



RESEARCH PAPER

The Indispensable Role of Financial, Psychological and Social Capabilities for Micro-Entrepreneurs: A Qualitative Analysis of Microfinance in Pakistan

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ABSTRACT

This study aims to explore how microfinance banks are addressing its clients' financial, psychological and social capability needs in Pakistan. For this purpose, qualitative technique has been used and data collected through semi-structured in-depth interviews of microfinance experts, managers and loan officers from different microfinance banks of Pakistan. This study used QSR Nvivo 12 software for data analysis. The research findings implied that microfinance banks are mainly focusing on micro-entrepreneurs' financial capability needs and only to some extent on social capabilities. However, clients' psychological capability needs are not being addressed by microfinance banks in Pakistan. This is the first research study in Pakistan to jointly explore the role of microfinance institutions in supporting financial, social and psychological capabilities for the growth of micro-entrepreneurs at BOP

Introduction

Micro-entrepreneurs commence micro business projects in trading, manufacturing, services or agriculture sector, which are known as micro enterprises, to improve their income generation. Normally micro-entrepreneurs are self-employed or may employ up to 10 other individuals excluding seasonal labor in such microenterprises (SBP, 2012). Entrepreneurs add value through introduction of new products, create jobs and establish new firms by combining existing resources with microfinance and innovative ideas (Sussan & Obamuyi, 2018). Microenterprises constitute an important source of employment, and developing such enterprises at large scale is a global key concern. However, the question about most efficient tool for microenterprise development is still complicated and inconclusive (Berge, Bjorvatn, & Tungodden, 2015).

Microfinance has been considered the only viable approach from last few decades to enhance income generation of individuals at economic base of pyramid(BOP) through providing support in establishing microenterprises(Sen, 1992, 1999).Recent years have seen a rise in innovative business models that target people at the economic base of pyramid as potential customers (Christensen, Siemsen, & Balasubramanian, 2014), or as entrepreneurs (Kistruck, Sutter, Lount, & Smith, 2013). The concept of BOP has been introduced to draw attention towards more than 4 billion poor individuals(Prahalad, 2005). They earn less than 2 USD a day, and have remained un-served by the large organized private sector (Ismail & Baloch, 2015).

Microfinance researchers believe that it has well supported entrepreneurial activities through providing small collateral free loans at BOP (Yunus, 2011).Hence, the possibility that the poor can be better supported as micro-entrepreneurs, has generated great anticipation (Zhao & Wry, 2016). However, management scholars have given controversy about microfinance whether it contributes to entrepreneurial activity or not. How and why some microfinance clients create successful enterprises while others do not (Ahlstrom, Bruton, & Si, 2011; Bruton, Ahlstrom, & Li, 2010).The empirical evidence combined with criteria of the Capability Approach (CA), has emphasized that microfinance is a relative failure in promoting micro business activities and reducing poverty(Tseng, 2011).

Most of the literature mainly focused on clients' access to microcredit only, and ignored clients' heterogeneity therefore; a notion was developed that the poor need mere financial access to become a successful entrepreneur, which in reality may not be correct. Because every individual is different from others and faces unique challenges(Singh & Dutt, 2018).Individuals can also differ significantly in their abilities and capacity to utilize the given resources in opposite ways (Owolabi, 2015).Moreover, business outcome of a resource depends on both the use made of it and his or her circumstances at that time of use(Sen, 1992, 1999)therefore the role of psychological and social capabilities cannot be neglected because micro-entrepreneurs have to deal with a large number of complicated uncertainties and risks(Singh & Dutt, 2018).Specially psychological and social capabilities contribute more in the growth of entrepreneurial activities as they have minimum access at economic BOP (Newman, Schwarz, & Borgia, 2014).

