

EFFECT OF MICROFINANCE PRACTISES ON THE PERFORMANCE OF WOMEN OWNED ENTERPRISES IN BUNGOMA TOWN

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Abstract

Micro financing is the provision of financial services to low-income clients or solidarity lending groups that lack access to banking and its related services. Traditionally, women based enterprises have not been favoured by the mainstream credit policies of the commercial banks owing to their inability to raise collateral securities to guarantee the loans. Despite a multitude of studies devoted to the topic, the effect of microfinance practises on the performance of women owned enterprises remain largely unexplored in Kenya. This research project seeks to bridge the gap by establishing the effect of microfinance practises on the performance of women owned enterprises in Bungoma town. The research design for this study was descriptive survey design because the study was done once at a specified time. The population of the study comprised of all the women enterprises that are registered with microfinance institution. They were sampled using stratified sampling to sample out the women entrepreneurs who are registered with microfinance institution and simple random sampling to select the women owned enterprises that were involved in the study the theory guiding this research is Entrepreneurship Theory of Shane (2003). The theory consists of opportunity discovery, evaluation of the opportunity and the decision to exploit the opportunity. Others elements of the theory include self-employment, business operation and performance.

Keywords: Microfinance, financial services, enterprises and entrepreneurs

Introduction

Schreiner and Colombet (2001, p. 339), cited in Wrenn (2007) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal Banks (Wrenn, 2007). Despite the crucial role of women entrepreneurs in the economic development of their families and countries; it is, however, discovered that women entrepreneurs have low business performance compared to their male counterparts (Akanji, cited in Ekpe, Mat, & Razak, 2010); and this is caused by factors which normally affect entrepreneurial performance such as lack of credit, saving, education or training, and social capital (Shane, cited in Ekpe et al., 2010). However, microfinance programmes and institutions have globally recognized as a prospective component of strategies of development organisations,

governments, and societies to promote enterprises in developing countries (Hulme, cited in Ocholah, Ojwang, Aila, & Oima, 2013). They are organisations with a goal to serve the needs of un-served or underserved markets as a means of meeting development objectives (Ledgerwood, cited in Ocholah et al., 2013).

Access to financial services and the resultant transfer of financial resources to poor women over time have led to women becoming more confident and assertive (CGAP, in Maru & Chemjor, 2013). Access to finance enables poor women to become economic agents of change by increasing their income and productivity, access to markets and information, and decision-making power. However, it has been noted that women entrepreneurs, especially in developing countries, do not have easy access to microfinance support for their entrepreneurial activity and as such have low business performance than their men counterparts. Since their rate of their participation in the informal sector of the economy is higher than that of men, microfinance factors could have positive effect on enterprise performance (Ekpe et.al., 2010). Through serving these groups, women



enterprise owners are expected to accumulate wealth and therefore grow after time. Specifically, microfinance institutions provide a broad range of services include deposits, loans, payment services, money transfer and insurance to the poor/low-income households and their enterprises (Chijoriga, 2000; Conford, 2001; Pilipinas, 2002, cited in Kessy, 2009).

Microfinance Practises and Performance of Women Owned Enterprises

Enterprise performance refers to the effectiveness of the enterprise in fulfilling its purpose (Ankunda, 2009). Performance also entails the effectiveness which refers to the firm's ability to produce and serve what market requires at a particular time with efficiency which means meeting the objectives at the lowest possible cost with the highest benefits (Fitzgerald, cited in Ngango, 2015). Many women owned enterprises (WOEs) fail to expand due to limited financial resources, poor managements, use of outdated technologies, stiff competitions from bigger firms, poor management of account receivables, unfavorable government policies among others. Yaron's (cited in Morobe, 2015) study found poor access to loans and limited finance as the main causes limiting the growth of women owned enterprises.

Kalleberg and Leitch (2002), indicated that women led businesses were more likely to go out of business, had lower sales volumes and lower incomes as a result of positioning in less profitable industries. They further indicated that women business owners had small annual sales and employment growth. Women enterprises have certain characteristics like age, education and management ability, which affect their skills, knowledge and attitude (Van, 2005). Better strategies like technology adoption, Quality improvement, product innovation and market expansion can lead to improvement in the performance of the women enterprises (Nafziger, 2001; Audretch & Keilbach, 2004; Van, 2005, as cited in Kosiley, 2014). Hisrich and Brush (2004), in their study about the performance of the women enterprises, found out that the majority of the women enterprises were moderately successful with revenue increases of approximately 7 percent per year. Further, findings indicated that 60 – 70 percent of the women owned businesses failed within five years. In addition 30 – 40 percent of women owned businesses were likely to fail or quit. They further indicated that most of the women had created their own business in traditionally female

industries such as zero grazing, poultry keeping retail trade and food selling.

