

## Characteristics of Owners of Business on Strategic Access to Credit Facilities by Women Owned Small and Medium Enterprises (SMEs)

**Charles Mwirigi**

Jomo Kenyatta University of Agriculture and Technology (JKUAT)  
Nairobi Kenya

**Prof. Roselyn Wangari Gakure**

Jomo Kenyatta University of Agriculture and Technology (JKUAT)  
Nairobi Kenya

**Prof. Romanus Odhiambo Otieno**

Jomo Kenyatta University of Agriculture and Technology (JKUAT)  
Nairobi Kenya

### ABSTRACT

The purpose of this study is to establish the characteristics of owners of Business on strategic access to credit facilities by Women owned small and medium enterprises (SMEs). The study adopted a descriptive research design guided by cross sectional survey. The target population was drawn from women owned enterprises specifically owners of businesses in Nairobi, Kenya. A sample of 370 was derived from the population. A pilot will be conducted to ascertain the validity and reliability of the instrument. Data collected from the respondents was captured in SPSS version 24 and analyzed using both descriptive and inferential statistics (correlation analysis and multiple regressions) to establish hypothesized relationships between the variables. The results were presented in form of tables, graphs, charts, means, standard deviations, t and f statistics. The findings of the study revealed that characteristics of business owners, collateral, networking and interest rates statistically and significantly predicts the Strategic access to credit SMEs owned by women (i.e., the regression model is a good fit of the data) and that interest rates significantly influence the Strategic access to credit SMEs owned by women in Kenya.

**Key Words:** Characteristics of Owners of Business, Strategic Access to Credit

### INTRODUCTION

The small and medium enterprises (SMEs) owned by women are acknowledged as the engines through which the growth objectives of the developing countries can be achieved. Despite their potential to create employment, create wealth and develop innovation in many developing countries, women owned SMEs encounter various problems and as a result many perform dismally and fail to grow (1). Such problems include inability to access credit from financial institutions. The provision of credit has increasingly been regarded as an important tool for raising incomes of populations, mainly by mobilizing resources to more productive uses. A study by (6) asserts that in Kenya is hindered by numerous factors such as low levels of education, high interest rates, low business incomes and many other socio-cultural aspects that put women in lower status in the society compared to men as far as operation of the businesses is concerned.

Characteristics is a term that refers to pertaining to, constituting, or indicating the character or peculiar quality of a person or thing; typical; distinctive (3). Strategic access to credit facilities refers to the ability of small and medium enterprises' designated personnel or owner to obtain and use credit facilities that are affordable, usable, and meet their financial needs (17).

### **STATEMENT OF THE PROBLEM**

There are various constraints that hamper the smooth access to credit from the formal financial institutions by SMEs owned by women. These constraints include lack of information, unfriendly collateral requirements, high interest rates and poor strategic planning (6). Though the government has been making efforts to help SMEs develop through various programs and policies such as affirmative action Funds (for women and youth empowerment) and provision of the necessary infrastructure as outlined in several policy documents since independence of the Republic of Kenya, no success has been registered pertaining growth of women owned SMEs. Therefore, there is long way to go for SMEs owned by women in Kenya to attain full potential and efficiencies due to lack of access to credit. Access to credit is connected to improved performance of SMEs in Kenya (19). Further, a study conducted by Kariuki (2015) to examine the factors affecting development of strategic plans in SMEs in Nairobi revealed that SMEs owned by women have no clear vision of what they desire to accomplish; consequently, lack to access credit affects their profitability. Up-to-date research on SMEs financing has been done in other countries such as Vietnam, during the 2012 financial crisis and recession period. A study by (16) found no significant relationship between bank finance and organization profitability. (21) showed a positive relationship between bank lending and sales growth of SMEs. Nevertheless, the results of both studies might not be applicable to SMEs owned by women in Kenya due to contextual and environmental differences. Finally, the specific business challenge facing SMEs owned by women in Kenya is the lack of strategies to access credit to enhance the profitability and growth of the businesses. This study therefore sought to establish the characteristics of owners of businesses on strategic access to credit by women owned small and medium enterprises (SMEs) in Kenya.

### **RESEARCH QUESTION**

The study sought to answer a key question:

Is there any significant relationship between characteristics of owners' of businesses and strategic access to credit facilities by women owned small and medium enterprises in Kenya?

### **LITERATURE REVIEW**

The study focused on social capital theory. The social capital theory was developed by (11) to explain how members of a rural school community accumulated their social capital to improve the school performance, other theorists such as (7); (10); (12); (14); (22) later extended the theory into business. These theorists specifically used the social capital theory in explaining how low-income groups accumulate their social capital to access resources in order to improve the performance of their business enterprises. (7) used the theory to explain that individuals with good network are more likely to accumulate their social capital to achieve more than those who do not. Similarly, (10) stated that through weak ties (acquaintances), network members could access information and resources beyond those available in the social circle such as close friends to achieve a common goal. He concurred with Hanifan's theory that individuals by themselves cannot achieve much unless they worked together to exploit opportunities.