The global size of microfinance industry has been estimated around USD 124 billion in gross loan portfolio, and 140 million active borrowers worldwide (García, Fernández, & Muñoz, 2020). Among major microfinance markets of the world, Pakistan has been ranked 6th largest country on the basis of 7.4 million microfinance borrowers(García, et al., 2020).Pakistan has 1.8 billion USD microfinance loan portfolio with 39.6% annual growth in 2016-17 (Stephens, 2018). The Global Entrepreneurship Index 2018 has ranked Pakistan 120th out of 137 countries(Z. J. Acs, Szerb, & Lloyd, 2018). It revealed that microfinance industry is growing exponentially in Pakistan but the real objective of promoting business activities has not been achieved accordingly. It is therefore necessary that the ambiguities and complications involved in microfinance industry regarding microenterprises must be identified for apposite

measures. Despite the considerable growth of microfinance industry worldwide, so far its role and techniques have not been properly assessed (Roodman, 2013) especially in developing countries like Pakistan. Still it remains unclear whether microfinance institutions are enabling the entrepreneurs at BOP (Cruz, Foster, Quillin, & Schellekens, 2015), or microenterprises (Phan, 2009).

The impact of microfinance on broad dimensions like poverty alleviation has been researched largely. However no such study has been conducted to explore the reasons behind lack of progress in micro-entrepreneurs growth with the assistance of microfinance. Only few researchers have attempted to investigate such issues (Brau, Cardell, & Woodworth, 2015; Chliova, Brinckmanna, & Rosenbusch, 2014; Newman, Schwarz, & Ahlstrom, 2017; Omondi & Jagongo, 2018; Pytkowska & Korynski, 2017; Umemezia & Osifo, 2018) but these were aimed towards different directions and led to inconclusive outcomes. Furthermore, the indispensable role of psychological and social capabilities for micro-entrepreneurs, have also not been explored in the context of Pakistan.

This research article has addressed this gap by making a distinct contribution to micro-entrepreneurship literature through assessing the role of microfinance regarding promotion of micro-entrepreneurial activities in Pakistan. The study found that microfinance banks are mainly focusing on provision of financial capabilities and partially on social capabilities to support clients' income generation. However, the psychological capability needs are not being addressed in a comprehensive manner. This paper has adapted a conceptual map from Newman (2014) study regarding provision of microfinance for promoting micro-entrepreneurial activities as presented in Figure-6.1. This study has used Qualitative method and conducted in-depth semi-structured interviews of microfinance experts for data collection. QSR Nvivo 12 software has been used for data analysis.

Literature Review

Microfinance provide a number of financial services to millions of clients at economic BOP, un-served by the conventional banks (Newman, et al., 2017). Microfinance supports and encourages the low income group for entrepreneurial activities through provision of necessary resources and capital for self-employment (Yunus, 2011).

Entrepreneurs are considered as innovators, employers and explorers of opportunities (Shane & Venkataraman, 2000). They add value by introducing new products, creating jobs and establishing new firms through combining different resources with the help of microfinance (Sussan & Obamuyi, 2018). In contrast, entrepreneurs at the economic base of pyramid operate small, unsophisticated, and informal business setups. They struggle in meeting their basic needs and face lack of access to several resources (Bruton, Jr, & Ireland, 2013). At BOP, entrepreneurs undertake micro business projects for income generation, known as microenterprises. Microenterprise can be in any form like trading, manufacturing, services or agriculture

sector that leads to income generation. Usually in such microenterprises, the micro-entrepreneurs themselves are self-employed or may employ few other individuals but not exceeding 10 excluding seasonal labour (SBP, 2012). Such necessity based entrepreneurs at BOP are fundamentally different from opportunity exploiters (Bradley, McMullen, Artz, & Simiyu, 2012).

