance the performance of a microenterprise. Becker (1994) has advocated that individual competencies in the form of an entrepreneur's managerial capacity and skills can affect higher performances of their business. To achieve the expected performance, this study proposes a causal model that combines financial support, non-financial support from microfinance institutions and family members. This study also conceptualizes managerial skills and capabilities as entrepreneurial competencies to attain higher business performance.

In addition, these relevant issues are principally interesting to explore in the context of an emerging economy and least developed countries. For example, more than seven hundred microfinance non-Government Organizations are working in Bangladesh to reduce poverty (CDF annual report, 2014). Despite the fact, poverty is still a central illness to the progress of the country. It is projected that nearly 38.8 million people are living under the poverty line (Ahmad & Byron, 2017). Further, this conceptual study deviates from previous microenterprise literature by the following stances. In essence, this study focuses on microfinance-driven family-based livelihood enterprise, while most of the study concentrated on the large firm. Thus, the contribution of this conceptual paper twofold. Firstly, the research has conceptualized the most significant factors as essential resources for microenterprises performances and contributes to the resource-based view (Barney, 1991). Secondly, based on the human capital aspect, this study theoretically contributes a conceptual idea to the literature that an individual's competencies are more likely to have higher levels of growth and profitability (Baker, 1964). The rest of the paper is organized as follows: first, section 1 explains the background of the study, research gap and contribution briefly. The literature review is presented in section 2 and the research framework in section 3.

Proposition development in section 4, followed by measurement of the variables in section 5. Finally, section 6 presents the conclusion of the study.