(7)) termed social capital as the aggregate of the actual or potential resources linked to a durable network of relationships, which provides its members with collective access to credit. Both (10) and (7) tended to agree with (11) that the best way for individuals to access

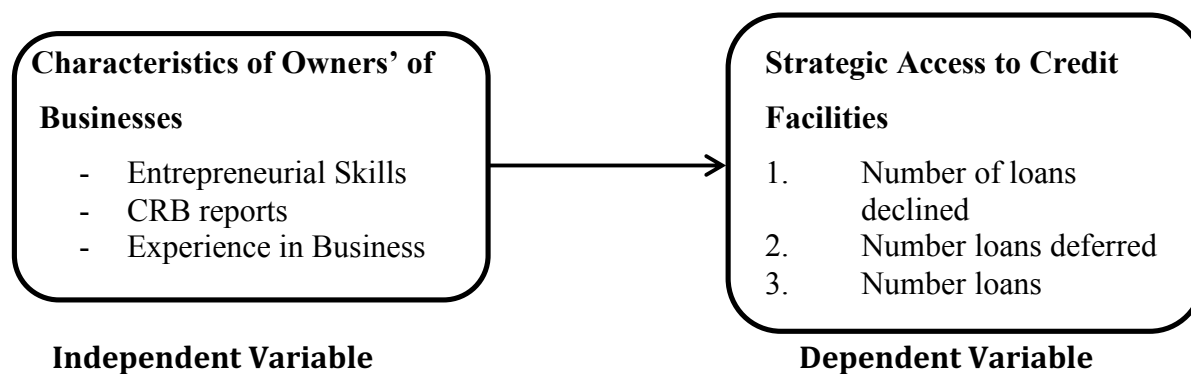
resources and improve their performance is to work together. (22) used the social capital theory to describe how poor entrepreneurs in developing countries formed networks to access to credit and information from financial institutions to improve business performance and protect themselves against risks and uncertainties. As noted by (19), poor borrowers who have no collateral assets and are without a credit history use social capital to access credit to sustain their businesses. He found that social capital allows individuals to establish relationships based on norms and trust to reduce transaction costs and thereby enabling them to gain access to credit. (20) used the three social capital dimensions (i.e. structural, relational and cognitive) to identify the unique behavioral resources and capabilities of family firms. Family firm owners can make use of the knowledge, skills and social capabilities of their members to access information and resources with which to improve business performance. (20) idea of the use of social capital to facilitate the exchange of resources between firms aligns with Hanifan's theory.

Literature revealed that social capital theory is relevant to this study. The theory as explained by (12) explained how entrepreneurs use social capital to obtain external funding during the firm's development stage when internal sources of finance are insufficient. They used the three dimensions of social capital to demonstrate how firms exchange resources to sustain their businesses. Firms that are at the initial formative stages and without collateral can use their social capital to establish external networks to access credit. (12) stated that entrepreneurs of new ventures use social capital to access information and other resources to improve the performance of their businesses. For example, (16) established that firms often use social capital to establish social connections to obtain resources that would otherwise be costly to acquire.

### **CONCEPTUAL FRAMEWORK**

Literature Review revealed that In Kenya, businesses owned by women account for more than 48% of all SMEs (3). There are three types of women entrepreneurs operating SMEs in Kenya namely; very small micro enterprises, small scale enterprises and *Jua Kali* micro-enterprises. These types are distinguished by their demographic outline, needs, extent of previous business experience growth orientation and access to resources (2). The mass of women entrepreneurs in Kenya control enterprises connected to traditional women's responsibility such as, retail and wholesale outlets, hotels, restaurants and hairstyling (4). Women enterprises are making a considerable contribution to the economy of Kenya, accounting for 20% of Kenya's Gross Domestic Products (GDP). There are 462,000 jobs created annually since 2010 in Kenya, 445,000 have originated from the informal sector, where women own 85% of the existing businesses.

Arising from the literature review, the following represents the conceptual framework of the study.



**Figure 1: Conceptual Framework**

### RESEARCH METHODOLOGY

To establish the characteristics of owners of businesses on strategic access to credit by women owned small and medium enterprises (SMEs) in Kenya, this study adopted descriptive research design guided by cross sectional survey in order to provide a framework to examine current conditions, trends and status of events. Data was collected over a period of over one and a half months from a sample of 380 SMEs in Nairobi County. The correlation analysis was used to analyze the positive correlation between the dependent and independent variables. The strength of the relationship was tested by R-squared which also tested the model to determine its goodness fit.