The BOP is a concept to understand the segregation of different economic levels in the world. It keeps the privileged on top and unprivileged poor at the bottom. The concept explains the unequal distribution of resources through representing minimum individuals at top of the pyramid with maximum resources, and vast poor population living at BOP with minimal resources (Subhan & Khattak, 2017). The concept of BOP has been introduced to draw attention towards more than 4 billion poor individuals (Prahalad, 2005). They earn less than 2 USD a day, and had not been served sufficiently by the large organized private sector (Ismail & Baloch, 2015). Microfinance clients at BOP in developing countries, may not have any other option than entrepreneurship, whereas individuals in developed countries voluntarily become entrepreneurs (Markman, Baron, & Balkin, 2005).

There are many hurdles for the potential entrepreneurs at BOP i.e. lack of collateral, business resources (Khavul, 2010) or capabilities. It led to microfinance's special emphasis on micro-credit for income-generating activities and notion of producing superior and sustainable results (Morduch, 2013). It was the Nobel Prize winner Muhammad Yunus, who introduced the concept that people denied by conventional banks, can be relied to repay their loans even without collateral (Hermes & Lensink, 2011). Since then several microfinance institutions have devised new strategies for fulfillment of their vision (Khan & Rahaman, 2007).

The basic microfinance models, such as the model of Grameen Bank, were based on the premise that the poor primarily lacked money only (Michel & Randriamanampisoa, 2018). But few other researchers also established that financial capital alone cannot ensure entrepreneurs' success (Berge, et al., 2015; Mel, McKenzie, & Woodruff, 2008). Hence, need of a comprehensive criterion like capability approach was felt by researchers to assess the effectiveness of microfinance. Because for a given individual, the profitable nature of a resource depends on both the use made of it and his or her circumstances at that time (Sen, 1992).

Capability approach has emphasized on individuals' heterogeneity and socio-economic context instead of mere financial terms (Michel & Randriamanampisoa, 2018). Studies have empirically established that microcredit access alone for funding income generating activities can hardly assure better economic outcomes (Singh & Dutt, 2018). Under this notion, few researchers have concluded that microfinance is a relative failure to promote business activities for reducing poverty (Fraser, 2010; Tseng, 2011). But most of the studies have argued that microfinance provides robust means to obtain higher level of capability (Michel & Randriamanampisoa, 2018). Moreover, the need of higher levels of psychological and social capabilities of clients has also been felt for entrepreneurial success (Newman, et al., 2014).

Literature has established that social capabilities of clients often improve with provision of microfinance (Ledgerwood, 1998). Especially in group-lending participation, microfinance has typically facilitated social interaction between clients which lead to improved social capabilities (Phan, 2009). Social capabilities are the sum of abilities to use actual and potential resources embedded in social networks that are crucial to the functioning of individuals (Burt, 1992). The social capabilities offers access to information in a timely manner thus it promotes opportunities identification and exploitation for entrepreneurs (Tang, 2010).

Furthermore, microfinance has also emphasized on psychological capital for entrepreneurs at BOP. It refers to a positive psychological state that an individual develops over time (Newman, et al., 2014). Psychological capabilities mainly comprises on hope, efficacy, resilience and optimism also known as HERO. Hope to achieve goals, self-efficacy or confidence, resilience to bounce back in challenges and optimism or positive attitude lead towards success (Luthans, Morgan, & Avolio, 2007).

In previous studies, hope has been linked with employees' performance but only few studies have investigated its impact in an entrepreneurial setting (Luthans, Avey, Avolio, & Peterson, 2010). Similarly, self-efficacy has been considered to be a state-like characteristic which can be developed over time. Studies have found a positive relationship between entrepreneurial self-efficacy and new venture's performance (Adekunle, 2011). Resilience has been referred to an individual's ability to bounce back from adversity, uncertainty, risk or failure. Resilient individuals adapt quickly, show flexibility and remain emotionally stable (Tugade & Fredrickson, 2004). Resilience has a positive influence on the growth of business activities, especially for micro-entrepreneurs of developing countries, where resources are severely constrained (Markman, et al., 2005). In the same way, optimism pertains to an individual's expectancy of positive outcomes. Individuals high in optimism remain motivated to pursue their goals and cope with difficulties (Hmieleski & Baron, 2009). Most of the studies have found that optimism is positively associated with entrepreneurs' performance but it remains low among entrepreneurs at BOP. (Newman, et al., 2014). Moreover, studies have found that microfinance has positive influence on entrepreneurs' hope, self-efficacy or confidence, resilience and optimism (Crabb, 2008).