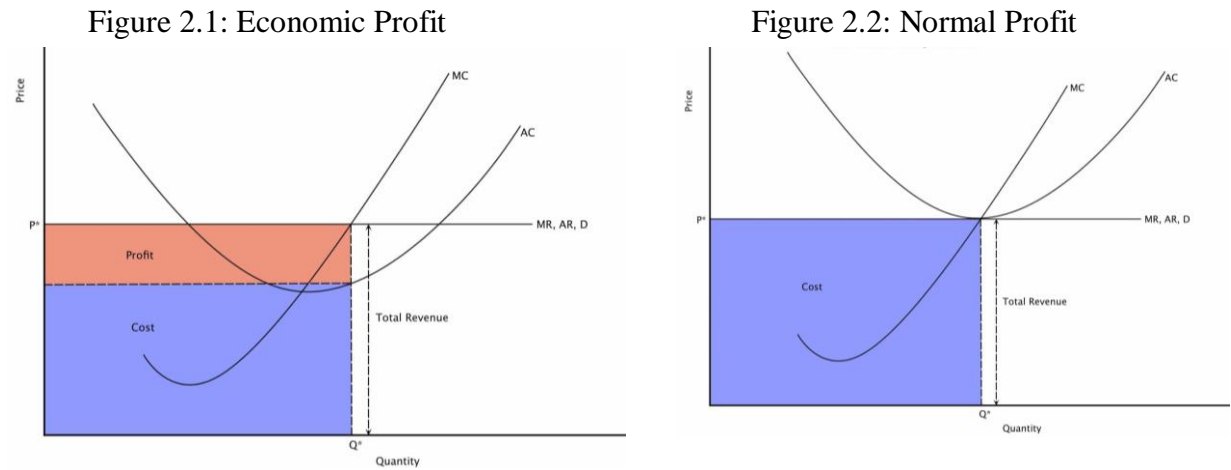
## **2. Literature Review**

### **2.1 Microenterprise Business Performance and Theory of Profit**

According to Lin, Peng, and Kao (2008), business performance is the outcome of operations, including the achievement of the firm based on either internal or external objectives. Mohamad et al. (2015) professed that performance could measure with quantitative or qualitative or both form. Similarly, firm performance can be measured by non-financial and financial methods too (Bagorogoza & Waal, 2010; Bakar & Ahmad, 2010). Santos and Brito (2012) discussed in their paper that the three authors, Combs, Crook, and Shook (2005) analyzed 238 articles which were published between 1980 and 2004 and found that 56 different indicators of financial performance. In most cases, financial performance was used (82%) with accounting measures of income, return on assets, sales, profit, etc. Microfinance literature also exhibits different measures for different aspects. For example; Vos et al. (2007), Mahmood and Rosli, (2013), Muneer and Khalily, (2015), Haider et al., (2017) used return on assets, Wen et al., (2016), Haider et al., (2017), Jamak et al., (2014), Berron et al. (2014) used business income, Haider et al. (2017), Berron et al. (2014) used employment creation and Haider et al., (2017), Mahmood and Rosli, (2013), Alrawshedh, (2016), Beck et al. (2015), Fauster, (2014), Berron et al. (2014) used sales growth. However, Santos and Brito (2012) professed that profit and growth are relevant motifs for the existence of a business firm and must be included in any attempt to measure performance is indisputable. Adekunle (2011) and Ahamad et al. (2016) stated that business improvement particularly the profitability of the business enterprise is vital to know how well the microenterprises are performing and whether their source of finance substantially affects their sales and profitability.

The ideology of profit refers to the revenue generated from sales. The nature of profit is rooted in the theory of the firm, which explains how advantages arise, which determines the volume of profits or the stream of expected future benefits (Nikita Dutta; 2017). Profits or expected profit stream from productive activities or investment play a crucial role in decision making by business owners. In the calculation of economic gain, the economists deduct not only explicit costs but also implicit costs from the sales revenue of the firm. The implicit costs refer to the opportunity costs (Muneer and Khalily, 2015) of the resources provided by

the owners themselves, including the capital and entrepreneurial abilities. An explicit cost is a direct payment made to others in the course of running a business, such as a wage, rent, and materials, as opposed to implicit costs, which are those where no actual payment is made (Nikita Dutta; 2017). Therefore, the economic profit represents the sales revenue of the firm in excess of both explicit and implicit costs shown in the diagram below:



Source: Intelligence Economist, 2017

Researchers argued that in the short run, an enterprise could make an economic profit. However, if there is economic profit, another small enterprise will want to enter the market. If the market has no barriers to entry, the new small enterprise will enter, increase the supply of the commodity, and decrease the price. This decrease in price leads to a reduction of the enterprise's revenue, so in the long-run, economic profit is zero. An economic profit of zero is also known as a reasonable profit shown in the above diagram. Despite earning an economic profit of zero, therefore, the enterprise may still be earning a positive accounting profit. That means, the enterprise owner still can earn a standard/fair economic profit includes the opportunity cost of working and still can earn a decent living based on human capital involved in the business (Mostafiz, Sambasivan, & Goh, 2019c). However, in order to measure the financial business performance, many studies have used the gross profit of the microenterprise (Vos et al., 2007, Gubert and Rwbowd, 2011, Santos and Brito, 2012, Mahmood and Rosli, 2013, Berron et al., 2014, Alrawshedh, 2016, Atmadja et al., 2016). In line with the profit theory, economic profit is important to assess the actual business performance. Hence, there is a scope to fill this gap by validating the profit theory by adding this dimension of profit in the field of microfinance institutions segment.

## 2.2 Resource-Based View Theory and Potential Resources

To discuss business performance, profit growth, and related influential resources, the 'Resource-Based View' (RBV) theory is more adequate because it is an economic tool mostly used to determine the resources available to the business (Barney, 1991). In 1984, 'Wernerfelt' introduced the idea and in 1991, 'Barney' formalized this theory. Barney (1991) stated that "business firm resources include all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness". Kay (1999) stated that "resources are inputs into a firm's production process, such as capital, equipment, skills of individual employees, patents, finance, and talented managers. Resources are either tangible or intangible in nature."

