

The Role of Entrepreneurial Empowerment in the Relationship between Islamic Microfinance and Well-being of Clients: A View from a Service Provider

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Abstract

Islamic microfinance has been reported as appropriate in improving the living conditions of the poor. However, little is known about the contribution of entrepreneurial empowerment in achieving such success. The objective of this study is to examine the mediating role of entrepreneurial empowerment in the relationship between Islamic microfinance and well-being of clients. A sample of 291 respondents was selected randomly from the operational staff of Amanah Ikhtiar Malaysia in east-coast states of Malaysia. Structural Equation Modelling was used as the statistical procedure to analyse the data. The results supported three hypotheses, which confirmed that Islamic microfinance has positive relationship with entrepreneurial empowerment. However, three hypotheses were rejected on the relationship between Islamic microfinance and clients' well-being, suggesting that Islamic microfinance does not improve the clients' well-being. The seventh hypothesis was also supported, which indicates a full mediation role of entrepreneurial empowerment. The unique finding of the study is that, entrepreneurial empowerment is the underlying factor for the success of Islamic

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microfinance. To enable generalisation of this finding, further study is recommended in other Muslim countries.

Key words: Islamic microfinance, Empowerment, Well-being, Amanah Ikhtiar Malaysia.

JEL Classification: G21; G23; G29

KAUJIE Classification: I15 ; I14

1. Introduction

The New Economic Model (NEM) in Malaysia promotes a new approach to development by raising productivity and incomes of the poor segment of the society (Hatta & Ali, 2013; Xavier & Ahmad, 2012). In addition, the financial inclusion agenda in the Financial Sector Blueprint 2011–2020 was designed to increase productivity, diversify sources of income and improve the quality of life of the poor. Microfinance is the inclusive strategy used in Malaysia for offering the poor people a window for such opportunities (Hatta & Ali, 2013; GIFR, 2012). This approach is expected to contribute in achieving progress towards greater well-being by means of an inclusive growth (Al Mamun, Adaikalam & Abdul Wahab, 2012; Mohieldin *et al.*, 2011; Rahman, Rafiq & Momen, 2011). It is noteworthy that Amanah Ikhtiar Malaysia (AIM) has been in the forefront of such developments in recent years. AIM is a replication of the famous Grameen Bank model established in Bangladesh in the late 1970s by Dr Mohammed Yunus in order to extend micro-credit to the financially excluded poor. Basically, AIM offers three services to its members/companions. These are (1) interest-free micro-credit with stipulated repayment periods; (2) saving in the form of compulsory and voluntary saving; and (3) Welfare Charity Fund. This is a fund contributed by members to enhance cooperation and improve welfare based on the principles of *tabarru'* (donation) and *ta'awun* (cooperation), to help members of the group when in trouble. After about 30 years of operation, AIM has established 151 branches and provides financial services to more than 80% of the poor households (AIM, 2015). As at April 2016, there were 382,178 members/companions, while total funding accumulated stood at RM15,097,046,687.

Beside this resource approach of giving micro-credit, Amanah Ikhtiar offers a compulsory training to improve the capability of its clients. While microfinance services help the clients to build micro enterprises, they equally need to be equipped to handle challenges that affect their lives. This empowerment is necessary to enable individuals and groups to engage, influence and participate in decision making that shapes their lives (Bennett, 2002; Sen, 2005). According to

Narayan-Parker (2002), such empowerment leads to self-strength, self-power, self-reliance and life of dignity. Amartya Sen has emphasized the need to improve certain capabilities in order to achieve well-being. Putnam (2000) has added that to achieve these capabilities there is need to develop human, physical and social capital. Human capital refers to the properties that an individual has (education, skills and knowledge), physical capital entails ownership of physical or environmental resources (physical assets) and social capital means social support and integration (networks and connections).

Studies on Islamic microfinance services largely emphasised the financial intervention but ignoring the relevance of the empowerment aspect. This has made it necessary to investigate the role of empowerment in the delivery of Islamic microfinance services towards the clients' well-being. Therefore, the objective of this study is to examine the mediating role of entrepreneurial empowerment in the relationship between Islamic microfinance and the well-being of its clients in the perspective of Amanah Ikhtiar Malaysia (AIM).