The success of microfinance may also depend on entrepreneurs' social and psychological capabilities to pursue entrepreneurship. The combined force of different forms of capital may allow even the smallest firms to develop a competitive advantage (Luthans & Youssef, 2004). In developing economies, social and psychological capabilities are more relevant because entrepreneurs have constraints in financial and other capacities (Adekunle, 2011), especially without collateral (Ito, 2003). Social capabilities assist entrepreneurs to overcome resource deficiencies (Bruton, Khavul, & Chavez, 2011; Guo & Miller, 2010); particularly for borrowers (Attanasio, Augsburg, Haas, Fitzsimons, & Harmgart, 2011) at BOP.

It is apparent from the literature that microfinance has obtained global attention to promote business activities for poverty alleviation. Its proponents have argued that

microfinance has the potential of business development for billions of people at BOP. However, its critics assert that no solid evidence exists regarding the actual outcome of microfinance (Newman, et al., 2014).

So far few studies have investigated the role of financial, psychological and social aspects for business development. However, no comprehensive study has been conducted to jointly explore the role of microfinance in supporting micro-entrepreneurs' financial, psychological and social capabilities especially in context of a developing country like Pakistan to address regional capability deprivations.

Research Propositions

The literature review of this study has led to development of following propositions:-

Proposition-1: Microfinance improves the financial capabilities of its clients.

Proposition-2: Financial capabilities are positively linked to the micro-entrepreneurs' business success.

Proposition-3: Microfinance improves the psychological capabilities of its clients.

Proposition-4: Psychological capabilities are positively linked to the micro-entrepreneurs' business success.

Proposition-5: Business support strengthens the microfinance's positive link to the psychological capabilities of its clients.

Proposition-6: Microfinance improves the social capabilities of its clients.

Proposition-7: Social capabilities are positively linked to the micro-entrepreneurs' business success.

Proposition-8: Social interaction opportunities strengthen the microfinance's positive link to the social capabilities of its clients.

Material and Methods

As per research objectives of this study, microfinance institutions' perspective has been used to evaluate and address micro-entrepreneurs' capability deprivations through microfinance, as its managers and loan officers interact with BOP clients on regular basis. To explore and understand the capability deprivations of microfinance clients at BOP, qualitative technique has been used on phenomenological method basis which describes the common meaning of a phenomenon (Creswell, 2013).