Resources are the basic building blocks of business functioning and performance. These resources can be classified as physical and capital resources, human capital resources, and organizational capital resources. Mohamad and Sidek (2013) stated that business performance is typically related to the resource-based view (RBV) theory. The RBV of the firm has been frequently utilized in literature over the past 20 years to understand the relationship between a business unit's resources/capabilities and its performance or profitability (Mostafiz, Sambasivan and Goh, 2019b). RBV states that business performance is achieved when the firm has valuable resources and capabilities available as a source of sustainable competitive advantages (Mahoney, 1995). Therefore, literature exposed some valuable resources that affect business performance, which is discussed as follows:

**Capital from Microfinance Institutions:** Finance is the essential resource for purchasing fixed assets, for working capital, and financing initial operations and the living expenses of the owners (Atmadja et al. 2016). To start up or scale up the existing enterprise, poor people have limited access to traditional credit facilities. However, it is imperative to get enough money from the loan provider to run a project successfully (Rahman and Khan, 2013). Hamdan et al. (2012), Saad and Duasa (2010), Al Mamun et al. (2012) measured the economic performance of clients participating in the MFIs program of Amanah Ikhtiar Malaysia (AIM). The authors found that a number of loan borrowings from AIM positively and significantly increased his business income. Rahman and Khan (2013), Mohmood and Rosli (2013), Fauster (2014), Beck et al. (2015), Muneer and Khalily (2015) found from their study that microfinance loan can improve the borrower's business performance. Muneer and Khalily (2015) found from their study that credit has a contribution to increasing the output



and loan size matters in boosting up financial profits. The authors found that financial profit increases at a decreasing rate if there is an increase in loan size. On the other hand, Bradly et al. (2012) found that financial capital may not necessarily influence business success. The author found a negative relationship between financial capital and performance. Beck et al. (2015) did not find any significant influence between formal finance on business performance. Atmadja (2016) and Mustapa et al. (2018) found a similar result from their study that loan size has a negative or non-significant relationship with performance. Further, based on an extensive and update survey in Indonesia, Atmadja et al. (2018) claimed that microfinance might not matter for microenterprise performance. Therefore, “all you need is financing” is an axiom and generalized idea to succeed in a business project. However, researchers such as Rahman and Ahamad, (2010), Berron et al., (2014), Atmadja (2016) argued that finance is only one facet of the broader set of issues and some other related issues also need to consider.

**Institutional Assistance as Non-financial Capital:** Institutional assistance in the form of training, business monitoring and advisory and other non-financial support did not get proper attention from previous studies. However, Karlan and Validivia, (2011), Mahmood and Rosli (2013), Samer et al. (2015), Ahamad et al. (2016b) used only training assistance. Advisory and monitoring are essential because microfinance borrowers are often start-up taking loans for business but end up with fulfilling immediate consumption needs (Hassan, 2010). Mensah et al. (2013) argued that monitoring helps prevent loan diversion, and it helps motivate borrowers to repay loans on time (Mirpourian et al. 2016). Monitoring also helps mitigate information asymmetry between institutions and borrowers (Behr et al. 2011). Lensink et al. (2011) stated that if MFIs continuously monitor their borrowers, they can perform better than those institutions provide financial services only. Agbeko et al. (2017) found from their study that intensive monitoring programs successfully improve loan repayment rates. Therefore, the joint effort of monitoring and advisory services provided by microfinance organizations should be assessed to see the business performance. Unfortunately, these issues overlooked by previous studies. This gap left the scope for future research these issues from the border aspect as a potential source of business performance.

**Family Members Support in Business:** Family members support denotes any help to start, run and grow the business (Mahmood and Rosli, 2013). This help can be in different aspects such as physical, financial. Berrone et al. (2014) stated that family support is crucial