2. Statement of the Research Problem

Financial inclusion through microfinance avails the poor the opportunity for income generation, productivity, and capacity building, and contributes to economic development process (Rahman, 2013; GIFR, 2012). Previous studies have established the relevance of financial inclusion in improving the well-being among some poor households in Malaysia (El-Komi & Croson, 2013; Al Mamun, Adaikalam & Abdul Wahab, 2012; Omar, Noor & Dahalan, 2012; Bhuiyan *et al.*, 2011; Md Saad & Duasa, 2010; Nawai & Bashir 2009; Rahman *et al.*, 2011). However, those studies made attempt to show the relevance of Islamic microfinance services towards improvement in its clients' well-being, and perhaps to justify the huge financial intervention and encourage its sponsors. But the question is, does financial intervention improve the well-being of the recipients?

The methodology of the previous studies centred on mainly two issues. First, much emphasis was placed on the importance of financial intervention (resources). This notion is essentially drawn from the welfarism concept that assumes that 'resource' is the key to understanding well-being. This is so because Welfare theory is concerned with the derivation of a social welfare function to rank economically feasible allocations of resources in the society. However, Amartya Sen (1993) argued that it is inadequate to consider only materialistic factors in evaluating human welfare. Similarly, Nussbaum (2004) added that while economic growth is important in creating opportunities in the society, it does not necessarily

improve well-being. This, she argued, is because the evaluation techniques of economic growth such as the Gross Domestic Product (GDP) and Gross National Product (GNP) do not consider inequality and the ability to turn resources in to actual activities. The argument based on the Amartya Sen's Capability approach suggests that understanding the socio-economic conditions of the poor goes beyond resources, income or utility. It includes other abilities, functionings and freedom of choice, to appreciate a valuable life. Functionings are simply the things a person actually does and experiences (Sen, 2005; Sen, 1993). This includes having good education, being healthy, taking part in community services and self-respect. This means that happiness and fulfilment are not achieved by a mere increase in income, but with a development of a person's life in line with these dimensions of needs (Mohieldin *et al.*, 2011). Therefore, in order to analyse what leads to well-being, it is essential to give emphasis on what human beings can do instead of what they have. This is because human efforts, skills and talents are important in the promotion and sustaining of development as a whole (Anand & Sen, 2000; Sen, 1992).

The perspective of this study is based on the notion that resources are means whose value depends on the ability of the person that has them, and that individuals differ greatly in their abilities to convert the same resources into valuable functionings. Newman, Schwarz and Borgia (2014), Roomi (2013) and Putnam (2000) have argued on the importance of developing capabilities in any meaningful empowerment project. This is in line with the preposition of the Capability approach that suggests that to overcome poverty, the poor must be helped to enhance their capabilities so that they can join the mainstream society and have a decent life. This implies that the value of resources as an instrument depends on other variables to ensure the desired functionings, and that being well-off may not necessarily translate to being well (Arabi & Abdalla, 2013). So instead of focusing only on the micro funding, this study is emphasising on clients' capabilities. Capabilities are what people are able to do or able to be, which means a set of valuable functionings that a person has to live a good life (Zangouinezhad & Moshabaki, 2011; Cabraal, 2010; Anand, Hunter & Smith, 2005 Rahman, Rafiq & Momen, 2011).

The second predicament in the literature is that the studies centred on the view of the clients using impact assessments. This reduced the significance of such studies because of the difficulty to prove that causality is a direct consequence of the microfinance intervention (Epstein & Crane, 2005; Hulme, 2000; Mosley, 1997). The perception of service providers is important in understanding the clients' desires and goals (their functionings) towards building effective services.

While a client can only tell about his or her subjective well-being, a service provider can give a general over-view of clients served. For service providers to achieve long term growth and sustainability, they must have visibility and a bird's eye view of the condition of their clients in order to have a better analysis to improve on offering strategic services.

