

Research Article

Influence of Entrepreneurship Training on Financial Performance of Small and Medium Enterprises in Kisii Town, Kenya

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Abstract

Small and Medium Scale Enterprises (SMEs) play significant roles in providing employment opportunities, alleviating poverty, empowering communities, provision of goods and services, contributing toward the GDP, and achieving sustainable growth and development of the Kenyan economy. The purpose of this paper is to explore the influence of microfinance services on financial performance of SMEs in Kisii Town, Kenya. This work also aimed to bridge the gap of existing literature review about the influence of microfinance services on financial performance of SMEs in Kisii Town. Specifically this paper aims to establish the influence of entrepreneurship training on financial performance. The study adopted survey research design and was informed by Pecking Order Theory and supported by Credit Rationing Theory. The target population was 575 SMEs. The sample sizes were 240 SMEs. The instruments of data collection were questionnaires and document analysis. Validity of the instruments was enhanced through piloting. Reliability of the instruments was ensured by Cronbach alpha coefficient method. Quantitative data was analyzed using descriptive and inferential statistics, and presented by use of tables with frequencies, percentages, means and standard deviations. The findings from the analysis revealed that the respondents generally agreed that microfinance services influenced financial performance of SMEs. The regression-analysis results established that an increase in entrepreneurship training would lead to a 0.095 increase in financial performance.

Keywords: Entrepreneurship Training; Microfinance services; Financial Performance; Small and Medium Enterprises.

Introduction

In many economies, small businesses dominate the economic landscape of most countries [1]. This industrial structure is common in most developing countries and in Tanzania alike, where the Micro and Small Enterprises (SMEs) are many and engage a significant proportion of the population from both rural and urban areas. The SMEs produce affordable goods and services, create a large proportion of jobs and thus contribute significantly to countries development and economic growth [2]. The authors in [3] reported SMEs as players of almost indispensable developmental role through income and employment generation and the contribution to general society and local economies.

Despite their roles, SMEs are concentrated in activities which are described as

unorganized/unregistered, third/parallel economy, non-institutional/bazaar economy and black market/underground market [4]. The SMEs have very limited access to financial services from formal financial institutions in particular credits to meet their working and investment capital needs. In [5] they argued that formal financial institutions have failed to serve the low income earners and their enterprises in both urban and rural communities. The commercial banks practices such as demand for conventional collateral, credit rationing, preference for high-income clients and large loans, bureaucratic and lengthy procedures of providing loans keep most of the low income earners outside the boundary of the formal sector financial institutions in developing countries [6].

Apart from commercial banks, self-financing, local money lenders and microfinance schemes are considered as an alternative SMEs funding source. However, self-financing is further constrained by the low SMEs' savings capability arising from low incomes while moneylenders with their high interest rate are very selective and also perceive SMEs without reference as having high default risk and thus decline to their general lending [7]. Microfinance schemes have therefore been the only approach that is appropriate in providing credit to the low income earners who are not accepted by other sources of finance. These schemes are willing to loan small amounts to first-time or less creditworthy borrowers and most of the times to those lacking collateral [8]. They use credit methodologies that employ effective collateral substitutes, short loan processing time, innovative recovery practices, working capital loans to micro entrepreneurs [9]. The methods being adopted enable the SMEs' clients of microfinance schemes to grow through increasing incomes, to some extent creating employment and lifting the poor out of poverty.

It is argued that credit alone cannot influence the SMEs performance; however, motivational factors significantly contribute towards the good performance of an enterprise [10]. These motivational elements can be acquired in different ways, one of which is training and education. In this regard, training enables participants to change behavior and how they perceived their activities. In Tanzania, most of MFIs provide credit without business training to their clients. MFIs' borrowers comprise SMEs whose owners have had opportunities to attend in business training for different causes. It is important to assess the manner in which business training impacts on SMEs performance compared to the MFIs clients without any training. This study therefore presents a comparative impact analysis on performance of SMEs borrowers from MFIs, by comparing those whose owners have undergone business training against those whose owners have had no business training [11].