for microenterprise business performance, and when family supports are available, the enterprise can be more successful. It is vital in many ways; such sibling participation can provide access to family assets, physical resources, and emotional assistance. This assistance positively affects business performance (Lee, 2004; Fairlie and Robb, 2007; Lafuente and Robetino, 2011). Powell and Eddlestob (2013) reported that family support has a positive impact on business existence, sales and profit growth. Cruz et al. (2012) stated that engaging family members in business partly increase business performance. Mahmood and Rosli (2013) examined family support on business performance in Malaysia's perspective measured as the number of family members assisting in business, and the result confirmed that family support positively related to the business performance. On the other hand, Berrone et al. (2014) found from their study conducted in Argentina on general micro-enterprise that family support did not have any significant impact on the micro-business performance. Atmadja (2016) also found the same type of unfavorable result which conducted on the women-own enterprise in Indonesia. However, again, Overall and Wise (2016), Mohamad and Bakar (2017) and Mostafiz and Goh (2018) advocated from their different context and prospective studies that engaging family members and their support in business increase entrepreneur's capability to achieve the long-term competitive advantage and increase the business performance. This support from the family also provides courage and emotional stability to the entrepreneur, which gives them an extra edge for entrepreneurial success. The support even reduces the stresses, negative emotions, and negative behaviors in running a business. However, this evidence demonstrates the significant correlation between family support and business growth.

### **2.3 Human Capital Theory and Competencies**

According to the theory of human capital, an individual's competencies help him to perform better in business and produce economic value (Becker, 1994). This concept of human capital first used by Adam Smith (1776) to describe the 'acquired and useful abilities' of individuals (Winterton and Cafferkey, 2017). It also traces back to the economic theory of firm growth developed by Penrose (1959), who argued that firms who possessed competencies (productive resources) and capabilities to exploit those competencies (managerial resources) best would be rewarded with the highest levels of growth and profitability. Berrone et al. (2014) stated that when this concept applied to microenterprises, it implies that individuals with more considerable human capital tend to better at building their

ventures. The term competencies have been broadly used as entrepreneurial skills, capabilities, readiness, business expertise, experiences, and proficiency. These terms represent the human capital of individuals.

However, competencies are seen as necessary for business growth and success (Mitchelmore & Rowley, 2010). Competencies are the higher skills and abilities of the owner to run the business successfully, and it plays an essential role in determining business performance (Mostafiz, Sambasivan, & Goh, 2019a). This is supported by Mitchelmore & Rowley's (2010) study, which described that success, performance, and growth of enterprises dramatically depends on the business owner's competencies. Therefore, DFID (2001), Man et al. (2002), Brown et al. (2005), Rudmann (2008) have found that skills are essential factors for business success. On the other hand, Bradley et al. (2012), Mohamad and Sidek (2013) found business expertise, Yusuff et al. (2016) found self-efficiency, DFID (2001), Adekunle (2011) and Bradely (2012) found entrepreneurial or managerial ability, Roomi, (2011), Mahmood and Rosli, (2013), Berron et al., (2014), Alrawashden, (2016), Atmadja, (2016) found experience is associated with business performance.

### **3. Research Framework**

Microfinance institutes provide a collateral-free loan to the micro-entrepreneurs. By using this loan, they can start-up or grow up their enterprise. Along with that borrowed loan, literature revealed that enterprise growth might influence by some other resources. Entrepreneurial training is essentially one of the most critical support acknowledged by previous studies. Monitoring and advisory services provided by microfinance institutions are, therefore detected as essential factors for enterprise growth besides the loan and training (Mensah et al. 2013, Mirpourian et al. 2016). Thus, these factors exposed to the framework as independent variables. The literature further stressing on family support in enterprise operation as microfinance institutions emphasizing on family-based enterprise set-up and growth (Mahmood and Rosli, 2013; Berrone et al. (2014). In the form of physical and emotional support from family and providing their family assets in the business may also the potential for enterprise growth which is comprised in the framework as independent variables. Moreover, the entrepreneur's competencies to run business, mostly known as vital factors for their success (Al Mamun et al. 2016). In the form of skills, capability and containing other items of a human capital asset, competencies may reveal a higher effect on enterprise performance. Thus, there is a scope to measure the interaction effect of

competencies between the brought up resources and enterprise performance. The relationship has been exposed in the framework consequently. However, these resources need to be tested against performances suggested by Adekunle (2011), Santos and Brito (2012) and Ahamad et al. (2016). Notably, the enterprise's economic improvement taken to measure the performance, and it has been adopted as the dependent variable in the framework.