The concerns highlighted above have necessitated a study to address the gap in understanding what leads to clients' well-being in a comprehensive way. While it is important for microfinance services to empower the entrepreneurial capacity of the clients, it is equally essential to see how such entrepreneurial empowerment can translate to well-being improvement. In order to address the question of whether financial intervention improves the well-being of the recipients, this study examined the mediating role of entrepreneurial empowerment from the perspective of Amanah Ikhtiar Malaysia (AIM).

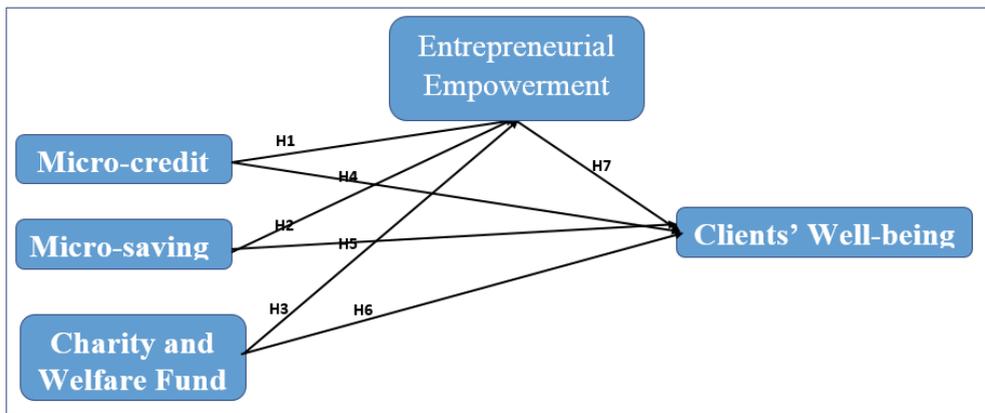
3. The Conceptual Model

The underpinning theory for this study is the Capability approach which holds that, in the analyses of well-being, there is need to go beyond measures of income and wealth. The approach suggests a multidimensional view to well-being, in terms of what people value. According to Amartya Sen (1993), human life is a set of "doings and beings" (functionings), and hence the importance of empowerment. The core claim of the Capability approach is that assessment of well-being should not primarily focus on resources, or on people's mental states, but on the effective opportunities that people have to lead the lives they have reason to value (Robeyns, 2006; Sen, 1993). This approach has been adopted by the second national report on poverty and wealth in Germany to analyse poverty and social inclusion. Similarly, it was on the basis of the Capability approach that Human Development Index (HDI) was developed in 1990 by the United Nations Development Program (UNDP). The HDI annual reports have become a good source of measuring development, and comparisons between countries and regions.

Therefore, the conceptual model of this study is derived from the idea of the Capability approach, based on what people can do rather than what they have. However, it is depicted to show how both Islamic microfinance services and entrepreneurial empowerment could influence clients' well-being. This is necessary to prove, once again, the position of "resources" and "empowerment" towards well-being. In this study, Islamic microfinance is measured by its services (micro-credit/ *qard hasan*, micro-saving/*al-wadī'ah*, and charity and welfare fund). Entrepreneurial empowerment is measured by human, physical and social

empowerment; and clients' well-being is measured by career, economic and social growth. According to the Capability approach, evaluation of well-being involves resources, abilities, functionings and utility (Wells, 2012). It is on this basis that the study framework is conceived. It examined the services provided by Islamic microfinance (resources), the abilities they generated (empowerment), the needed functionings and the improvements in the socio-economic lives of the clients.

Figure-1
Research Framework and Conceptual Model



Islamic microfinance has been reported to improve the living condition of the poor people in terms of income generation, productivity and capacity building (GIFR, 2012). According to Al Mamun *et al.* (2012) the motive of all microfinance programs is that the intervention will change human behaviours and practices leading to the achievement of desired outcomes. In order to understand the linkage between Islamic microfinance and the well-being of its clients, it is imperative to investigate the contribution of Islamic microfinance towards that direction. The conceptual framework consists of seven hypotheses depicting a causal relationship between both the Islamic microfinance services and entrepreneurial empowerment towards clients' well-being. Testing these hypotheses will give us a hint on the significance of both Islamic microfinance services and empowerment in achieving well-being. The mediating effect of entrepreneurial empowerment will reveal whether it has any effect on the relationship of Islamic microfinance services and clients' well-being. These hypotheses have been derived from the literature as can be seen in the following discussion.

