

Influence of Microfinance Services on the Growth of Women Owned Enterprises in Bondo Town, Kenya

Quenter Adhiambo¹, Dr. Ofwa Joanes Otieno Wu'Adongo², Dr. Michael Nyagol³

¹Department of Accounting & Finance, School of Business and Economics,
Jaramogi Oginga Odinga University of Science & Technology, Kenya
Email: [adhiamboquenter77\[at\]gmail.com](mailto:adhiamboquenter77[at]gmail.com)

PhD, MKIM, Department of Accounting & Finance, School of Business and Economics,
Jaramogi Oginga Odinga University of Science & Technology, Kenya
Email: [ofwawuadongo\[at\]gmail.com](mailto:ofwawuadongo[at]gmail.com)

PhD, Department of Marketing & Economics School of Business and Economics,
Jaramogi Oginga Odinga University of Science & Technology, Kenya
Email: [michael_nyagol\[at\]yahoo.com](mailto:michael_nyagol[at]yahoo.com)

Abstract: *The objective of the study was to determine the influence of micro-credit services on the growth of women owned business enterprises. The study was guided by Pecking Order Theory as well as Theory of Capital Structure. The study adopted a descriptive research design. The study target population was 106 registered women entrepreneurs operating in Bondo town, Siaya County. The sample size for this study was 83 respondents determined by Yamane (1967), selected using stratified random sampling technique. Data in this study was collected using questionnaires. The data collected was analysed using descriptive and inferential statistics. Regression analysis was used to show the correlation and strength of the relationship between variables both independent and dependent. Data was presented using frequency tables. The study revealed a strong positive correlation ($r = 0.863$) which was statistically significant as $p < 0.05$ ($p = 0.000$) between savings services offered by microfinance institutions and growth of women owned enterprises. This implies that as microfinance savings services have a strong positive influence of the growth of women owned enterprises in Bondo town. The study recommends a similar study in other regions using different microfinance services not covered in this study. Government and microfinance institutions should encourage women to register their businesses to promote easy access to such microfinance services and microfinance institutions to provide comprehensive services including microcredit, savings and training to customers for more growth impact.*

Keywords: Microfinance institutions, women owned business enterprises and Micro-credit Service

1. Introduction

1.1 Back ground to the study

Entrepreneurship is currently recognized as a key driver of economic growth, innovation, productivity and employment, and it is widely accepted as a key aspect of economic dynamism. According to Tubey (2012), it transforms the concept of business ideas into new ventures or develop and grow existing ideas. History shows that economic progress has been significantly advanced by pragmatic people who are entrepreneurial and innovative, able to exploit opportunities and willing to take risks. The role of entrepreneurship and an entrepreneurial culture in economic and social development has often been underestimated. Over the years, however, it has become increasingly apparent that entrepreneurship indeed contributes to economic development (Hisrich, 2011).

Globally, entrepreneurs are arguably the most important actors in the economy of any country being the creators of wealth and new jobs, the inventors of new products and services as well as the revolutionist of the society as a whole. Despite their importance, less attention is drawn to them hence little information is available in the global books about their motivation, emergence or performance.

Generally, the world knows less about those who become entrepreneurs and their journey of performance. Women especially are one particular group understudied in the globe. Female entrepreneurs are less presented in the global columns of entrepreneurs (Marlow, 2009). Ignorance is the attributing factor to the blind spot that exists about entrepreneurs especially the female participants. In more gender egalitarian and innovation-driven regions such as North America, females are now just as likely (if not slightly more so) to be enrolled in post-secondary education in general and within previously male-dominated faculties, such as business, in particular (Statistics Canada, 2009; US Department of Education, 2010). This increases the chances of women to venture into careers that later serve as a benchmark to venture into the world of entrepreneurs.

Microfinance has been broadly recognized as offering “poor people access to basic financial services such as loans, savings, money transfer services and micro insurance” (Duvendack et al., 2011). At the moment, microfinance is considered a component in the helping to eradicate or in some occasions reduce poverty in the society. According to Obaidullah (2015) many micro-finance services in Asia and Africa targets women on the assumption that empowering women and targeting service to them leads to better allocation and use of household resources. Several studies in

Bangladesh support this assumption, indicating that service directed to women significantly increase assets, incomes and education attainment of children, especially girls (Duvendack, et al 2011).