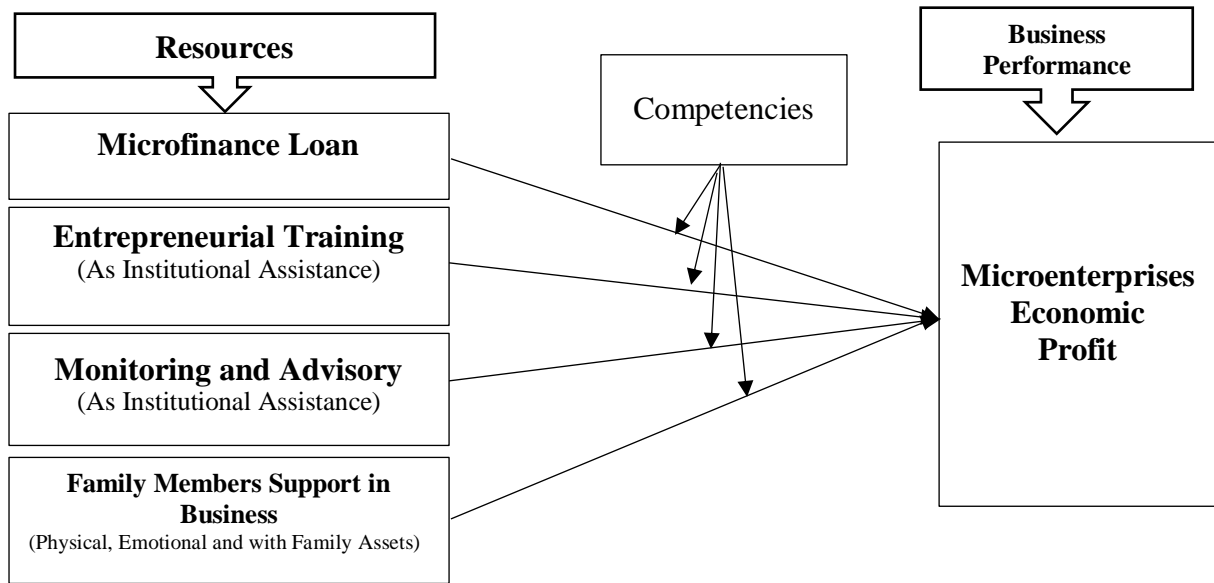


Figure: Conceptual Framework

## 4. Proposition Development

### 4.1 Relationship between Resources and Business Performance

Finance is an essential resource to run a project successfully (Rahman and Khan, 2013). To start up a business or scale up the existing small business, poor people have limited access to traditional credit facilities. Saad and Duasa (2010), Hamdan et al. (2012), Al Mamun et al. (2012) stated that several loan borrowings from microfinance organizations could increase borrower's income positively and significantly. Rahman and Khan (2013) experienced that loan sufficiency has a significant positive effect on beneficiaries' improvement. In a recent study conducted by Al Mamun and Hayat (2019) confirmed from their research on Malaysia that financial support from microfinance institution affects the performance of microenterprise. It means that those who are granted a sufficient loan are found to have a higher likelihood of improving their business and livelihood as compared to those who do not get an adequate loan.

On the other hand, Atmadja (2016) claimed that financial capital might not necessarily influence business success. The author found a negative relationship between financial capital and performance. Beck et al. (2015) did not find any significant influence between formal finance on business performance. Bradly et al. (2012) and Mustapa et al. (2018) found a similar result from their study that loan size has a negative or non-significant effect on performance. Therefore, Mawa (2008) mentioned that a small amount of money creates lots of income opportunities' in rural areas. Mohamad and Sidek (2013), Muneer and Khalily (2015), Fauster, (2014) found from their study that microfinance is positively related to business growth and it has a significant effect on microenterprise profit. Mahmood and Rosli (2013) also found that microcredit significantly enhanced business performances. Hence, it is hypothesized that;