Micro-credit (Qarḍ Ḥasan): Micro-credit refers to the small amounts of credit given to the poor people as economic empowerment to enable them generate income through self-employment (Omar *et al.*, 2012). However, the successful delivery of this service depends on its wider coverage to explore different environments and reach the right people (Rahman & Dean, 2013). Convenient access to a range of micro-credit products through innovative delivery channels determines that the loan gets to the right people. Product diversification is another critical issue for its success (Saad, 2012; Md Saad & Duasa, 2010). The terms of the micro loan are important determinants of the clients' individual, household and business performance (Laila, 2010; Praveen, 2009; Rahman & Rahim, 2007). Flexible micro-financing terms provide options to the poor. Increasing the size of the loan is important to expand market as well as the size of the micro enterprises. Flexible loan disbursement and repayment facilitates services delivery, time responsiveness and providing adequate information. The terms of service are important determinants for improving the loan recipient's business performance. Moreover, competitive cost and efficiency by the micro-credit providers all are critical factors for determining the role of microfinance services on clients' well-being (Kazemian *et al.*, 2014; El-Komi, & Croson, 2013; Nawai & Bashir, 2009). It is important to note that, micro-credit is the initial offering of the poor which enables them to generate income and entrepreneurial expertise. In view of this position of micro-credit, the hypothesis can be stated as follows: H1: Micro-credit has positive relationship with entrepreneurial empowerment. Similarly, Omar *et al.* (2012) found relevance of micro-credit in improving living conditions of rural and urban clients; and the study of Al Mamun *et al.* (2012) established a connection between the clients' quality of life and size and quality of their houses. These studies suggest a positive relationship between micro-credit and clients' well-being. It is therefore represented in the conceptual framework to show that micro-credit influences clients' well-being as follows: - H4: Micro-credit has positive relationship with clients' well-being.

Micro-saving (Wadī'ah): This are low committed periodical savings that enable low-income households to inculcate the savings habit towards achieving long-term goals such as starting a business, home ownership, education and to have a secure retirement (FSBP, 2011). This is important because capital accumulation is a necessary and sufficient condition for growth and development (Kalu & Nenbee, 2013). This product enables the client to enjoy a bigger loan for business expansion and asset accumulation. It takes the form of mandatory and voluntary savings. Micro-saving is prelude towards asset accumulation and is a relevant instrument towards future well-being (Fiorillo *et al.*, 2014). It is also important for enhancing the capability of the poor to cope with uncertainty shocks, reduce the

cost of lending and enhance future growth (Al-shahmi *et al.*, 2014; Grayson *et al.*, 2013; Tavanti, 2013). More importantly, it provides the saver with the opportunity for enhanced loan repayment and enables easy access to a large size of loan for sustainable growth motives (Rahman, AlSmady & Kazemian, 2015; Fiorillo *et al.*, 2014). For sustainability reasons, the poor needs to be encouraged towards building future capabilities. This asserts that micro-saving leads to asset acquisition and business expansion (empowerment), and as well as facilitates long-term financial control, which is an element of well-being (Latifee, 2003; Cabraal, 2010). Therefore, the hypotheses can be noted as follows: -H2: Micro-saving has positive relationship with entrepreneurial empowerment. H5: Micro-saving has positive relationship with clients' well-being