1.2 Problem Statement and Justification of the study

Siaya County Annual Development plan 2017-2018 report revealed that Poverty Level is at 57.9 % (Rural) and 37.9 (Urban) while the Age Dependency Ratio is rated at 100:96.3 at the same time it revealed that the major economic activities and resources of this region range from Agricultural land, Fisheries, Indigenous Forests, Rivers, Timber with some Tourist Attractions in Yala Swamp and Wetlands, Ndanu Falls, Lake Kanyaboli and Lake Victoria. Majority of the women in business have centered their activities on these resources. The report further indicates that despite the presence of microfinance services; the high interest rate offered by financial institutions together with negative attitude of citizens has made the uptake of loans and other services to generally remain low.

A survey of women business owners reveals that only 4% of women are willing to take aggressive risks when making business growth decisions; majority of women prefer taking moderate risks to achieve potential entrepreneurial growth (PNC, Report, 2011). Moreover, women have relatively low business income expectations. Microfinance Institutions have not significantly impacted the lives of women entrepreneurs in developing countries despite the large sums of money that have been put by various developing countries' governments and non-Government Organizations on these group of women through microfinance over the years (Rogaly, 2009).

Most studies have focused on lack of collateral, no track record of credit history and limited educational and vocational training relationship to the performance of these business enterprises but there is minimal focus on the performance of women owned business enterprises. Therefore, this study will focus on influence of microfinance credit services on the growth of women owned business enterprises in Bondo Town, Siaya County, Kenya.

1.3 Objective

To determine the influence of microfinance credit services on growth of women owned enterprises in Bondo Town.

1.4 Research Questions

To what extent does microfinance credit services influence the growth of women owned enterprises in Bondo Town?

1.5 Scope of the Study

The study focused on women owned micro enterprises in Bondo town in Siaya County and any enterprise outside Bondo Town was not be part of this study. The researcher also conducted the study among women entrepreneurs who have been receiving microfinance services for the period between 2010 and 2018.

Furthermore, the study focused on microfinance institution microcredit services, saving services and training services as the major variables influencing the growth of women owned enterprises. The study also was limited on a representative sample of 83 women entrepreneurs as units of the study.

2. Literature Review

2.1 Theoretical literature Review

a) Theory of Capital Structure

The theory of capital structure appeared in 1958, when Franco Modigliani and Merton Miller proposed the M&M irrelevance proposition. They assumed that, in a capital market with perfect information, no taxes and bankruptcy costs, the financial leverage of a firm is unrelated to its value. The theory rationalized that there is no effect on the value of a firm whether the firm is financed through issuing equity financing or debt, or a combination of the two. The reason is that if there are any changes in the debt to equity ratio, the firm's cash flow will remain unchanged. All firms have equal opportunities to borrow at the same rate (Modigliani and Miller, 1958). The principles of this theory support this study in the context of business value and business costs which every business enterprise including the women owned enterprises in Bondo town must encounter or have.

b) The Pecking Order Theory

The structure of the Pecking Order Theory focuses on internal financing, for instance, through retention of profits as the first priority, debt financing is a second priority when internal funds are insufficient, and equity financing will be issued as the last option to finance a firm's business. The theory implies that, as much as possible, firms must avoid equity financing because it is an indication to the market that the business needs external capital, thus inviting external parties to invest. As such, this theory model demonstrates a financial market imperfection, whereby the asymmetric information between managers and outside investors affects corporate financing decisions (Myers, 1984). This theory is relevant in this study as women entrepreneurs are also investors and their business financing decisions is important in this context where the level of profitability and retained earnings for business growth.

2.2 Empirical literature

Brana (2008) observed that women's lack of capital at the start-up and growth stages is due limited personal savings and this problem is much pronounced in developing countries due to unemployment and gender discrimination in high-paid jobs (Brana, 2008; Carter & Shaw, 2006). So they require start-up and working capital from microfinance institutions. However, it is argued that women use more of personal savings than loan, to start and grow their enterprises (Gatewood et al. 2004). Previous studies found that loan access had positive impact on enterprise profit performance in Nigeria (Ojo, 2009), Nicaragua (Martin, 1999) and Croatia (International Fund for Africa Development, 2006). Specifically, women owned MSEs are important in economic growth of a country and their improvement should form part of a country's development

strategy. As Buttner, (2001) rightly argues they play an important role in reducing poverty and promote development by tapping into people’s initiative, ingenuity and self - reliance. A study on the impact of gender distribution on employment (McCormick, 2001) shows that there was an overwhelming gender imbalance in employment before K-Rep loans-with only 38.9% of the people employed being women; compared to 61.1% men.