*P1: There is a positive relationship between Microfinance loan and business performance.*

Institutional assistance is essential for better business performance. Training as institutional assistance helps people to become more efficient. Usually, borrowers can show better business knowledge after receiving training (Karlan and Validivia, 2011). Schreiner and Woller (2003) stated that in developing countries like Bangladesh, Indonesia and Bolivia, microfinance programs focused on loan rather than training. Rahman and Khan (2013) conducted a study to examine the effectiveness of the ASA microcredit programs in Bangladesh. The study found that 70.50% of borrowers did not receive training from ASA though the respondents thought that training was necessary. However, Samer et al. (2015) found in Malaysia that access to business training has a positive impact on women's household income. Morshid and Abdullah (2013) mentioned that the borrowers are interested in learning more about their business field by training. Ameer (2013), Chowdhury and Mukhopadhaya (2014) suggested in their study that microfinance institutions should provide some training to the borrowers so that they will be able to use the loan more efficiently. In a recent study conducted by Mustapa et al. (2018) and Al Mamun and Hayat (2019) claimed that enterprise development training programs have a positive effect on micro-enterprise performance and sustainability. Besides, advisory services and monitoring from microfinance organizations can help the borrowers to scale up their business. Kamyabi and Devi (2011) stated that advisory services have a positive effect on enterprise performance. Hence, the following hypotheses are developed:

*P2: There is a positive relationship between training provided by microfinance institutions and business performance.*

*P3: There is a positive relationship between monitoring and advisory services provided by microfinance institutions and business performance.*

“Family members support” in the form of physical and emotional support help to start, run and grow the business (Mahmood and Rosli, 2013). Previous studies on a different type of enterprise exhibit that family supports positively affect the business performance (Lee, 2004; Fairlie and Robb, 2007; Lafuente and Robetino, 2011, Powell and Eddlestob, 2013, Mahmood and Rosli 2013). Engaging family members and their support in business partly increase business performance. This support from the family also provides courage and emotional stability to the entrepreneur, which gives them an extra edge for entrepreneurial success (Overall and Wise, 2016). This support even reduces the stresses, negative emotions, and negative behaviors in running the business (Mohamad and Bakar, 2017). Mostafiz and Goh (2018) suggested that family member support increase the entrepreneur's capability to achieve a long-term competitive advantage in a complex business environment. Hereafter, aligned with positive arguments, the hypothesis is developed as follows:

*P4: There is a positive relationship between family members support and business performance.*

#### **4.2 Moderating Effect of Competencies**

Competencies are the components that are required for people to succeed, such as skills, knowledge, abilities, and behaviors (Al Mamun et al. 2016). Competencies are seen as critical to business growth and success (Mitchelmore & Rowley, 2010). Competencies are the higher skills and abilities of the owner to run the business successfully, and it plays a vital role in determining business performance (Man et al. 2002). This is supported by Mitchelmore & Rowley (2010), which describe that success, performance, and growth of enterprises dramatically depends on the business owner's competencies. However, DFID (2001), Man et al. (2002), Brown et al. (2005), Rudmann (2008) have found that skills are the crucial factors for business success. On the other hand, Bradley (2012), Mohamad and Sidek (2013) found business expertise, Yusuff et al. (2016) found self-efficiency, DFID (2001),

Adekunle (2011) and Bradely et al. (2012) found entrepreneurial or managerial ability is associated with business performance. Overall, these indicators of competencies have a positive relationship with enterprise performance.