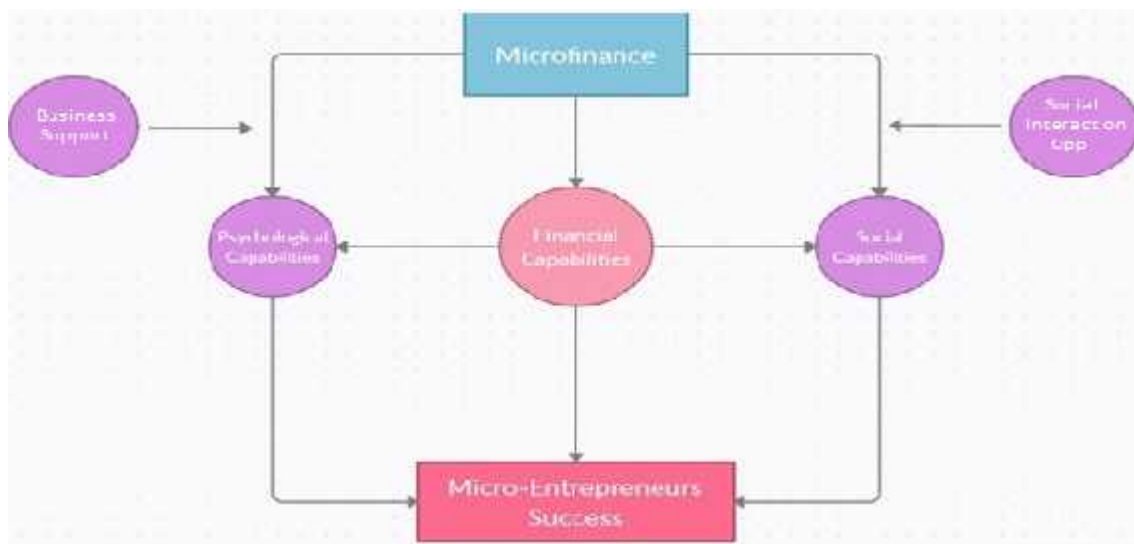
Data has been collected through in-depth semi-structured interviews of managers and loan officers of microfinance banks by visiting their offices, which offers higher degree of efficiency and honest responses (Newman, et al., 2014). Through random sampling basis, 12 in-depth interviews of microfinance managers and loan officers were conducted in different cities of Pakistan, which ranged from 25 to 70

minutes. During these visits to microfinance banks, the researcher also had the opportunity to directly observe managers and loan officers' interaction with microfinance clients. Interviews were individual based; no collective interviews have been conducted except one, for clarity of some practical ambiguities. All the in-depth interviews were audiotaped and transcribed verbatim into English. The data obtained from in-depth interviews was thematically analyzed in QSRNvivo 12.

Conceptual Map

The conceptual map presented in Figure-1, has been adapted from the study of Newman (2014) and further modified according to interviewees' feedback. It represents the role of microfinance in presence of moderating variables (business support and social interaction opportunities) to address the clients' financial, social and psychological capability deprivations for micro-entrepreneurs' success:-

Figure-1 Conceptual Map of Microfinance Framework



Independent Variable

Microfinance Services

Intermediary Variable

Financial Capabilities (Financial Capital) Psychological Capabilities (Hope, Efficacy, Resilience, Optimism), Social Capabilities (Social Network and Relations)

Moderating Variable

Social Interaction Opportunities (Social Gatherings) Business Support (Business Training and Guidance)

Dependent Variable

Micro-Entrepreneurs' Success (Business Growth)

The framework presented above in Figure-1 represents that microfinance institutions provide different services to its clients at BOP to strengthen their financial, psychological and social capabilities. Financial capabilities of clients further affect the social and psychological capabilities of micro-entrepreneurs. Furthermore, the positive link of microfinance and psychological capabilities strengthens in presence of business support services. Similarly the positive link of microfinance and social capabilities strengthens in presence of social interaction opportunities. At the final phase, all three capabilities (financial, psychological and social capabilities) play significant role for micro-entrepreneurs' business success.

Population and Sample

The population of the study comprised upon experts of microfinance in Pakistan. During data collection, point of data redundancy and repeatability was considered (Creswell, 2013) and sample size included 12 microfinance managers and loan officers on random sampling basis from different microfinance banks of Pakistan. However, 2 interviewees were not able to complete their interviews due to some emergency. Duration of each interview was almost 25 to 70 minutes and interviewees were able to express their responses comprehensively.

Data Analysis

Phenomenological approach under qualitative technique has been used in this study to explore the role of microfinance in the success of micro-entrepreneurs through supporting financial, psychological and social capabilities of microfinance clients at BOP. Furthermore, role of moderating variables (business support services and social interaction opportunities) in strengthening the positive link of microfinance and psychological capabilities; microfinance and social capabilities have also been assessed respectively. All interviews are audio-taped and transcribed verbatim independently into English to develop an overall view of each participant's response. The analysis of these interviews has been conducted through an iterative process by using the QSRNvivo12 software to inductively generate definitional categories and explore aspects of their interrelationships (Johnson, Buehring, Cassell, & Symon, 2007).