Fry (1995) argues that borrowers must be “monitored” because there is an expose information asymmetry in that lenders do not know how much the firm has produced. Only the individual borrower observes the realized output of his project, so contracts cannot be made contingent on the output. Consequently, a lender is at a disadvantage because the borrower will not honor ex ante promises to pay unless there is an incentive to do so. Maru & Chemjor (2013) asserts that the lender must bear a cost to determine whether the borrower has resources to repay the loan or not, a decision made after the borrower’s project output has been realized and after a payment has been offered to the lender. To reduce the probability of a default risk by giving the bank collateral can improve monitoring incentives if the collateral’s value is sensitive to inefficient continuation of the firm’s current business strategy. in this case, the bank must monitor the firm’s situation so that it can use the threat of calling the loan to force the firm to adopt a more conservative policy or even outright liquidation so as to preserve the value of the bank’s collateral. (ILO, 2011).

3. Conceptual Framework

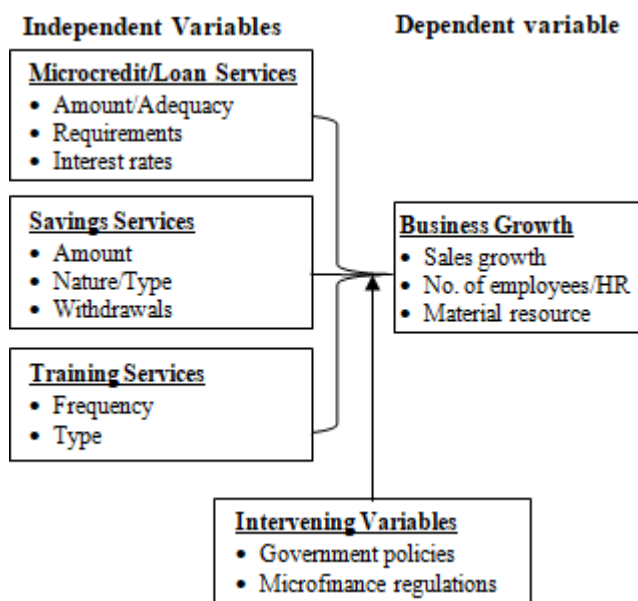


Figure 2.1: Conceptual Framework

This aimed at determining microfinance institutions services influencing the growth of women owned enterprises in Bondo Town, Siaya County. These services constituted the independent variables and they include microfinance microcredit services, savings services and training services. On the other hand, the dependent variable was the growth of the women owned enterprises measured by increased sales, profitability and employment creation. Direct relationship between the variable sometimes may be moderated by other

factors that come in-between the two variables. These factors include government policies and microfinance regulations.

Summary of empirical literature

The chapter was presented in sections aligned to the study objectives. These are the way microfinance institutions services contribute to growth of business owned by women, including loan, savings and training services. Despite the positive reviews of microfinance impact on women enterprises. The literary (Haile, Bock, and Folmer, 2012) shows that there are adverse effects of microfinance on women owned businesses. Other studies (Armendáriz and Roome, 2008) suggest that there is no or negative impact of microfinance on women enterprises. Kato and Krazter (2013) find evidence to suggest that there is an adverse effect on women’s income and employment such as increased workloads and higher social pressure to ensure loan repayment. Other studies have found that the credit given to women is sometimes controlled by men and in some rare cases, the microfinance may result to domestic violence.

Further, Maru and Chemjor (2013) study revealed that micro savings have a small effect on the advancement of women enterprises. The study explained that women found the procedures for withdrawing savings difficult, lacked satisfaction with the designs of the micro savings product and the time duration for withdrawals was also challenging.

The literature shows a mixed outcome of microfinance institutions and women owned enterprises questioning the extent to which women business grows and the services provided by the microfinance institutions. The literature also revealed that there are specific microfinance services and products that influence business growth generally while others are not subsequently popular among women owned enterprises.