Therefore, if we look back to the previous studies, it shows some mixed results of financial support and non-financial supports. Even financial supports show a non-significant influence on business performance in some cases (Bradly et al., 2012; Beck et al., 2015; Atmadja, 2016). Consequently, in the case of training, Roomi (2011), Mahmood and Rosli (2013), FASTER (2014), Berron et al. (2014) found no significant impact on business performance. In sum, overall, these studies did not yield a meaningful result. Shrout & Bolger (2002) argued that it happens when there is a lack of other essential elements, and there could not be enough power to predict the effect that exists. Thus, there is a scope to set the competencies as the rational element in the framework to escalation the higher business performance, and it will confirm that the competencies are the significant predictor between resources and the performance. Thus, this study precisely wants to conceptualize this theoretical understanding by using competencies as a moderator variable. Hence, the following hypotheses have been proposed for testing the moderation effect:

*P5: The relationship between resources and business performance is stronger when competences are higher.*

## **5. Measurement**

### **5.1 Dependent Variable**

The dependent variable in this study is microenterprise business performance. Business economic profit is proposed as a proxy variable for measuring performance. To find out the economic profit, three types of data, such as sales revenue, implicit cost, and explicit cost should be considered. Sales revenue defined as the borrower's monthly income from the business. Implicit costs refer to the opportunity costs of the resources provided by the firm's owner himself, including capital and entrepreneurial ability. An explicit cost is a direct payment made to others in the course of running a business, such as a wage, rent, and materials. It will also directly measure with ratio scale. All three items should measure directly with a ratio scale adapted from previous studies (Muneer and Khalily, 2015). This study proposes to investigate at least three years of operation because these are the most crucial years for any enterprise survival (Boden and Nucci, 2000).

## **5.2 Independent Variables**

The independent variables of this study include microfinance loan, training, monitoring, and advisory services and family supports. Microfinance loan is defined by the total loan received from microfinance institutions proposed by Rahman and Khan (2013), Mohmood and Rosli (2013), Fauster (2014), Beck et al. (2015), Muneer and Khalily (2015), Atmadja (2016). Training, monitoring and advisory services provided by microfinance institution along with the amount of loan are categorical variables measured with ordinal scale adapted from Karlan and Validivia, (2011), Kamyabi and Devi (2011), Mahmood and Rosli (2013), Samer et al. (2015), Ahamad et al. (2016). Family support includes the measurement of family members' physical support, mental support, emotional support and involving family assets to run the enterprise as proposed by Mahmood and Rosli, (2013), Berrone et al. (2014), Mostafiz and Goh (2018). The items proposed here are subjective in nature based on a five-point Likert scale starting from “1 - strongly disagree to “5 - strongly agree”.

## **5.3 Moderating Variable-Competencies**

Moderating variable competencies placed with five items include managerial capacity, daily account maintaining ability, business problem-solving capacity, risk handling capability, and network development and maintaining skills adapted from Mohamad and Sidek (2013) and Tanpa (2013). These measures capture how micro-entrepreneurs manage his or her daily business activities and maintain business networks. It reflects the capacity and capability that micro-entrepreneurs possess. All items are proposed to measure by a five-point Likert scale starting from “1 - strongly disagree to “5 - strongly agree”.

The literature revealed that enterprise age and size are significant control variables in measuring business performance. Besides, it is found from previous studies that entrepreneurs' age and experience have a potential controlling impact on business performance. Thus, this study proposes these control variables to avoid problems in data analysis and interpretation of results. The number of employees will represent the microenterprise size and the age of microenterprise will be assessed by the number of years from the time when established the enterprise (Mohamad and Sidek, (2013). Entrepreneurs' age refers to the current period (in years) of the micro-entrepreneur and experience refer to whether the micro-entrepreneur had experience before starting the current microenterprise (Tanpa, 2013).



## 6. Research Design

Research design provides the outline to be used by a research study to accomplish the research objectives or test the hypothesis (Kumar et al. 2013). This study is explanatory as the purpose of this study is to determine and investigate the relationship between the cause and effect of the independent variables and moderating variable towards the dependent variable. Cross-sectional research design; a one-shot research study at a given point of time and consists of a sample of the population of interest is suitable. It will provide an overall good picture of the position at a given time. Quantitative research can be conducted by collecting the primary data from the sampling population distributing questionnaires. The questionnaires can be developed by proposed adapted and adopted items of this study. The least developed and developing countries are the appropriate area of the study where microfinance institutions are trying to empower the microenterprise and micro-entrepreneurs.