Ethical Considerations and Anonymity

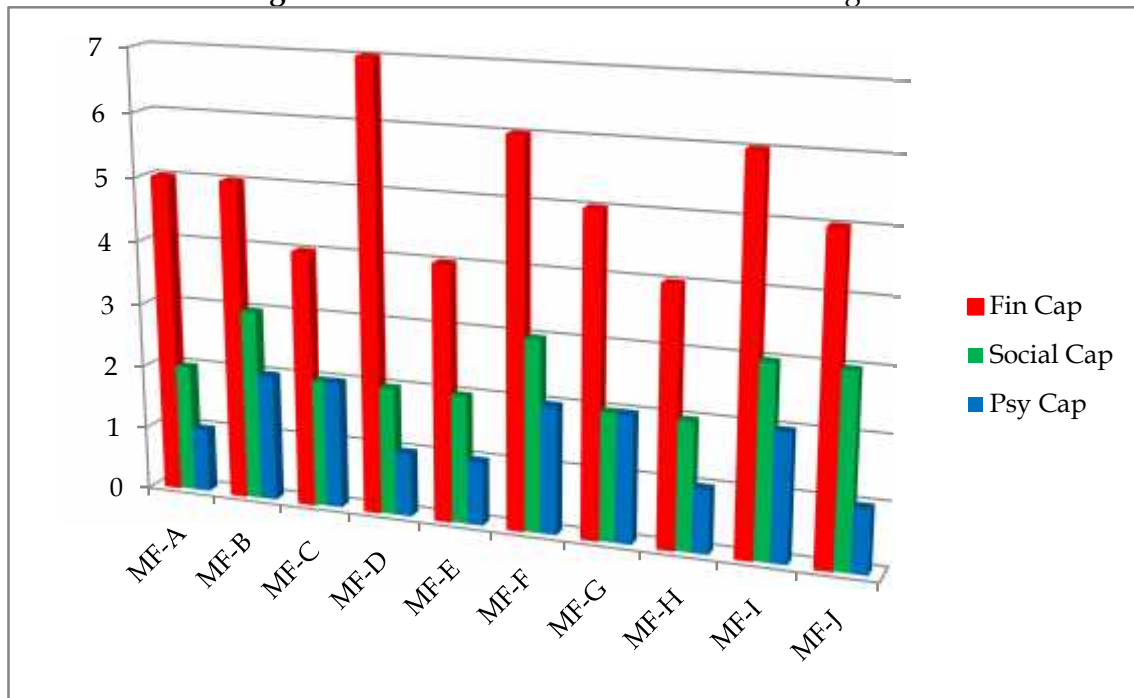
Research is not effective without ethical considerations, which have properly been dealt in this study. No moral issues have arisen in this research. All the interviewees were given full awareness about this study and its purpose. They were made aware that they are voluntarily contributing in this research and they have the option to leave or join as per their wish. All the participants were given confidence and assurance that their respective information will not be shared with anyone; the data

improving its clients' financial, psychological and social capabilities along with its strength:-

Table 1
Main Themes and their Relative Strengths

	Financial Capabilities	Social Capabilities	Psychological Capabilities
MF -A	5	2	1
MF - B	5	3	2
MF - C	4	2	2
MF- D	7	2	1
MF- E	4	2	1
MF- F	6	3	2
MF- G	5	2	2
MF- H	4	2	1
MF - I	6	3	2
MF - J	5	3	1