4. Research Methodology

4.1 Research design

This study adopted a descriptive research design. Cooper and Schindler (2008) state that the descriptive research design helps answer questions about what, where and how of a research study. It helps to identify and explain the variables that exist in a given situation and describe the relationship that exists between these variables in order to provide a picture of a particular phenomenon. According to Mugenda and Mugenda (2003), also notes that the design seeks to identify the nature of factors involved in a given situation, determine the degree in which they exist and discover the links that exist between them. This approach was appropriate for the study as it provided a link and relations between microfinance institution services and growth of women owned enterprises.

The study target population was 106 registered women entrepreneurs operating in Bondo town, Siaya County.

Table 3.1: Target Population

Business Category	Number of Entrepreneurs (N)
Retail and Wholesale Business	18
Groceries- Cereals Vendors Business	25
Beauty Salons and Pharmaceuticals	5
Textile - Mitumba Business	49
Hotel industry	9
Total	106

(Siaya County Office Report, 2018)

4.2 Sampling Size and Sample Procedures

Sample Size

Yamane (1967) recommends the following formula that was applied in this study to reach at a sample size of 83 respondents at a precision of 0.05. This formula was used because the target population was finite and the number known in this case,

$$n = \frac{N}{1 + N(e)^2}$$

Where; n: the sample size,

N: the population size and

e: the level of precision.

$$n = \frac{106}{1 + 106(0.05)^2} = 83$$

The corresponding sample size of 83 respondents was distributed in Table 3.2 according to their ratio samples.

Table 3.2: Sample Size

Business Category	(N)	% composition	Sample Ratio	Sample Size
Retail and Wholesale Business	18	16.98	0.1698	14
Groceries- Cereals Vendors Business	25	23.58	0.2358	20
Beauty Salons and Pharmaceuticals	5	4.72	0.0472	4
Textile - Mitumba Business	49	46.23	0.4623	38
Hotel industry	9	8.49	0.0849	7
Total	106	100		83

4.3 Sample Procedure

The study sample size was 83 respondents who are registered women entrepreneurs operating in Bondo town, Siaya County. Stratified random sampling technique was used to select the sample which gave each item in the population an equal probability chance of being selected. This technique involves subdivision of a population into smaller groups, which are referred to as strata (Mugenda & Mugenda, 2003). The study thus grouped the population into strata in this case using business category. From the strata, the study selected 83 respondents arrived at by calculating the population of 106 with a 95% confidence level and an error of 0.05.

4.4 Data Collection Instruments

Primary data was collected using questionnaires. Burns and Grove (2003) confirm that questionnaires are considered rich for both quantitative and qualitative research. They are deemed suitable for the study as not only do they allow for the collection of standardized information but are also

relatively inexpensive to administer and easy to analyze (Creswell, 2009). The preference for the questionnaire is that it can be administered to a large population. It is also advantageous as it is relatively quicker and simple to give to a large population and also time and cost efficient for academic research. The questionnaire was developed according to the research questions. The researcher used the self-administration of questionnaires. The advantage of using self-administered approach is to motivate respondents to participate in research as they are afforded the privacy to answer questions to their capacity without the researchers' influence. This approach also assisted the researcher to collect complete questionnaires as they go through each item with the respondents helping them where they may not be able to understand the questions. The questionnaire included both open-ended and close-ended questions items. The purpose of the open-ended questions was to give respondents an opportunity to respond to their words and close-ended questions limited their responses to predetermined responses.

4.5 Validity and Reliability of Research Instruments

The validity was achieved through adequate coverage of the content of the variables in the data collection tool, the questionnaire and through expert advice. Experts from the University who included the supervisors were consulted who looked at the measuring technique and coverage of the objectives under study. The experts ascertained the validity of the research instruments, and then corrections identified were incorporated in the instrument so as to increase the validity (Mugenda and Mugenda, 2003). Face validity was achieved through elimination of ambiguous statements to respondents in this study.

Split-half techniques were used to assess the reliability of the instruments. It involved administering the questionnaire to the pilot group of 22 respondents and then dividing the scored instrument into two halves. The main advantage of this method is that it eliminates chance errors (Mugenda, 2008). The research instrument reliability was further determined using Cronbach's Alpha Method (Cronbach, 1951). According to Sekaran (2001), the Cronbach's alpha values for each variable under study should not be less than 0.7 for the statements in the instruments to be deemed reliable. The correlation coefficient calculated was 0.87 which is greater than 0.7 so the questionnaire had a sufficient high pre-test reliability (Orodho, 2005).