Charity and Welfare Fund (*Micro-takaful*): The social mission of reaching the poorest poor is still a big challenge for most microfinance institutions, and those reached require more than micro-credit to solve their problems (Delgado *et al.*, 2015; Prabhakar *et al.*, 2015, Tavanti, 2013). The vulnerabilities of the poor people have to do with how to deal with the deprivations of today and the fears of the unseen tomorrow. Accidents, disasters and diseases are some of the challenges of the poor, despite the effort to break the cycle of poverty (Htay, Sadzali & Amin, 2015; Haryadi, 2006). *Micro-takaful* concepts in the form of *Tabarru* and *Ta'awun* encourage mutual donations among clients so as to address these shocks and minimise the tendency of going back to the initial cycle of poverty. Amanah Ikhtiar Malaysia (AIM) employs *Tabarru* and *Ta'awun* to effectively deal with unforeseen future uncertainties among its clients. But the efficiency and effectiveness of this coverage is a determinant of how successful this service is towards complementing poverty reduction. Cooperation among members will go a long way in subsidising other members and as well serve the social cohesion role in the society. Many microfinance providers recognize the importance of product diversification and quality service improvement which help them to build sustainable micro and small businesses (Sharif & Bao, 2013). Some service providers offer micro-insurance to their clients to achieve this goal. Amanah Ikhtiar Malaysia termed this product as Charity and welfare fund, which is contributed voluntarily by clients in line with religious requirement. According to Newman *et al.* (2014), the mutual cooperation is necessary for social networking and collaboration, and is crucial to the long-term survival of the clients. At times of crises, the spirit for a common cause is essential in improving living conditions of the clients (Dusuki, 2006; Yunus, 1999). Thus, the hypotheses can be stated as follows: -H3: Charity and welfare fund has positive relationship with entrepreneurial empowerment. H6: Charity and welfare fund has positive relationship with clients' well-being.

Entrepreneurial empowerment: Empowerment is the enhancement of assets and capabilities of diverse individuals and groups to engage, influence and participate in decision making that shapes their lives (Usman & Tasmin, 2015; Bennett, 2002). This is critical in ensuring poor people are better equipped to handle challenges that affect their lives. According to Narayan-Parker (2002), empowerment entails self-strength, self-power, self-reliance and life of dignity. These range of assets and capabilities are necessary in order to increase their well-being and security to boost their self-confidence in dealing with those that are more powerful (Usman & Tasmin, 2016b). Because poverty is multidimensional, so are these assets and capabilities. While assets enable people to withstand shocks and expand their choices, capabilities are inherent in people and enable them to use their assets in different ways. Education and training, skills, assets, self-reliance, social belonging, leadership, relations of trust, a sense of identity and communal services represent essential capabilities. This is because they are prelude to a meaningful life and have the possibility to affect the clients' performance (Webster University, 2015; Bartle, 2012). In order to expose their clients to various aspects of self-development, Amanah Ikhtiar Malaysia (AIM) organizes entrepreneurship and financial management courses. Such trainings were found to be effective in improving the capacity of the clients (Md Saad, 2010). The Islamic microfinance services are focused towards education and training, assets accumulation, self-reliance and social cohesion (Usman & Tasmin, 2016b). This drive is aimed at addressing the deficiencies of the poor so that they can join mainstream society and have a good life. In fact, this is the main argument of the Capability approach, i.e. to develop a capability set to enable individuals to function well and live a valuable life. Putnam (2000) has identified human, physical and social components as necessary elements of entrepreneurial empowerment. This indicates that when clients are assisted to develop human, physical and social capacities, it is expected to achieve a valuable life. Therefore, this hypothesis can be stated as follows: -H7: Entrepreneurial empowerment has positive relationship with clients' well-being.

Clients' well-being: In simple terms, well-being can be described as judging life positively and feeling good in terms of housing, employment, family, health and social life (Blurton, 2012). There is no sole determinant of individual well-being; however, it is dependent upon good health, positive social relationships, and access to basic resources, e.g., shelter and income (Michaelson, 2012). Rath & Harter (2010) and McCarthy (2010) have outlined that career growth, economic and social development are key elements in achieving well-being. It has been confirmed that Islamic microfinance empowerment has been regarded as an important tool for reducing poverty and improving the household's quality of life in terms of better and bigger houses and healthy conditions (Al Mamun *et al.*,

