International Journal of Advanced Research in Management and Social Sciences
ISSN: 2278-6236
Impact Factor: 7.624

EFFECT OF CREDIT AND TRAINING PROGRAMON RISK MANAGEMENT PRACTICE IN WOMEN-OWNED ENTERPRISES IN NAKURU COUNTY, KENYA

CHEBET JOAN KIRUI

Kabarak University

ABSTRACT

In Africa and in most of the developing world, the changing socio-economic conditions have resulted into single-parent households that are endemically female-headed. Majority of the ''unbanked'' people are mostly the poor and women - who currently lack access to basic financial services into formal financial networks. With little education, limited or no collateral, and low social capital, most of the women in the developing world context have little economic prospects and are mostly consigned to poverty. Microfinance banks in Kenya have been seeking to mitigate this problem by providing credit and training to women who wish to venture into or expand their business. However, it had not yet been established how this interventional approach improved risk management practices of women-owned enterprises in Nakuru County, Kenya. Therefore, the study sought to establish the effect of credit and training in risk management offered by the microfinance banks on the performance of women-owned enterprises in Nakuru County. The study used survey research design targeting women enterpreneurs in the area who were clients of the microfinance banks. Random sampling design was adopted targeting 310 women using questionnaires. Data was analyzed using both descriptive and inferential statistics. The findings revealed that the women entrepreneurs who had received credit and training from the MFBs had generally improved their risk handling capabilities. Thus, it was recommended that there was need to increase more training aspects in risk management in order to give the women entrepreneurs more depth in the area and consequently improve their business outlook.

Keywords:*Credit and Training, Risk Management, Microfinance banks, Women Entrepreneurs, Women-Owned Enterprises*

1. INTRODUCTION

Despite the importance of financial inclusion as a driver of growth and income equality, the developing countries globally continue to have significant proportions of individuals and households without access to basic financial services, with at least 80% of adults in developing countries being unbanked compared to a world average of 50% and 8% for the developed countries (Chaia et al., 2009; Allen et al., 2014). The low rates of financial inclusion, therefore, partly explains why despite the relatively high returns on investments in developing countries, their growth remains low while poverty and income inequalities are relatively high. In Africa and in most of the developing world, the changing socio-economic conditions have resulted into single-parent households that are endemically female-headed. Lagarde (2014) observes that majority of the "unbanked'' people are mostly the poor and women - who currently lack access to basic financial services into formal financial networks. With little education, limited or no collateral, and low social capital, most of the women in the developing world context have little economic prospects and are mostly consigned to poverty.

Ekpe, Mat, and Razak (2010), however, pointed out that women play an important role in the economic wellbeing of their families and communities yet certain obstacles such as poverty, unemployment, low household income and societal discriminations common in developing countries have hindered their effective performance of that role. This is the major reason why most of them embark in entrepreneurial activities to support their families. Furthermore, women are the worst hit when poverty rate is high in a country. Women entrepreneurship could be an effective strategy for poverty reduction. However, women entrepreneurs, especially in developing countries, have limited access to loans for their entrepreneurial ventures and, as such, have low business performance than their male counterparts, whereas the rate of their participation in the informal sector of the economy is higher than males, and microfinance could have positive effect on enterprise performance.

There is a clear indication of a linkage between contribution to women's empowerment, and women's access to micro-finance, and positive impacts on levels of poverty (Mwenda and Muuka, 2004; Jain, 2020). They suggested that efforts must be made to maximize women's ability to increase and control incomes and resources through, for instance, registration of property and assets in women's names, graduated loan sizes, special packages for women in non-traditional and more lucrative activities, and some compulsory long-term savings. Microfinance institutions have, therefore, provided an opportunity for women to start and upgrade their businesses. The loans available to the women through the MFBs are provided in graduated limits implying that once a borrower has completed the repayment of a lower limit, she qualifies for an upper limit.