To describe the demographic characteristics of the respondents and to summarize respondents' perceptions, descriptive statistics will give a good empirical picture (Sekaran and Bougie 2009) along with correlation coefficients which can illustrate the relationship between independent and dependent variables. Further, as correlation analysis does not mention the grade to which the difference in a dependent (criterion) variable can be expounded when multiple independent variables are theorized to act on it simultaneously, a multiple regression analysis is ordinarily used to help such aim. Hair et al. (2006) suggested that multiple regression analysis is the most widely used multivariate technique to predict and explain the variance. The model for multiple regression is as follows:

$$Y_i = \alpha + \beta_1 \text{Loan} + \beta_2 \text{Training} + \beta_3 \text{Monitoring} + \beta_4 \text{family support} + u \text{ ----- (1)}$$

Where  $Y_i$  represents the economic profit of microenterprises.  $\beta_1$  to  $\beta_4$  are the coefficients of microfinance loan, entrepreneurial training, monitoring, and advisory services, and family support respectively. "u" is the error term. For the interaction effect of competencies, the model specified as follows:

$$Y_i = \alpha + \beta_1 \text{Loan} \times \text{CMPT} + \beta_2 \text{Training} \times \text{CMPT} + \beta_3 \text{Monitoring} \times \text{CMPT} + \beta_4 \text{family support} \times \text{CMPT} + u \text{ ----- (2)}$$

Where CMPT represents the interaction effect of competencies with a Microfinance loan, entrepreneurial training, monitoring, and advisory services and family support, respectively.

## 7. Conclusion

The paper takes an empirical and theoretical perspective on microenterprise performance. Particularly the objective of this study was to examine the existing literature on the microenterprise business performance and conceptualize the influencing resources on microenterprises performance. After examination, this paper enabled us to conclude the strengths and gaps. From the overall review, this study found that microfinance institutes lending programs are sufficient to increase borrower's business performance. This study also provided supports to understand what determinants of microenterprise performance have been studied so far and described the lackings.

First, from the literature, it is found that the theory of profit underlines the need for the growing focus on profitability to assess the actual microenterprise performance. In line with the theory, the economic profit of enterprise mainly can provide a holistic picture of performance. Second, from a resource-based view, the review highlights that some valuable resources affect business performance. For example, microfinance institutional loans and training can affect business performance though controversial results exist. Therefore, the other determinants such as institutional assistance as monitoring and advisory, family members' support to run businesses have received little attention and have not appropriately examined yet in the field of microfinance driven microenterprise. Thus, this study conceptualized these issues for future research to explore the relationship. Third, this study has used the microfinance industry as a context of this conceptual proposition. By including the concept of human capital theory, this study offers conceptual understandings of how entrepreneurs competences along with other supports in the microfinance industry lead to their higher business performance. A future empirical study is needed to validate the framework developed here. Structural equation modeling or a partial least square approach could be used to investigate the research framework (Mostafiz, Islam, & Sharif, 2019; Sharif, Mostafiz, & Guptan, 2018). Fourth, future research can also consider using a qualitative approach to explore different resources in different contexts and study how an entrepreneur's innovativeness and social capitals affect their business performance. It will be more robust if future research considers the more performance indicators such as entrepreneurs' value of business assets, employment creation prominence and as well as enterprise stability.

Finally, the gender issue needs to address rigorously as microfinance institutions mostly focus on female entrepreneurs. Hassan (2010) argued that focus on women sometimes creates social conflict in conservative populations. Generally, the women receive the loan

sometimes that loan used by male members of their family. The literature also evident debate on gender performance. For example, Berrone et al. (2014), Muneer and Khalily (2015) and Atmadja (2016) found that male's performance in business is higher than females. On the other hand, Peake and Marshall (2017) and Acheampong (2018) argued that females performed better than male. Thus, a comparative study between the performance of male and female entrepreneurs will shed some light on the body of literature too.

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