2012). It also plays a vital role in the empowerment of the poor people especially women towards developing their micro enterprises (Omar *et al.*, 2012). The vulnerability of the poor is reduced, and their socioeconomic status improved with better health condition and the education level of their children (Bhuiyan *et al.*, 2011; Md Saad, 2010). Similarly, it enhances career growth with the significant increase in firm performance especially entrepreneurial values and management practices (Mahmood & Mohd Rosli, 2013; Shirazi, 2012). This status enables them to manage their economic life effectively, reduce stress, and hence participate in the community with enhanced self-esteem (Usman & Tasmin, 2016a; McCarthy, 2010). Therefore, measuring clients' well-being is dependent on both economic and non-economic dimensions. For this study, indicators of living condition adopted were: career growth (clients' sense of personal fulfilment, motivation in running their businesses and establishing solid track record); economic growth (financial security, increase in income and expenditure, ability to send their children to tertiary/higher level education and enrol children in extra academic classes); and social growth (solidarity to other members and ability to handle issues or unexpected things confidently). The questionnaire for this study was designed on the above variables in the conceptual framework, and the measurement elements derived from the related studies.

4. Methodology

According to AIM (2015), the number of branches of Amanah Ikhtiar Malaysia in the East coast Malaysia is: Kelantan 17, Terengganu 10, and Pahang 13, while the average number of operational staff per branch is 10. Therefore, the population for this study is 400 and the sample for this study is 291, calculated using the normal approximation to the hyper geometric distribution as suggested by Morris (2004). To ensure each state has the same sampling fraction, cluster sampling was used to obtain the sample size of each state, proportionate to its population size. Thus, the sample size for each state is, Kelantan 124, Terengganu 73 and Pahang 94, totalling 291 samples. All respondents are directly involved in the delivery of microfinance services and are in close contact with the clients. Structural Equation Modelling (SEM) is the statistical modelling technique, which is widely used in the behavioural sciences. Confirmatory Factor Analysis (CFA) was performed to assess the parameters of the measurement models of Islamic microfinance (micro-credit, micro-saving, charity and welfare fund), entrepreneurial empowerment (human, physical and social) and clients' well-being (career, economic and social growth) used in this study. After the CFA iterations, the number of items with acceptable factor loading for each construct is as highlighted in Table 3.

5. Results

Reliability and Validity of the Measurement Models: Reliability and validity tests were carried out to provide a consistent and accurate measurement of the constructs.

Table-3
Reliability and Validity for all Constructs

Constructs	No. of Items	Cronbach's Alpha	Construct Reliability	Average Extracted	Variance
Micro-credit	6	0.791	0.791	0.387	
Micro-saving	5	0.826	0.829	0.493	
Charity and welfare fund	7	0.886	0.889	0.535	
Entrepreneurial Empowerment	6	0.831	0.827	0.443	
Clients' wellbeing	5	0.876	0.934	0.743	

The Cronbach's alpha of 0.7 or higher for a component indicates an acceptable internal consistency of items (Ishiyaku *et al.*, 2016; Awang, 2012). The results in Table 3 indicate that a reliable Cronbach's alpha of more than 0.8 was achieved in all the constructs except micro-credit (.791) which is still above the acceptable mark. Similarly, construct reliability is also within the acceptable 0.50. Figure 3 presents the structural model which shows good fit in the models based on the established fit indices.

The Absolute fit indices show RMSEA at 0.042, the incremental fit indices indicate good fits with CFI at 0.963 and TLI at 0.958. The parsimonious fit also indicated good result with ChiSq/df at 1.367, which is less than five (<5) as required in the literature. In addition, all the five constructs (micro-credit, micro-saving, charity and welfare fund, entrepreneurial empowerment and clients' wellbeing) are loaded on a specified prior model. All the five constructs are inter-correlated in order to assess the relationship of the observed variables to their corresponding latent variables. The final structural model (Figure 3) provides prerequisite data for evaluating the hypotheses of the study. In this stage of study, there are seven hypotheses to be tested using the SEM technique. Table 4 shows the parameter estimates, standard errors (S.E), critical ratios (C.R), and corresponding *p*-values for the significance tests. The discussions of the hypotheses testing explain the test results related to the seven hypotheses.