Studies, however, show that most women are unable to qualify for higher limits and even more significantly, they continue to default their payments at the lower limits of credit. This development can be traced to among other things the performance of the women owned enterprises and specifically the risks associated with the enterprises. According to Tseng (2007), enterprise operational risk is correlated with all the key threats as it is the risk of human error in executing the business strategy. Therefore, in addition to providing credit, it is important to include enterprise risk management training is an intervention. Training is a very important micro-finance factor for women entrepreneurs as it would provide the skills and experience needed for business.

The enterprise risk management theory was put forward by Nocco and Stulz (2006). Enterprise Risk Management (ERM) is a framework that seeks to follow a structured and consistent approach to managing all the risks a company faces. On the other hand, Gordon et al. (2009) describes enterprise risk management as the overall process of managing the exposure of an organization to uncertainty, with particular emphasis at recognizing and handling incidents that could potentially prevent the organization from achieving its target. Enterprise risk management is a concept that applies to all levels of an organization. The following are described in performing Enterprise risk management as some of the areas or facets of the company that a risk manager needs to look into in particular: personnel, intellectual properties, brand values, business knowledge and skills, the main source of income stream and the regulatory environment. This helps businesses manage the two most significant business pressures; the obligation to deliver results to customers and the risks associated with and produced in a commercially feasible manner by the company itself. In doing so, the risk manager is continuously aware of the risks the business faces and is thus constantly monitoring its exposure and preparing to change strategy or direction to ensure the level of risks it takes is acceptable. Following this, Microfinance banks (MFBs) in Kenya that target women have embarked on providing a training component in their credit packages to improve not only the prospects of the women enterprises, but also the performance of the MFB loan assets as well in the process.

Microfinance is the provision of convenient financial services and products to the poor, low income households (Republic of Kenya, 2004). Enthusiasm for promoting microfinance as a strategy for poverty alleviation grew in the 1990s. The microfinance sector blossomed in many countries, with multiple firms providing financial services to serve the needs of micro entrepreneurs and poor households. In the mid-1990s, the term "microcredit" began to be replaced by a new term that included not only credit, but also savings and other financial services. The term "Microfinance" was chosen to refer to a range of financial services to the poor, that included not only credit, but also savings and other services such as insurance and money transfers (Global Envision, 2006). Aghion and Morduch (2005) also state that, microfinance, which emphasizes granting small loans to the poorest of the poor without requiring collateral, rests upon the notion that the most impoverished people in developing countries typically don't otherwise have access to traditional financial services, but that they do possess modest survival skills that make them credit-worthy.

Microfinance banks (MFBs) play an important role in filling up a necessary gap deeply rooted in the financial services industry, that of financial inclusion. The MFBs avail credit to clients who previously found it extremely difficult to access credit from commercial banks and other formal financial institutions due to high lending rates (Republic of Kenya, 2016). This is done through offering small loans to a majority of the citizens who may be locked out of conventional loan services largely due to lack of collateral. These micro credit schemes and attract savings to meet the demand for loans (CBK, 2018). The MFBs provide a broad range of financial services such as deposits, loans, payments services, money transfers, and insurance to the poor and low-income households and their farm or non-farm micro-enterprises (Charitonenko& Campion, as quoted by Mwenda&Muuka, 2004). As at December 2017, there were sixteen MFB’s with a total of 114 branches in the country. Microfinance banks issued loans worth 430 million U.S. dollars in 2017, a rise from 270 million dollars in 2013. This meant that the MFBs have the potential to provide substantial credit to women in the country and, therefore, needed to be well supported.