5. Data Analysis and Presentation

Descriptive statistics was used to summarize and analyze the data, involving measures of dispersion and central tendency where means and averages and regression analysis. Regression analysis was used to show the correlation and strength of the relationship between variables both independent and dependent. Content analysis was performed on qualitative data. The study used the regression model below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \dots\dots\dots(3.1)$$

Where:

Y= Growth of Women Owned Enterprises (sales growth)

X₁= Microfinance Credit Facilities (loans)

X_2 = Microfinance Savings services
 X_3 = Microfinance Training Services
 $\beta_0, \beta_1, \beta_2$ and β_3 are regression equation coefficients
 ϵ = error term of the regression

The findings were presented using tables, figures and charts. Each was followed by brief explanations, inferences and interpretations of the findings from the earlier related reviewed literature with the aim of bridging the research gaps through seeking for the solutions of the study problem (Orodho, 2005).

Ethical considerations

Ethical issues of concern in this study included privacy, informed consent and confidentiality. All respondents were assured of confidentiality. Information consent was given by seeking participant’s permission before administering the questionnaires to the sampled women entrepreneurs to ensure that the study was valid and reliable due to build- in confidence. Research authorization permit was obtained from the relevant offices, so as to get permission for collection of data. The researcher with her assistants revisited the various women entrepreneurs in order to establish a rapport before the actual data collection date.

6. Findings & Discussion

Correlation analysis between micro-credit services and growth of women owned enterprises

In order to determine the correlation between microcredit services and growth of women owned enterprises, a Pearson Moment Correlation was run. The total scores of the scales were computed as a summation of the individual scores on each item by respondent. The result of the correlation is as shown in Table 4.6.

Table 4.1: Correlation between microcredit services and growth of women owned enterprises

Item	Statistic	Growth
Microcredit services	Pearson Correlation	.556**
	Sig. (2-tailed)	.000
	N	82

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

The study found a moderately strong positive correlation ($r = 0.556$) which was statistically significant as the study between microcredit services offered by microfinance institutions and growth of women owned enterprises. This implies that as microcredit services offered by microfinance institutions has an influence of the growth of women owned enterprises in Bondo town.

Analysis of Regression Results of influence of microcredit services on growth of women owned enterprises

A simple linear regression was run to determine the equation connecting microcredit services and growth of businesses owned by women. The aggregate on microcredit service was determined as a summation of the scores on individual items microcredit services scale. Similarly, the score on business growth scale were also determined.

To establish the extent to which microcredit services influence growth of women owned enterprises, regression was computed as shown in Table 4.7.

Table 4.2: Regression Model Summary for microcredit services and growth of women owned business

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.556	.309	.300	1.19127

a. Predictors: (Constant), Microcredit services

The model explains up to 30.9% of the variance in the outcome ($R^2 = 0.309$), meaning the independent variable which is, microcredit services influence growth of women owned enterprises which is a dependent variable as it cannot occur by chance, that it explains up to 30.9% of variance in dependent variable which is growth of enterprises. Therefore Table 4.7 explains the extent to which microcredit services influence growth of women owned businesses in Bondo town.

The ANOVA table was computed to show whether the linear regression model fits the data significantly as provided in Table 4.8.

Table 4.3: ANOVA^a for Microcredit services and growth of women owned enterprises

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	50.726	1	50.726	35.744	.000 ^b
	Residual	113.531	80	1.419		
	Total	164.256	81			

a. Dependent Variable: growth of enterprise
b. Predictors: (Constant), Microcredit services

The ANOVA table shows that linear regression model significantly fits the data with $F(1,80) = 35.744$ at $p < .05$ ($p = .000$). Therefore, this justifies the model, microcredit services influence growth of women owned enterprises.

The coefficient table for microcredit services and growth of women owned enterprises shows the equation which explains how microcredit services influence growth of women owned enterprises as shown in Table 4.9.