### MEASUREMENT OF VARIABLES

The variables of this study were measured using continuous indicators. Characteristics was measured by three items namely: Entrepreneurial skills, Credit Reference Bureau Reports and Level of Experience. The period the business has been in operation influences the decision of financial institutions to give credit, the decisions of financial institutions to give credit are influenced by the nature of activities undertaken by every entity, one of the major factors considered by financial institutions before they give credit is organizational structure, financial institutions always consider CRB reports of the business owners before they give credit, the level of experience of the managers has been a major determinant of credit access by women owned businesses and profitability level is a major determinant of credit access. A five point Likert scale ranging from one (Strongly disagree) to five (Strongly agree) was used. The findings are in line with the study by (9) on factors affecting job creating and low job creating firms owned by women in Kenya established that the constraints faced by women are both external and internal with the internal constraints pertained to lack of self-confidence and acquisition of business and managerial skills which generally concluded that the major external problem faced by women owned enterprises is finance. Further, literature by (21); (8); (13) and ((22), who observed that the SMEs that have operated for several years benefit from established capital markets where small firms that have operated for a short time cannot raise funds also collaborates the results of the study.

### RESEARCH FINDINGS AND DISCUSSION

#### Descriptive Analysis for Characteristics

The study tested if the entrepreneurial skills of the business owners influences the decision of the financial institutions to give credit to women owned businesses. The findings are as follows: 3% strongly disagreed with the statement, 6% disagreed, 14% were neutral while 48% agreed with the statement and 29% of the respondents strongly agreed. From the foregoing, vast majority (77%) of the respondents agreed that the entrepreneurial skills of the business owners strongly influence the decision of financial

institutions to give credit to women owned businesses. Only a small proportion (9%) disagreed with the statement.

The CRB reports of the business owners is always a factor considered by financial institutions before giving credit to women owned SMEs. The results were as follows: 6% strongly disagreed with the statement, 35% disagreed, 21% were neutral, 17% agreed with the statement and 21% of the respondents strongly agreed. Majority of the respondents (41%) disagreed while 38% concurred with the statement. These results are in line with research by (15) which opined that lenders consider the credit reference bureau reports of business owners to some extent in order to significantly reduce their business default rate by including more comprehensive borrower information in their default prediction models. Another study by (6) opined that default rate decreases when more information of business owners is available on borrowers. The findings imply that financial institutions do not always rely on credit reference bureau reports of business owners before giving credit to women owned SMEs.

The study further measured if the level of experience of managers is not a major determinant of strategic access to credit by women owned businesses. The findings were as follows: 5% strongly disagreed with the statement, 46% disagreed, 19% were neutral, 11% agreed with the statement while 19% of the respondents strongly agreed. From the foregoing, majority of the respondents, 51%, disagreed with the statement that the level of experience of the managers has not been a major determinant of credit access by women owned businesses. Only 30% of the respondents agreed with the statement.

**Table 1: Descriptive Statistics for Characteristics of owners of business**

Characteristics of owners of businesses	1	2	3	4	5	$\mu$	SD
The entrepreneurial skills of the business owners has influenced the decision of financial institutions to give credit to women owned businesses	3%	6%	14%	48%	29%	3.95	.537
CRB reports of the business owners is always a factor considered by financial institutions before they give credit	6%	35%	21%	17%	21%	2.80	.789
The level of experience of the managers is not a major determinant of credit access by women owned businesses	5%	46%	19%	11%	19%	2.76	.708

n = 370,  $\mu$  =Mean, SD=Standard Deviation

1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree.

Various factors were used to measure Strategic Access to Credit in the study. The study results outlined that 10% strongly disagreed with the statement, 23% disagreed, 19% were neutral, 30% agreed with the statement while 18% of the respondents strongly agreed. From the foregoing, majority (48%) of the respondents agreed with the statement. When asked if loan applications from women owned SMEs are deferred due to lack of sufficient information business and financial records, proper documentation and appropriate collateral. The results are as follow: 9% strongly disagreed with the statement, 15% disagreed, 21% were neutral, 37% agreed with the statement while 19% of the respondents strongly agreed. From the foregoing, majority (56%) respondents agreed with the statement.

The study sought to establish if the ability to repay a loan influences financial institutions to reduce loan amounts to mitigate on risk of default. The results are as follow: 6% strongly disagreed with the statement, 7% disagreed, 20% were neutral, 41% agreed with the statement while 26% of the respondents strongly. From the foregoing, majority (67%) of the respondents agreed with the statement.