In Nakuru County, there are several MFBs that have been operational for decades, though some have moved into the country Farley recently. A number of these MFBs provide low or zero collateral credit support to women individually or through their groups. These loans are advanced to the women entrepreneurs with the aim of enabling them to start and expand their businesses so that they could raise their own source of income and also support their households consistent with the grand vision of reducing poverty through financial inclusion. However, the effect of the training packages that are included with the credit facilitation adopted by some of the MFBs has not been examined for their effect on risk management practice in women-owned enterprises in Nakuru County. In this study, therefore, the effect of training and credit offered by MFBs on risk management practice of women-operated enterprises wasexamined under the hypothesis;

***$H0_1$**Obtaining credit and training offered by SMEP have not significantly improved risk management practice in the women-operated businesses in Nakuru Municipality*

2. RESEARCH METHODOLOGY

This was a longitudinal study utilizing a descriptive-comparative research design. This involved studying the performance of women-operated enterprises before and after training and credit was offered. This was compared to determine whether there is a significant difference in the performance of the businesses after the credit and training were offered. The target population was 2064 SMEP's women customers who operate enterprises in Nakuru Municipality and received training and credit. Stratified random sampling was employed to obtain a sample size of 336 respondents. The instruments used in this study were structured questionnaires that were administered twice to the same respondents at different times-over a period of six months. They were researcher administered to avoid respondent bias especially at the follow-up stage. The questionnaires were pretested for validity and reliability where both construct validity and content validity were used to ascertain validity and test-retest method used to determine the reliability of the instruments. A reliability coefficient R = 0.7643 resulted from the teats which showed that the instruments could be safely administered after some modifications. Data was analyzed descriptively using means to describe the basic features of the data. The data was also subjected to Z-tests draw further meaning from it.

3. RESULTS AND DISCUSSIONS

3.1 Introduction

Three hundred and thirty-six instruments were administered to the respondents and three hundred and ten were returned duly filled and useable for the study purposes. This represented a 92% response rate which was considered acceptable for the study purposes.

3.2Effects of Training in Risk Management

The objective of the study was to determine whether training had influenced risk management of women-owned enterprises in the area measured by asking the respondents to give their opinions on how they handled business risks before and after receiving credit and training from MFBs. The results on these are summarized in Table 1.

Table 1:

Status of Women-Owned Enterprises before and after Training in Risk Management

Areas of Business Risk management			Paired Differences		95% Confidence Interval of the Difference		t	Sig. (2-tailed)
	Period	Mean	Difference Mean	Std. Error Mean	Lower	Upper		
Credit risk	After	4.63						
	Before	3.81	0.816	0.065	0.689	0.943	12.621	0.000
Market risk	After	4.51						
	before	3.92	0.594	0.066	0.463	0.724	8.977	0.000

The findings in Table 1 reveal that prior to receiving credit and training, majority of the women entrepreneurs in the area were not sure about their credit risk management practices in their businesses (mean = 3.81). Similar results were obtained in terms of market risk assessment by the entrepreneurs most of who said they were uncertain about managing market risk (mean = 3.92) prior to the training and receiving of credit from the organization. The findings, however, show that there was a marked improvement in credit risk management (mean = 4.63) after they had received credit and training from SMEP and also in market risk management (mean = 4.51). The mean difference of the situation before and after receiving credit and training in terms of managing credit risk and market risk were significant and within the confidence limits. These findings suggest that majority of the women entrepreneurs in the area had no risk appreciation in their business operations prior to receiving training and this could have led to several losses and underperformance of their businesses.

3.3 Performance of Women-Owned Enterprises after Receiving Training and Credit

The study also examined how the women owned enterprises in the area had performed as a result of the training and credit advanced to them from the organization. The findings on this are given in Table 2

Table 2

Performance of Women-Owned Enterprises after receiving Training and Credit

Performance	Increasing	Static/same	Decreasing		
Determinants	f (%)	f (%)	f (%)	$\chi2$	P-Value
Annual sales	237(76.4)	48(15.5)	25 (8.1)	136.16	0
Customers served	231(74.5)	40(12.9)	39(12.6)	291.224	0

The findings in Table 2 suggest that there had been an improvement in the annual sales output volumetrically. Most (76.4%) of the respondents claimed that their businesses had registered increases in sales volumes. This could be as a direct consequence of the increase in the number of customers served (74.5%).