Table 4.4: Coefficient stable for Microcredit services and growth of enterprises

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.656	.287		5.761	.000
	Microcredit services	.629	.105	.556	5.979	.000

a. Dependent Variable: growth of enterprise

The constant terms are significant as $p < 0.05$.

The model used in Objective₁ is; $Y = \beta_0 + \beta_1 X_1 + \epsilon$

Where; Y = Growth of women owned enterprises

β_0 = Regression constant

$\beta_1 X_1$ = Microcredit services

ϵ = The model error term

Thus, replacing the coefficients, the equation becomes; $Y = 1.656 + 0.629 X_1$

The regression equation predicts microcredit services, such that $y = 1.656 + 0.629 X_1$ with the constant being statistically significant.

Therefore, there is a significant relationship between microcredit services provided by microfinance institutions and growth of women owned enterprises in Bondo town and conclude by stating that, there is a significant relationship between microcredit services and growth of women owned enterprises in Bondo Town.

The study findings relate to Tedeschi, (2008) findings which indicates also that there is relationship between credit services and business growth as most microfinance target women with the explicit goal of enhancing their financial self-sustainability, and by providing women with access to small loans, it is expected to enable women generate an income and initiate their own economic empowerment. Allen et al (2008), also support this by indicating that providing women with micro-finance loans would create an opportunity for them to engage in new business or improve an existing one.

7. Conclusion

From the findings this study it can be concluded that the women entrepreneurs use microfinance loans from microfinance institutions to finance their business operations. Therefore, the credit facilities influence the growth of women entrepreneurship. The study conclusion on group members guarantee savings scheme service, joint accountability, Joint liability, group-based savings, group-based credit delivery as guarantee scheme indicators was rated to influence the growth women business enterprises

8. Recommendations

The study recommends that microfinance institutions should integrate microcredit, savings and training services to members to achieve more impact on empowering women and achieve growth which in turn creates employment opportunities.

9. Recommendations for Further Research

The study was limited to Bondo town, Siaya County, so other study can be carried out in areas such as other towns or counties. Further studies should be done in Bondo to determine influence of microfinance services on growth of Women Owned Enterprises using other microfinance services not covered by this study.

References

- [1] Akanji, O. O. (2006). Microfinance as a strategy for poverty reduction. *Central Bank of Nigeria Economic and Financial Review*, 39 (4).
- [2] Allen, I. E., Elam, A., Langowitz, N. & Dean, M. (2008). *2007 Global Entrepreneurship Monitor report on women and entrepreneurship*. Babson College: The Center for Women's Leadership.
- [3] Boiwa, W. C. (2014). Effects of Multiple Borrowing on the Living Standards of Microfinance Clients at Kenya Women Finance Trust, Trans Nzoia Region, *Developing Country Studies*, 4 (9), 77-85.
- [4] Buttner, H (2001), *Women Entrepreneurs Moving Beyond the Glass Ceiling*, Sage Publications Inc. Thousand Oaks, California.
- [5] Carter, S (2013). Female business ownership: current research and possibilities for the future. In Allen S and Truman C (eds), *Women in Business: Perspective on Women Entrepreneurs*. London: Routledge Press, pp148-160.
- [6] Gakure, R. W. (2001). "Issues Impacting on Growth of Women Owned Enterprises in Kenya." *Paper presented at Shifting Gears in Women's Enterprises Conferences*, Durham University, UK, September.
- [7] Gatewood, E. J., Brush, C. G., Carter, N. M., Greene, P. G. & Hart, M. M. (2004). *Women entrepreneurs, growth and implications for the classroom*. USA: Coleman Foundation whitepaper series for the USA Association for Small Business and Entrepreneurship.
- [8] Goldberg, S.D. (2006), Research note: effective successors in family-owned businesses: significant elements, *Family Business Review*, Vol. IX No.2, pp.185-97
- [9] Gulli, H., (1998). *Microfinance and Poverty: Questioning the Conventional Wisdom*. Inter American Development Bank, Washington DC.
- [10] ILO, (2008): *Global Employment Trends for Women*. ILO, ILO Geneva, Switzerland; International Finance Corporation (IFC), (2007). *Gender Entrepreneurship Markets*, GEM Country Brief. Afghanistan: GEM.
- [11] Mugenda, O. M. & Mugenda, A. G. (2003). *Research methods: Quantitative and qualitative approaches*. Nairobi: Acts Press.