Figure-3
Finalized Structural Model of Islamic Microfinance and Clients' Well-being

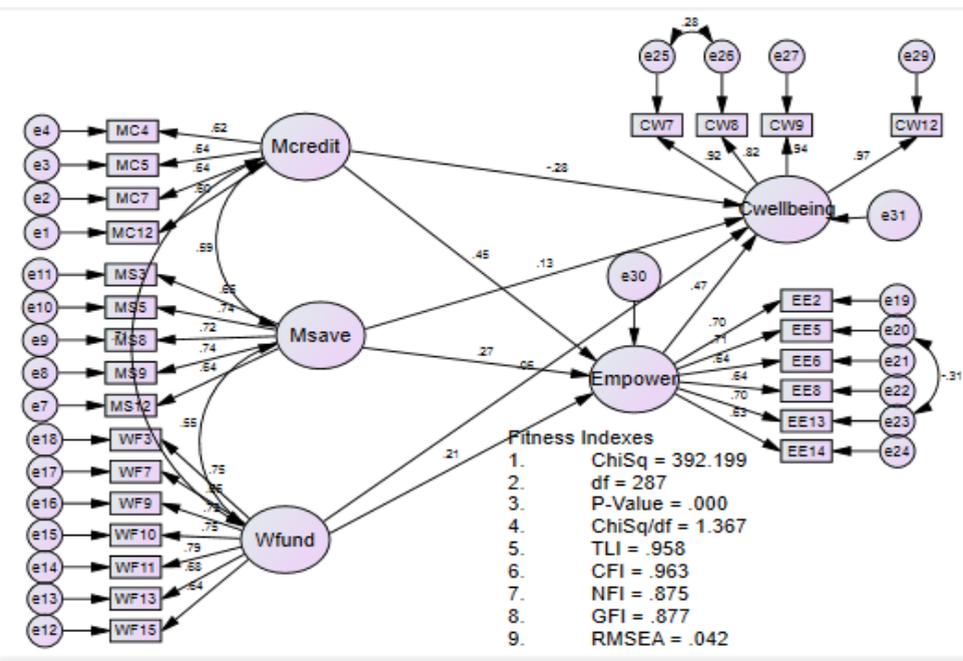


Table-4
Parameter Estimates for the Finalized Structural Model

			Estimate	S.E.	C.R.	P	Label
Empower	<---	Mcredit	.542	.158	3.435	***	Supported
Empower	<---	Msave	.302	.097	3.108	.002	Supported
Empower	<---	Wfund	.239	.119	2.004	.045	Supported
Cwellbeing	<---	Mcredit	-.414	.271	-1.529	.126	Not supported
Cwellbeing	<---	Msave	.176	.154	1.146	.252	Not supported
Cwellbeing	<---	Wfund	.072	.180	.399	.690	Not supported
Cwellbeing	<---	Empower	.590	.208	2.837	.005	Supported

6. Discussion

This study developed five Islamic microfinance constructs with acceptable reliability and validity. The general result revealed that the indicators satisfied the internal reliability and the construct validity criteria. From Table 4, the results of the empirical study for (H1) ($\beta = 0.542$, $z = 3.435$, $p = ***0.001$) indicated that micro-credit leads to positive relationship with entrepreneurial empowerment, (H2) ($\beta = 0.302$, $z = 3.108$, $p = 0.002$) micro-saving also leads to positive relationship with entrepreneurial empowerment. Similarly, (H3) ($\beta = 0.239$, $z = 2.004$, $p = 0.045$) Charity and welfare fund leads to positive relationship with entrepreneurial empowerment. In all the three hypotheses, p value is less than 0.05, the acceptable level of significance. The result is not surprising because it has confirmed previous studies on the importance of these microfinance services in enhancing the empowerment of the poor people. The finding of this study is also consistent with most previous studies on microfinance or microcredit, such as Md Saad (2010), Cabraal (2010), Noreen (2011), (Afrane (2002) and Chopestake *et al.* (2000). However, the findings in this study are in contrast with what Nurzaman (2011) found in Indonesia when assessing the impact of productive-based Zakat. The finding (H2) on micro-savings effect on empowerment has also confirmed the assertions of Tavanti (2013) on the impact of micro-savings in transforming the lives of the Philippine's poorest people. Similarly, it is also in accordance with the findings of Latifee (2003) in Bangladesh which affirms that the savings empowered Grameen borrowers to cope with devastating floods of 1998.