Figure-2 Main Themes and their Relative Strengths



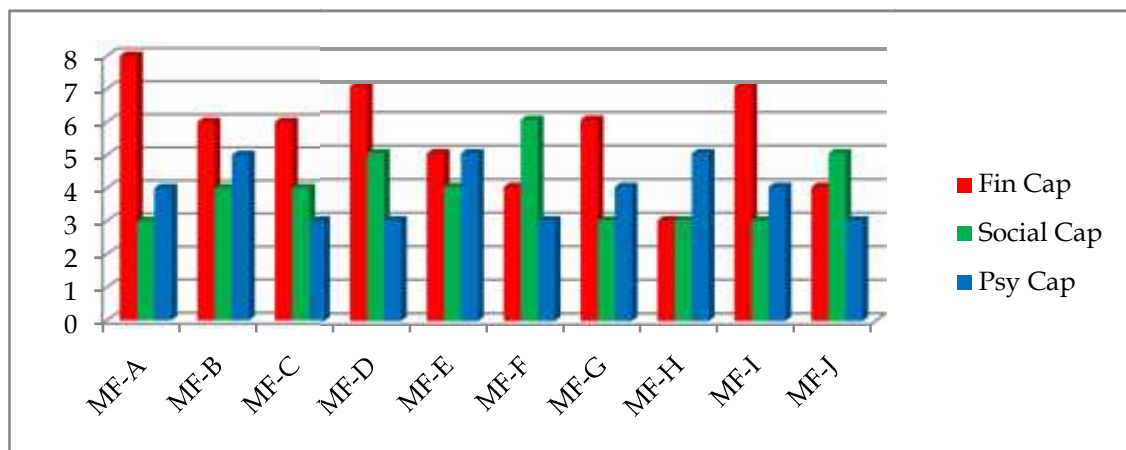
Above presented Table-1 and Figure 2 indicate the interviewees' feedback regarding role of microfinance in improving financial, psychological and social capabilities of microfinance clients. Microfinance experts expressed that microfinance in Pakistan is mainly focusing only on financial support for its clients to strengthen their financial capabilities. However, social and psychological capability deprivations are not being addressed in the same way as financial capability needs. Microfinance

banks in Pakistan consider social capabilities important and also try to partially address the social capability needs of clients through helping them in developing social network and social relations but not as much as they focus on financial aspects of clients. The microfinance banks in Pakistan consider personal strengths or psychological capabilities crucial but they do not have sufficient resources to support clients in building their internal strengths. Resultantly, psychological capabilities of microfinance clients in Pakistan are mostly neglected but even then its significance cannot be denied. As Table- 2 presented below, indicates the respondents' perspective and acknowledgement regarding significance of psychological capabilities along with financial and social capabilities for the success of micro-entrepreneurs' in Pakistan:-

Table 2
Significance of Main Themes and their Relative Strengths

	Financial Capabilities	Social Capabilities	Psychological Capabilities
MF -A	8	3	4
MF -B	6	4	5
MF -C	6	4	3
MF -D	7	5	3
MF -E	5	4	5
MF -F	4	6	3
MF -G	6	3	4
MF -H	3	3	5
MF -I	7	3	4
MF -J	4	5	3

Figure-3 Significance of Main Themes and their Relative Strengths



The Table-2 and Figure 3 as presented above, explains that the importance or significance of clients' financial capabilities is paramount for the success of micro-entrepreneurs in a developing country. But in addition to financial support,

importance of clients' social and psychological capabilities cannot be neglected because these too have certain role in making micro-entrepreneurs successful. The literature and interviewees' feedback have highlighted that the improved financial capabilities of microfinance clients alone can make only little progress for micro-entrepreneurs' business success or growth. But when the additional services like business support and social interaction opportunities are combined with microcredit to strengthen clients' financial, psychological and social capabilities in a collective manner, it delivers better results for micro-entrepreneurs business success. Some of the important views of microfinance experts regarding financial, psychological and social capabilities role and significance in micro-entrepreneurs' business success are mentioned below:-

Financial Capabilities

Financial Capability is the most important thing to ensure the business success of micro-entrepreneurs in any developing country including Pakistan because poor lacks finance which is the basic requirement to initiate any business activity. Without finance one can do nothing in business domain unless one is exceptionally genius. That is the reason we mainly focus on strengthening clients financial" (MF-A).

