

Effect of Social Capital on the Performance of Women Entrepreneurs in Microfinance Sector

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Abstract

*Social intermediation that cover the issues of group formation, leadership training and cooperative learning, is secondary role of microfinance for borrowers of MFIs. Social capital is vital for start-ups and growing firms of women entrepreneurs, especially in developing countries, who lack social connections that are a source of information for access to micro-finance factors. **Women play a crucial role in the economic development of their families and communities but certain obstacles such as poverty, unemployment, low household income and societal discriminations mostly in developing countries have hindered their effective performance of that role. As such, most of them embark on entrepreneurial activities to support their families. It is discovered that women entrepreneurship could be an effective strategy for poverty reduction in a country, since they are the worst hit in such situation. The purpose of the study was to establish the effect of social capital on the performance of women entrepreneurs in microfinance sector Kakamega Central District.** The study adopted a descriptive survey design which lies within the qualitative research paradigm. Purposive sampling was used to pick 10 managers, while Simple random sampling was used to pick women entrepreneurs in the MFIs located in Kakamega Central District. The study revealed that that majority of the respondents had undergone training in the last three years. It was also noted that women entrepreneurs savings acts as insurance to credit since many of them lacks physical collaterals. The study recommended that the government should promote marketing support to women entrepreneurs by identifying a local partner to organize an exhibition of women entrepreneurs' products/services.*

Key words: Microfinance, social capital, entrepreneurs, women, Kenya

Introduction

Social intermediation that cover the issues of group formation, leadership training and cooperative learning, is secondary role of microfinance for borrowers of MFIs. Development in Social capital is a basic ingredient of sustainable development in poor's life and especially in a society. (Ledgerwood, 2000) defines social intermediation as "the process of building the human and social capital required by sustainable financial intermediation for poor." Now question arise, on how social capital can be acquired and strengthen? Social capital is actually a link between clients of a group and multiple groups, and between MFIs and borrowers. These link is established on the basis of strong foundation

of trust and cooperation (Agion & Morduch, 2005).

Social capital normally develops through group and individual activities. In group social intermediation, activities are performed inside the group with some help from outside to develop institutional capacity and human resource. In group, most of members come from remote areas, having less literate and experience about business and financial transaction. So from group formation to selecting leader, developing networks and working mutually, MFIs support borrower to deal with these issues. Therefore, these members need training in record keeping, book keeping, accounting,

training about business activities and tactics, and negotiation skills (Ledgerwood, 2000). Social capital, famously defined by Putnam (1993) as features of social organization, such as trust, norms and networks, that can improve the efficiency of society by facilitating coordinated actions," is thought to be particularly valuable in low-income countries where formal insurance is largely unavailable and institutions for contract enforcement are weak. Since economic theory suggests that repeated interactions among individuals can help build and maintain social capital (Kreps et al., 1982), encouraging interaction could be an effective tool for development policy. Indeed, numerous development assistance programs have introduced policies designed to promote social contact among community members under the assumption that there are significant economic returns to regular interaction.

Collective and cooperative support is a critical microfinance strategy at both the local level, in the form of solidarity groups, and at the national and regional level in the form of networking groups. Collective organization has several advantages in microfinance initiatives, the foremost that they pool together human and material resources. In Kenya, group organizing has proven itself an effective strategy for MFI sustainability that Kenyans are especially predisposed. Group formation for individual and community goals is a pre-existing, "homogeneous" mode of organization in Kenya that already operates in traditional financial schemes and is readily adaptable to new microfinance initiatives (Akanji, 2006). Typically, small group size is more effective in ensuring that members genuinely know and trust each other. Microfinance group members are typically more ready to take ownership for and support microfinance initiatives. Mutual trust and peer pressure within savings and credit groups ensure participation and repayment in microcredit programs. The support and strength of a group often raises community consciousness

and creates a common infrastructure to solve problems common to all, pooling local knowledge and resources for initiatives, such as bulk purchasing and transportation, collective bargaining, and common infrastructure development – i.e. water pumps, health care, and education schemes (Akanji, 2006; Elser, 1999).

Groups empower individuals to support each other not just financially, but also emotionally. The group impresses upon members that they are not alone or helpless, but can rely upon the support of their community, and cultivate self-esteem through contributing to each other. This non-material benefit is an important resource, especially during individual or collective crisis (Kreps et al., 1982).