Methods

Descriptive survey design was used in this study to assess the effect of microfinance practices on the performance of women owned enterprises. Descriptive research design explores and describes the data or characteristics needed for the research. It involves data collection, analysis, summary and drawing conclusion. (Cooper & Schindler, 2003). Descriptive study was undertaken to understand or describe the characteristics and performance of women owned enterprises. Both quantitative and qualitative approaches to analyze the data were employed. The population of the study comprised of 500 women enterprises that are registered with microfinance institutions. The WOE's in Bungoma town are not homogeneous and thus stratified sampling was used. The researcher used simple random sampling to pick 100 SMEs that was involved in the study. This number is considered appropriate due to time and cost constraints. The simple random sampling procedure is preferred because this concept allows unbiased sampling and accords the research work more scientific feature thereby making the validity of the research findings more concrete. A sample size can be determined using various authorities of research like Kombo and Tromp (2006) who recommended a sample size being representative if it falls between (10%-30%) of the population size.

The research used questionnaire and interview as the main tool for collecting data. A questionnaire is a set of formalized questions used in a survey to collect information which later is analyzed to provide results necessary for solving a given research problem (Mugenda & Mugenda, 2003). Content validity was used in this study. Content validity is the degree to which a test measures what it is supposed to measure. This was done through having the research supervisor review the instruments. Reliability of the research instrument was tested by use of SSPS software. The data was analyzed using descriptive and inferential analysis. Descriptive analysis such as measures of central tendency which include mean, median, mode, standard deviation and correlation. For inferential analysis scientific package for social statistics (SPSS) was used. The variables Cronbach's alpha value ≥ 0.7 will be accepted this is sufficient according to Nunnally (cited in McAllister, Bigley, 2002).

Results

Out of the intended 100 respondents, only 60 returned fully completed questioners giving a response return rate of 60%. This return rate is acceptable as recommended by Mugenda and Mugenda (2003). This Table 1

reasonable response rate was realized after the researcher made personal calls and visits to remind the respondents to fill and return the questionnaires.

Response Rate

CATEGORY	FREQUENCY	PERCENTAGE
Target population	100	100%
Actual respondent	60	60%

Source: Primary data

Table 2

Microfinance Saving Services

Saving services	SD %	D %	U %	A %	SA %
The saving you make act as collateral to get loans	8.3	21.7	1.7	26.7	41.7
The saving you make at your microfinance enables you to acquire more assets	6.7	11.7	0	43.3	38.3
The savings enables you to meet emergency situations	11.7	20	1.7	35.0	31.7
The weekly saving you make at your microfinance institution affect your financial working capital	20	21.7	0	26.7	31.7

Source: Author's computation, 2015

From the findings majority of the respondent agreed that saving act as collateral to get loans at 68.4% only 29% strongly disagreed. Majority of the respondents agreed at 81.6 % that saving enable them to acquire more assets only 18.4% disagreed. Majority

respondents also agreed at 66.7% that savings enable them meet emergency situations and 31.7%disagreed. Finally many strongly agreed and agreed at 58.4% that savings affect their financial working capital and 41.7% disagreed.

Table 3

Loans Advanced

Loan advanced	SD	D	U	A	SA
The period to repay the loan is enough	20	18.3	3.3	33.3	25.0
The interest charged on the loan is appropriate	18.3	20	1.7	23.3	36.7
Loan leads to achievement of business goals	13.3	20	6.7	30.0	30.0
The process of acquiring the loan is smooth	16.7	10.0	6.7	30.0	36.7

Source: Author's computation, 2015



Majority of the respondents that is 58.3% agreed that the period to repay the loan is enough, and 38.3% disagreed. The findings also shows that majority of the people agreed at 60% that the interest rate charged by the microfinance is appropriate. Micro-
Table 4

finance loans leads to achievement of business goals as majority of the respondent agreed at 60%, 23.3% disagreed. Finally we can also see that the process of acquiring the loans is smooth as majority of the respondent agreed and agreed at 66.7% and 26.7% disagreed.

Enterprise Development Services

	SD %	D %	U %	A %	SA %
I have been able to change my mode of doing business	16.7	20	3.3	25	35
My microfinance regularly helps me get market information	16.7	15.0	1.7	28.3	28.3
I have been able to improve my mode of marketing	20.0	8.3	1.7	25.0	45.0
There is technology improvement in my business	13.3	16.7	5.0	28.3	36.7

Source: Author’s computation, 2015

From the findings many of the respondents have agreed at 60% y that they have been able to change the mode of doing business and 36.7% disagreed. On the questions whether their microfinance regularly helps them get market information many respondent strongly agreed at 56.6 they have been helped to get market
Table 5

information and 31.7% disagreed. Majority of the respondents agreed that they have been able to change their mode of marketing at 70% and 28.3% disagreed. Finally many respondent that is strongly agreed at 65% and 30% disagreed that there is technology improvement in their business.