"Working capital is paramount to start and run any business successfully, which we provide because finance generates all the economic activities and makes business's growth and profitability possible. Other factors are also important and should be supported but still there is large portion of population at BOP which has not yet been served financially by microfinance industry" (MF-D).

"Entrepreneurs need finance at first step to establish the base of business therefore the role of financial support by microfinance banks cannot be neglected especially in developing countries where people don't have enough financial resources. When the entrepreneurs go through different phases of business then the need of other capabilities become more significant but still cash flow or finance remains the first priority" (MF-I).

Social Capabilities

"There is no doubt that finance is the foremost requirement for any micro-entrepreneur but the importance of social relations and network cannot be ignored. As the growth of micro-entrepreneurs' business is hardly possible without having a strong social network comprising market customers, suppliers and competitors. It's a fact that microfinance banks do not focus on clients' social network as they should but it's because of limitation of resources. Still we are trying to support clients socially as much as they can through different ways" (MF-F).

"I think there might be very less persons who succeed in business without having a strong social network. There is possibility but still chances are low because micro-entrepreneurs must have network of customers, suppliers, competitors and other social actors. To deal with so many social actors in day to day matters and to expand this base of social relations; clients social capabilities should be supported in a better manner. Yes we do support them to some extent but still they need more support as poor people don't have such networks and privileges" (MF-J).

Psychological Capabilities

“Well I don’t think that there is anything more important or less important including finance or own internal strengths like hope and confidence. If finance is the first requirement then clients’ personal domain is the second most important factor to ensure business success. Unfortunately we only focus on financial aspects of clients and almost ignore other factors due to our own resource limitations. However it doesn’t mean that internal strengths of clients are not important because personal capabilities are highly significant for prudent decision makings in business. We have seen examples of those clients who were internally strong in the sense of resilience or hope; they performed better than those who were low in this domain” (MF-H).

“Although clients with large social network and strong psychological strengths perform better in their business enterprises but we don’t prefer such clients as they tend to misuse the provided financial assistance and are prone to fraudulent activities wittingly. From clients perspective these are really important but we have our concerns about repayments and recovery. Hence we do not prefer such individuals to be our clients who have higher social and psychological capabilities” (MF-E).

Limitations of the Study

This study is qualitative in nature and data has been collected from Pakistan only, which limit its generalizability to other regions. Its findings can be validated in future studies through comprehensive nation-wide studies using quantitative approach. Furthermore, the perspective of microfinance clients in addition to microfinance experts can provide further understanding of the capability deprivations phenomenon.

Conclusion

The results of this study have delineated that microfinance banks in Pakistan are mainly focusing on financial support and to some extent they are trying to improve social capabilities of microfinance clients. The psychological capabilities of micro-entrepreneurs are being neglected to a large extent because microfinance banks have limited resources. It is evident that mere financial support cannot turn a client into successful entrepreneur because at the economic BOP, people lack non-financial strengths as well. Most of the interviewees opined that clients with higher social and psychological capabilities were performing better in entrepreneurship domain. Hence considering the significance of non-financial aspects, BOP clients must be socially and psychologically supported through provision of social interaction opportunities and business support services respectively. As social interaction opportunities strengthen the positive link of microfinance and social capabilities. Similarly business support services strengthen the positive link of microfinance and psychological capabilities. To create a supportive environment, government and State Bank of Pakistan should ensure the implementation of a comprehensive framework of microfinance with special attention towards non-financial aspects. It can be done through availing the services of microfinance banks and NGOs like Akhuwat. The study concludes that entrepreneurs’ growth is not based exclusively on finance but on each person's

capacity to tackle the capability deprivations due to clients' heterogeneity. Moreover, still a large number of people remain unbanked in Pakistan (Basharat, et al., 2020) so a comprehensive network of microfinance needs to be expanded and strengthened in both financial and non-financial domains.

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