**Table 2: Descriptive Analysis of Strategic Access to Credit by Women Owned SMEs**

Strategic Access to Credit	1	2	3	4	5	$\mu$	SD
Loan requests from women owned SMEs are declined due to lack of appropriate collateral security	10%	23%	19%	30%	18%	2.85	.734
Loan requests from women owned SMEs are deferred due to lack of sufficient Information, business & financial records and proper documentation	9%	15%	21%	37%	19%	3.37	.608
Loan requests from women owned SMEs are approved depending on the business's ability to repay	6%	7%	20%	41%	26%	4.00	.250

n = 370,  $\mu$ =Mean, SD=Standard Deviation

1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree.

### Correlation Analysis

Characteristics of owners of business had a positive and significant correlation with Strategic access to credit ( $r = 0.372$ ,  $p$ -value < 0.05). This means a unit value of characteristics of business owners increases the strategic access to credit by 0.372.

**Table 3: Correlations Analysis**

	Access to credit	Business owners characteristics
Strategic Access to credit	Pearson Correlation	.372**
	Sig. (2-tailed)	.000
	N	370

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

### Regression Analysis

**H<sub>01</sub>:** There is significant relationship between characteristics of owners' of businesses and strategic access to credit facilities by women owned small and medium enterprises in Kenya.

### Characteristics of Owners of Business and Strategic Access to Credit Facilities Model

#### Summary

The coefficient of determination (R squared) of 0.208 indicates that 20.8% of strategic access to credit can be explained by characteristics of owners of business. The adjusted R square of 19.8% explains that characteristics of owners of business in the exclusion of the constant variable explain there is no change in strategic access to credit. The remaining percentage can be explained by other factors not included in the model. The R indicates the correlation coefficient of characteristics of owners of business, an  $R = 0.330$  shows that there is a positive relationship between characteristics of owners of business and strategic access to credit. The standard error of estimate (1.33) shows the average deviation of the independent variables from the line of goodness fit.

**Table 4: Characteristics of Business Owners and Access to Credit Model Summary**

Model	R	R <sup>2</sup>	Adjusted	
			R <sup>2</sup>	Std. Error of the Estimate
1	.456 <sup>a</sup>	.208	.198	1.325

a. Predictors: (Constant), Strategic access to credit

### Characteristics of Business Owners and Access to Credit

The F statistics was used to test for the model goodness of fit. Table 5 (F=61.798, p value =0.000) indicates that there is a significant relationship between characteristics of business owners and access to credit and at least the slope ( $\beta$  coefficient) is not zero.

**Table 5: Characteristics of Business Owners and Access to Credit ANOVA<sup>a</sup>**

Model		Sum of Squares	d.f	Mean Square	F	Sig.
1	Regression	325.908	1	325.908	61.7976	.000
	Residual	1123.321	369	5.2738		
	Total	1449.229	370			

### Characteristics of Business Owners and Access to Credit

The study hypothesized that characteristics of owners of business affects the strategic access to credit. The study findings showed that there was a positive and significant relationship between characteristics of owners of business and strategic access to credit ( $\beta=0.208$ , p-value=0.000<0.05). This means that a unit increase in characteristics of owners of business leads to an increase in strategic access to credit by 0.208. Since the p value was less than 0.05, the null hypothesis was accepted and the alternative hypothesis was rejected. The study therefore concluded that characteristics of owners of business has a significant influence on strategic access to credit.

**Table 6: Characteristics of Business Owners and Access to Credit Regression Weights**

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	T	
1	(Constant)	1.239	.443		4.980	.000
	Characteristics of Owners of Businesses	.211	.069	.187	3.058	.000

a. Dependent Variable: Strategic access to credit by women owned SMEs

## DISCUSSION

The findings of the study does not contradict the research hypothesis that characteristics of owners of business affect the strategic access to credit. The results of the regression analysis indicates that characteristics of owners of business has significant effect on strategic access to credit. Characteristics of owners of businesses was first compared to other variables and this is an implication that strategic access to credit is highly influenced by characteristics of owners of business. This is supported by (18) who stated that the characteristics of entrepreneurs such as experience in business, entrepreneurial education, training and level of credit worthiness play a key role in stimulating entrepreneurship orientation which influences the access to credit by small and medium enterprises.

## SUMMARY AND CONCLUSION

The objective of this paper was to investigate the effect of characteristics of owners of business on strategic access to credit in Nairobi Kenya. It was established that Grounded on the findings of this study, it can be concluded that, SMEs owned by women in Nairobi County have

inadequate strategic access to credit from the financial institutions. Limited business management skills and low levels of networking are some of the challenges faced by women entrepreneurs in Nairobi County that affects the growth of their SMEs.

### RECOMMENDATIONS

From the findings of the study, it is recommended that there is need for more training to women on financial management and planning. This will result to improved repayment rates of loans. Financial institutions should come up with products that suit business starters and most especially those who have no collaterals to show against loans they intend to borrow. Experience, education and knowledge in business critical for business survival, growth and expansion, more focus should be on building internal staff capacity in managing SMEs.

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