3.4 Test of Hypothesis

The study further sought to test whether obtaining credit and training have significantly influenced risk management in the women-operated businesses in Nakuru County. The following hypothesis was, therefore, tested;

$H0_1$: Obtaining credit and training have not contributed significantly influenced risk management in women-operated businesses in Nakuru Municipality

These results are shown in Table 3

Table 3

Status of Business Risk Management before and after Training and Credit

	Credit and Training		
Apects of Business	Before	After	
Risk Management	Mean	Mean	z-statistic
Credit risk	2.6	4.79	15.045
Market risk	2.53	4.23	16.093

The findings on risks management in Table 3 suggest that it was significant to the performance of the business after the training with $z > 1.960$; $\alpha<.05$; df = 309; $p = 0.000$ for a one tailed test, leading to the rejection of the null hypothesis. These findings show that the ability of the women entrepreneurs to handle risk improved significantly as a result of the training and credit from the MFBs.This meant that the approach to training by MFBs was actually improving the risk management practices in the women operated businesses in thge area. This suggests that more training in risk management could be instrumental in reducing the underperfomance of the businesses and, therefore, needed to be emphasized as majority of the women entrepreneurs interviewed in this study demostrated that prior to training they were unable to manage their business risks successfully. Hence, this study finds the training in risk management significantly reduced the underperformance of the women-owned businesses in the area and, therefore, should not be overlooked during training.

3.5 Discussion

These findings agree with those of Bridge et al., (2003) who pointed out that it is not just finance that most businesses lack but also management skills risk management being one of them. They also agree with Muema (2015) whose study on the effectiveness of Equity Bank's financial management training programme on small-scale farmers' uptake of credit established that after farmers where equipped with financial literacy skills majority of them accessed credit services. Grohmann and Menkhoff (2017), who also established in their study of financial literacy, promotes financial inclusion in both poor and rich countries that financial literacy is greatest on the 'use of financial products' in financial systems that are more developed.

Financial literacy is linked to low propensity to save and avoid adverse debts. Individuals who were less financially literate are less likely to save for the future (Van Rooij et al., 2011). Recent research also suggests that financial literacy encourages good debt management skills and reduces the probability of delays in mortgage payments. Financial literate individuals will avoid high unmanageable levels of debt as this will lead to high interest charges and increase the probability of incurring difficulties in meeting the debt obligations and eventually defaulting on payments. Therefore, financial literate individuals are less likely to have high debts levels and default on their loan or mortgage payments which earns them better credit rating scores when seeking out for loans (Fornero&Trucchi, 2011).

A high degree of financial literacy of entrepreneurs can give entrepreneurs constant access to new knowledge and information about how to manage their finances (Forbes Insights 2010). Scholarly evidence has revealed that financial knowledge directly correlates with self-beneficial financial behaviour (Hilgert, Hogarth & Beverly2003). It can, therefore, be argued that stronger financial knowledge is relevant in overcoming difficulties in managing firms' financial capital (Berglund, Hellström&Sjölander 2007) and financial literacy can facilitate the decision-making processes such as payment of bills on time, proper debt management which can improve the credit worthiness of potential borrowers to support firm performance (Van Rooij, Lusardi, &Alessie 2011). However, even for the well-educated, financial literacy for both personal and business purposes require training.

4. CONCLUSIONS AND RECOMMENDATIONS

The study found that the women entrepreneurs who had received credit and training from the MFBs had generally improved their risk handling capabilities. The z-test showed a significant relationship existed between the status of training risk management before and after receiving training and credit. Consequently, this led to the rejection of the null hypothesis and suggested that more training in risk management needed to be done in order to reduce the underperfomance of the businesses. Therefore, this needed to be emphasized as majority of the women enterpreneurs interviewed in this study demostrated that prior to training they were unable to manage their business risks successfully. The areas covered in risk management were mainly concerned with the repayment of credit and appraising the market as opposed to other business risks. These findings implied that there was a positive association between management training and performances off small businesses. Therefore, the study concludes that training in risk management was instrumental in improving the businesses approach by the women enetrpreneurs and, therefore, needed to be emphasized as the study found that the women were having a risky approach to business before training. Thus, there is need to increase more training aspects in risk management in order to give the women entrepreneurs more depth in the area and consequently improve their business outlook.