Different theories have been used to explain performance and growth of enterprises. The human motivation view as one among

them explains the effects of business owners' behavior on the performance of enterprises. Subscribers of this theory assert that the social and psychological motive can significantly influence growth seeking behavior and therefore growth of the enterprise [12]. They further argue personal needs of owner managers motivate them to seek further growth and that these needs are socially generated, sustained and changed. This implies that human motivation factors are very important for business growth regardless of whether the business has enough capital or not. These factors and human needs can be shaped through training. Other motivation for growth include the completion of challenging tasks, having control over one's own job, upward movement of enterprises activities, creating more opportunities for enterprises, learning new skills by working in challenging environments and sometimes poverty reduction motive [13]. In this respect, people including SMEs owners with a high need for achievement, would value particular work-task situations and perform well in them, while their counterparts will perform poorly. Likewise, the clients of MFIs with high achievement needs for growth are expected to have higher growth than those with low need for achievement. It should be however noted that some of these motivation characteristics can be acquired through training and learning from others [14].

In [15] they conducted a study on the entrepreneurship training services offered by microfinance institutions in India. The study aimed to investigate the effect of entrepreneurship training offered by microfinance institutions on Small business performance in India. The study was descriptive design. The findings were drawn by inferential statistic such as correlations and regression analysis. The findings show that institutional entrepreneur's characteristics influenced by training and small development.

Research methodology

Research design

Research design is the scheme outline or plan that is used to generate answers to research problems [3]. The intention of research is to gather data at a particular point in time and use it to describe the nature of existing conditions. The

study adopted descriptive survey design. This design was used in this study, since it completes the description of the facts given [7]. This design was used in this study to explain how microfinance services influence the financial performance of SMEs in Kisii Town. In [9] they recommend descriptive survey design for its ability to produce statistical information about aspects of financial performance of SMEs that interest policy makers and researchers. Furthermore, a descriptive study was used not only for the purpose of description but also for the determination of relationships between variables at the time of study.

Target population

The target population of this study comprised of 575 small and medium enterprises in Kisii Town, Kenya (See Appendix II & IV). The entrepreneurs were targeted, because they could have provided information required for the study. This comprised of respondents of small and medium business mainly from green groceries, clothing and shoe vendors, food vendors, salons, cereals vendors, and poultry vendors of MFIs within Kisii Town.

Study area

The study was carried out in Kisii Town, Kisii County. Kisii Town is the main urban and commercial center in the Kisii County and the South Nyanza region. It has an area of 84.3 Kilometres square. It has a large dependent metropolitan population as per the latest national population and housing census of 2009 and population density of 396 people per square Kilometre. According to [8], Kisii Town has a poverty index of 48.6. This is an indication that many people run SMEs mostly. The predominant economic activity around Kisii Town is SMEs. Studies also indicate that the SMEs failure rates are high, before they do not take more than three years in operation. And this is because the owners fail to receive proper microfinance services such as entrepreneurship training, saving mobilization and marketing services from MFIs in Kisii Town. It was against this background information that Kisii Town was selected for this study that lies 34.480E to 35.800E and 0.290S to 10S.

Sampling techniques

Random sampling procedure was used to sample small and medium enterprises in Kisii Town.

The study in [2] described the random sampling procedure as a fair way of selecting a sample from a given target population since every business was given an equal opportunities of being selected. The sample size formula in [8] was also used to calculate the sample size from the target population.

Sample size

Sampling is a process of selecting just a small group of people as representatives from a large group called the population (Nicholas, 2006). Mugenda and Mugenda (2003) suggest that it's adequate to consider 10% to 30% of the target population in any given study. This informed the researcher's decision to select 10% of the 25 Butcher vendors, 6% of 15 of Poultry vendors, 14% of 35 cereals vendors, 17% of the 40 salons and Barber Shops, 55% of the 130 mobile accessory shops, 75% of the 180 clothing and shoe vendors and 63% of the 150 hardwares respectively. Random sampling technique was employed to pick out the sample. The SMEs owners were selected by sampling technique.

Results and discussion

The section presents the research findings of the study on the relationship between microfinance services and financial performance of small and medium business in Kisii town, Kenya.

Socio-demographic characteristics of respondents

The respondents were asked to indicate their gender, membership duration; number of credit services, and satisfied with the pace of growth which enabled the researcher to understand their demographic distributions on the questionnaires as presented in table 1. Table 1 revealed that 98(57.3%) were male and 73(42.7%) were female. This implies that the low number of female in the enterprises was characterized little access of microfinance services to run the businesses effectively. The results also demonstrated that membership duration for 1-5 years were 51 (29.8), 5-10 years 64(37.4%) and Over 10 years duration had 56(32.7%). This revealed that all categories of enterprises were involved with membership thus determining that entrepreneurs to same extent received microfinance services.