Performance of Women Owned Enterprises

Performance	SD %	D %	U %	A %	SA %
Sales have increased than before	16.7	15.0	3.3	30.0	35.0
With the use of the loan my business has expanded in terms of working capital	16.7	18.3	0	41.7	23.3
My enterprise has been able to increase the number of customers	13.3	10.0	0	38.3	38.3
I have been able to increase my profits	5	16.7	0	43.3	35

Source: Author’s computation, 2015

From Table 5, we see how microfinance services affect the performance WOES, that is loan, saving services, enterprise development services and social intermediation. From the findings above we can see that most respondents that is 65% that microfinance services has enable them expand their business, 31.7% disagreed. Secondly, most respondents that is 65%agreed that with the use of the loan their business have expanded in terms of working capital, 35%disagree.

Majority of the respondent agreed that the enterprise has been able to increase the number of customers that is 76.6%agreed and 23.3% disagreed respectively.. Lastly majority of the respondent that is 78.3agreed that the profits have increased, 21.7% disagreed.

Correlation Analysis

Correlation is the statistical measurement of

relationship between two variables.
The results in the table below show the relationships

among the variables which were generated
Using the Pearson correlation coefficient (r).

Correlations		Performance	social	savings	loans	services
performance	Pearson Correlation	1	.292*	.517**	.556**	.517**
	Sig. (2-tailed)		.023	.000	.000	.000
	N	60	60	60	60	60
Social	Pearson Correlation	.292*	1	.438**	.549**	.438**
	Sig. (2-tailed)	.023		.000	.000	.000
	N	60	60	60	60	60
savings	Pearson Correlation	.517**	.438**	1	.553**	1.000**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	60	60	60	60	60
Loans	Pearson Correlation	.556**	.549**	.553**	1	.553**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	60	60	60	60	60
services	Pearson Correlation	.517**	.438**	1.000**	.553**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	60	60	60	60	60

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The results showed that there is a positive relationship between saving services and performance ($R=.556^{**}$, $p<.05$). The results imply that if people will be encourage to save and monitored, then the enterprise will realize improved levels of performance. On loans analysis indicated a positive relationship between loans and performance ($R = .517^{**}$, $p<.05$). This shows that if ending is well structured and monitored, then the enterprise will realize improved levels of performance. On enterprise development services the analysis indicated a positive relationship between enterprise development services and performance ($R = .517^{**}$, $p<.05$). This shows the microfinance institutions should provide more training on production, technology and marketing this will improve performance of the enterprise. While on social intermediation the analysis indicated a positive relationship social intermediation between and performance ($R = .292^{**}$, $p<.05$). This shows the microfinance institutions should provide more social intermediation.

Discussion and Conclusions

The study established that savings services that the women owned enterprises make in their microfinance institutions acts as collateral to get loans. The savings also enable the enterprises acquire more assets and meet emergency situations. From the Pearson's' correlation analysis, there is a positive significant relationship between saving services and performance of women owned enterprise. This means that WOES can improve their performance by improving in savings This is in line with the findings of (Vonderlack & Schreiner, 2001) who establish that savings was found to have positive effect on women entrepreneurs' well-being in Bangladesh, Indonesia, Ghana and Mexico. In addition the results were also in line with the findings of (Rhyne & Otero, 1992) who establish that the ability and Opportunities to save also serve as protection against illness and occasional unemployment. The study also established that loan advanced leads to achievement of business goals and expansion of the business in terms of working capital and the process



of acquiring the loan is smooth. A positive significant positive relationship was also established between loan advanced and performance of women owned enterprises. This means that people should acquire loans so that they can expand their business. This is in line with the findings of Rutherford (2000), who established that MFIs were developed to fill the gap in the financial sectors as banks were not accessible by women owned enterprises (WOEs).

The study established that enterprise development services enable most of the enterprises to change their mode of doing business, get market information and improve the technology of the business. From the Pearson's correlation analysis, there is a positive significant relationship between enterprise development services and performance of women owned enterprise. This means that the microfinance institutions should provide more training on production, technology and marketing. This is in line with the findings of Akanji (2006), Cheston and Kuhn (2002) and Kuzilwa (2005), as cited in Ekpe et al. (2010), who established that training is a very important micro-finance factor for women entrepreneurs as it would provide the skills and experience needed for business.

Based on the findings, the study concludes that the increase in performance of WOE's is due to micro-finance services. There is a strong positive relationship between microfinance practices and performance of women owned enterprises. The study concludes that the loans provided to WOE's leads to an expansion in business in terms of working capital. The study also concluded that there is a significant positive relationship between performance and saving services of WOE's in Bungoma Town.

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