REFERENCES

1. Aghion, B. A. and Morduch, J. (2005). *The Economics of Microfinance.* London: The MIT Press. Retrieved April 15, 2019, fromhttp://www.microcredito.com.pt/downloads/Publica%C3%A7%C3%B5es/Economics_of_Microfinance.pdf

2. Allen, F., Carletti, E., Cull, R., Qian, J. Q., Senbet, L., & Valenzuela, P. (2014). The African Financial Development and Financial Inclusion Gaps. *Journal of African Economies*, 23(5), 614-642
3. Berglund, H., T. Hellström, and S. Sjölander. 2007. “Entrepreneurial Learning and the Role of Venture Capitalists.” Venture Capital 9 (3): 165–181. doi:10.1080/13691060701324445.
4. Bridge S., O’Neill K., &Cromie S. (2003). Understanding *Enterprise, Entrepreneurship and Small Business.* (2nd ed.). New York: Palgrave Macmillan.
5. Chaia, A., Dalal, A., Goland, T., Gonzalez, M. J., Morduch, J., & Schiff, R. (2009). Halftheworldisunbanked.Com/Resource/Practitionersguidetohea/2%20livelihood%20zoning.Pdf.

6. Ekpel, I., Mat, N. B. and Razak, R. C. (2010). The Effect of Microfinance Factors on Women

7. Entrepreneurs' Performance in Nigeria: A Conceptual Framework. *International Journal of Business and Social Science, 1, 255-263.*

8. Fosnacht, K., Sarraf, S., Howe, E., & Peck, L. K. (2017). How important are high response rates for college surveys?. The Review of Higher Education, 40(2), 245-265.

9. Gordon, L.A., & Loeb M. P. (2009). *Managing Cybersecurity Resources: A Cost-Benefit Analysis*, New York: McGraw-Hill, Inc

10. Grohmann, A., &Menkhoff, L. (2017). *Financial Literacy Promotes Financial Inclusion In Both Poor And Rich Countries.*Diw Economic Bulletin, 7(41), 399-407.

11. Hilgert, M., J. Hogarth, and S. Beverly. (2003). "'Household Financial Management: The Connection between Knowledge and Behaviour'." Federal Reserve Bulletin 89 (7): 309–322.

12. Jain, B. K. (2020). Microfinance services and women empowerment in Biratnagar metropolitan, Nepal. *Journal of Underrepresented & Minority Progress*, *4*(2), 251-270

13. Lagarde, C. (2014). *Empowerment Through Financial Inclusion*. Paper Presented at The International Forum for Financial Inclusion. Mexico City. Mexico.

14. Muema, A. N. (2015). Effect of Equity Bank's Financial Management Training Programme On Small-Scale Farmers' Uptake of Credit InMakueni County Retrievedon3rdsept2017fromhttp://Repository.Seku.Ac.Ke/Handle/123456789/1054

15. Mwenda, K. K. and Muuka, G. N. (2004). Towards best practices for micro finance institutional engagement in African rural areas: Selected cases and agenda for action. *International Journal of Social Economics, 31, 143-58.*

16. Nocco, B. W., &Stulz, R. M. (2006). Enterprise risk management: Theory and practice. *Journal of applied corporate finance*, *18*(4), 8-20.

17. Tseng, C. (2007). Enterprise risk management and firm performance: A contingency perspective, *Journal of Accounting and Public Policy, 28*, 301-327.

18. Van Rooij, M., Lusardi, A., &Alessie, R. (2011). "Financial Literacy and Stock Market Participation." Journal of Financial Economics 101 (2): 449–472.