The findings indicated that majority of SMEs have never acquired credit services from MFIs in Kisii Town by 78(45.6%), 45(26.3%)

enterprises acquired credit services only once from MFIs and 48(28.1%) SMEs have acquired the credit services from microfinance institutions for at least twice and at a maximum of three times. This implies that SMEs do not have a good access to microfinance services which then hinder the financial performance of their business. The findings also revealed that 81(47.4%) of the SMEs in Kisii Town are satisfied with the pace of growth of their enterprises and 90(52.9%) of the SMEs were not satisfied with the pace of financial growth of their SMEs in Kisii Town. Therefore, that the majority of the respondents in small and medium enterprise in Kisii town are not satisfied with financial performance of their enterprises due to their low attainment microfinance services. The respondents who did not agree indicated that most entrepreneurs do not borrow from microfinance institutions rather than in other financial institutions. This implied that they need to be informed on the benefit of microfinance services.

Table 1. Socio-demographic characteristics of Respondent

Variable	Frequency	Percent
Gender	Male	57.3
	Female	42.7
	Total	100.0
Membership Duration	1-5 years	29.8
	5-10 years	37.4
	Over 10 years	32.7
	Total	100.0
Number of credit Services	1	26.3
	1-3	28.1
	None	45.6
	Total	100.0
Satisfied with the pace of growth	Yes	47.4
	No	52.6
	Total	100.0

Source: Researcher, 2018

Entrepreneurship training on financial performance

The study sought to establish the influence of entrepreneurship training on financial performance of SMEs in Kisii Town. The results obtained from the study about the influence of entrepreneurship training on financial performance of SMEs in Kisii Town was represented as shown in Table 2.

Table 2. Entrepreneurship training on financial performance

Entrepreneurship training on financial performance of SMEs	Mean	Std. Deviation
Training of Microloans helps Entrepreneurs to diversify their business activities.	4.68	1.017
Entrepreneurs increasing their stocks through loans	3.63	1.060
Entrepreneurs use microloans to facilitate their financial status.	4.78	1.028
Children get better education through microloans.	1.08	1.011
By giving microloans training increase performance	2.61	1.019
Trainings simplify microloans repayment methods.	3.68	1.18
Microloans institutions gives tailored repayment terms after training	4.18	.978

Source: Researcher, 2018

The findings from the study in Table 2 revealed that entrepreneurs use microloans to facilitate their financial status which had the highest mean of $m=4.78$, $sd=1.028$, followed by training of microloans helps entrepreneurs to diversify their business activities with $m=4.68$. $sd=1.017$ indicates that children get better education through microloans $m=1.08$ and $sd=1.011$, training simplify microloans repayment methods with $m=3.68$ and $sd=1.18$, microfinance services institutions gave tailored repayment terms after training with $m=4.18$. $Sd=0.978$ represents entrepreneurs increase their stocks through loans $m=3.63$ and $sd=1.060$ and the minimum financial training was done by giving microloans training increase performance $m=2.61$ and $sd=1.019$. The study revealed that entrepreneurs use microloans to facilitate their financial status with maximum financial training.

Conclusions

The findings from the study revealed that training of entrepreneurs on microloans services enhance financial status which had the highest mean of $m=4.78$, $sd=1.028$, and entrepreneurs training was done by giving microloans training

increase performance had the lowest mean=2.61 and sd=1.019. The study revealed that entrepreneurs use microloans to facilitate their financial status with maximum entrepreneurship training. From the analysis, the study established that entrepreneurship training had a positive Pearson Correlation $r=.790$ and $p=.000$, the study found that there exist a strong correlation between entrepreneurship training offered and financial performance with significant influence of less than 0.01. This indicated that there is potential growth of entrepreneurship training with microfinance services as well as increasing financial performance. The study found that there was a positive correlation between microfinance services and financial performance through entrepreneurship training. From regression analysis, it was established that microfinance services had 94.3% of its variation in financial performance among small and medium enterprises in Kisii town as explained by its Adjusted R Square of 88.8%. Using the calculated F-test with 4 Degree of freedom in the study showed that level of significance in microfinance services had statistical effect on financial performance. This indicated that microfinance services enabled small and medium enterprises to enhance financial performance.

Conflicts of interest

Authors declare no conflict of interest.

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