However, the direct relationship (H4 $\beta = -0.414$, $z = -1.529$, $p = 0.126$, H5 $\beta = 0.176$, $z = 1.146$ $p = 0.252$ and H6 $\beta = -0.072$, $z = 0.399$, $p = 0.690$) of Islamic microfinance services have a negative relationship towards clients' well-being. This is because in all of the three, p value is above 0.05, which is the level of insignificance. This surprising result leads to a vivid contrast to previous studies conducted to measure the impact of microfinance schemes of Amanah Ikhtiar Malaysia (AIM) and their client's quality of life, such as Omar *et al.* (2012) and Al Mamun *et al.* (2012). While Omar *et al.* (2012) added that AIM is relevant in both rural and urban areas, Al Mamun *et al.* (2012) linked the clients' quality of life with the size and quality of their houses. The findings of this study are also inconsistent with other findings, such as Rahman *et al.* (2011) and Latifee (2003) in Bangladesh. These previous researchers asserted that micro-credit programs lead to improvement in the quality of life of the poor people. However, the finding in Shirazi (2012) is consistent with this study. Shirazi (2012) found that the income of the poor borrowers hardly could grow by 2 percent during the study period, but consumption of the poor borrowers increased by 10 percent. Similarly, Hussain &

Nargis (2008) found no evidence that microcredit is instrumental to uplifting of the rural poor to a higher economic status, but believes its contribution lies in helping the poor people to keep up with the rest of the society. Hypothesis 7 indicates a positive relationship between entrepreneurial empowerment and clients' well-being. As presented in Table 4 ($\beta = 0.590$, $z = 2.837$, $p = 0.005$), p value not above 0.05, the result indicates a statistical significance on the relationship between entrepreneurial empowerment and clients' well-being. As a result, hypothesis H7 is held true. This result suggests that the assumptions of the Capability approach are confirmed significant towards achieving well-being. It also means that entrepreneurial empowerment is the underlying factor for the success of Islamic microfinance services.

In summary, the major findings of this study are:

1. Islamic microfinance services are necessary towards entrepreneurial empowerment.
2. Islamic microfinance services do not contribute towards clients' well-being.
3. Entrepreneurial empowerment is necessary towards clients' well-being.
4. Entrepreneurial empowerment has a full mediating effect in the relationship between Islamic microfinance services and clients' well-being.

This result has answered the research question on whether Islamic microfinance has influence towards well-being of its clients. It can be said authoritatively that Islamic microfinance services do not lead to well-being on their own but require the entrepreneurial empowerment aspect to improve well-being. Therefore, the uniqueness of this study is that it has espoused the underlying factor for the success of Islamic microfinance, which is entrepreneurial empowerment. The result also has confirmed the claim of Capability approach in the analysis of well-being, which suggests the importance of empowerment towards achieving a valuable life.

7. Conclusion

Assessing entrepreneurial empowerment is an important distinction that previous studies have ignored in Islamic microfinance studies. This study contributes to the development of research model on the underlying factor for the success of Islamic microfinance services in Malaysia. The research is based on the provisions of the Capability approach that signifies developing certain human functionings leading to a valuable life. One major contribution of this study is that it fostered the applicability of the Capability approach to microfinance in Malaysia.

The results indicated the factorability of entrepreneurial empowerment in to human, physical and social components. These provide a guide to a better understanding of what really improves the well-being of poor people, especially in developing countries. The study is useful to service providers of microfinance who will want to know the services that influence their clients' well-being and encourage the general development of their services. It is imperative for policy makers to have information about the impact of their programs on the target beneficiaries, especially through independent and unbiased assessment. This will enable academic research and development efforts to be aligned with the accomplishment of national growth objectives.

It is recommended that there is need for a replication of this study in other geographical settings, for instance within the Organisation of Islamic Cooperation (OIC), Middle East countries or Africa. A future research to investigate whether the model could be used for a comparative study between countries is necessary. That will contribute to greater generalisation of the findings because context is essential in validating research model and findings. Such kind of study could give more impetus to academics and industry practitioners a stronger basis for applying the model for contemporary or emerging challenges.

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