The benefits of organizing are not limited to the local group level, but can scale-up through networking MFIs. Microfinance networks enhance MFI coordination, monitoring, advocacy, and outreach. Networks allow MFIs to integrate approaches and better consolidate, share, and disseminate human and productive resources, including technical, traditional, and cultural knowledge. Such collaboration widens the group of stakeholders involved in the microfinance dialogue, and provides a legitimate and accountable vehicle to lobby for State and international actors to channel assistance. Access to these support structures available in networking enables MFIs to benefit from economies of scale and scope, providing certain services at lower institutional costs than otherwise possible. In some case it may be cost effective for MFIs to outsource part of its operation to partner organizations more capable of efficiently performing a service (i.e. establishing an information management system) (Akanji, 2006). Social capital is vital for start-ups and growing firms and women

entrepreneurs, especially in developing countries, lack social connections that are a source of information for access to micro-finance factors (Olomola, 2002). Again, social capital has been widely measured and found to have positive impact on the performance of women enterprises in developing countries (Olomola, 2002).

The purpose of the study was to determine the effect of social capital on the performance of women entrepreneurs in Kakamega Central District, Kenya

Research Design and Methodology

The study adopted a descriptive survey design which lies within the qualitative research paradigm. As documented by Polland (2005) survey is an appropriate means of collecting information when both quantitative and qualitative data is required. Information was obtained from a sample rather than the entire population. This design was employed to determine effect of social capital on the performance of women entrepreneurs in microfinance sector. The design was selected because of its appropriateness in collecting varied data over a large area within a short period of time at a low cost. The design was also preferred because it facilitated accurate collection of views, suggestions and opinions regarding the effect of social capital on the performance on women entrepreneurs.

Sample and Sampling Technique

Sampling is the process of selecting a number of individuals from the study in such a way that the individuals selected represent the large group from which they are selected. The study adopted sampling technique in selecting items for the sample (Kothari, 1990). Kerlinger (1973) suggests that a range of 10% to 30% of the total population as being an adequate sample. A lower percentage value is applied to very large population and a higher value is applied to small population. The study employed a 30% of the target population on women entrepreneurs to obtain the sample size. The 30% sample was picked on to allow for

collection of more representative data. Purposive sampling was used to pick 10 managers.. Simple random sampling was used to pick women entrepreneurs in the MFIs located in Kakamega Central District. Simple random sampling gave an equal chance for every women entrepreneur in the MFIs to be picked.

Instruments and their Reliability

Data was collected using questionnaires and interview schedules.

The research instruments were presented to a group of respondents with similar characteristics as those included in the study at intervals of two weeks each time comparing the responses with the previous ones. Pearson's product moments" was used to determine the coefficient reliability of the data. As documented by Kothari (1990) a reliability coefficient of 0.5 is acceptable for any research. He further notes that a high co-efficient means items correlate highly therefore consistency in measuring the concept of interest. The reliability coefficient of the instruments were found to be 0.83 and 0.87 for women entrepreneurs and managers respectively, based on this the instrument were found to be reliable, thus were adopted for the study.

Data Analysis

Data collected from the respondents were examined, edited, coded and analyzed. All the completed questionnaires from the field were examined thoroughly, coded cleaned and analyzed with the aid of Statistical Package for Social Sciences (SPSS). Data was analyzed using descriptive and inferential statistics such as means, frequencies and percentages.

The findings were presented using tables and charts, qualitative data were presented by use of thematic approach.

Findings and Discussion

It was imperative to establish the profile of the enterprises in order to understand the nature of businesses carried out by the women entrepreneurs. The profile included the product, establishment of the business,

motivating factors, finance, income and employee of the enterprise among others. Analysis on the main product of the enterprise is presented in the table below.

Table 1: Main Products of the Enterprise

Main products	Frequency	Percentage
Agriculture	30	10.5
Clothing	64	22.4
Food & cereals	95	33.2
Retail shop	78	27.3
Saloon	55	19.2
Footwear	29	10.1
Charcoal	6	2.1
Hotel	4	1.4
Total	286	100

N-286

Findings in table 1 indicates that majority of the women entrepreneurs engaged in food & cereals (33.2%), retail shop (27.3%) and clothing (22.4%) as the main products of their enterprise. Others engaged in saloon footwear and agriculture, while a few are in hotel (1.4%) and charcoal (2.1%) business. The study findings are in line with that of Emil (2005) which found that most women preferred activities such as agriculture saloon, retail and food & cereals where there is easy marketability, does not require much

skill and the investments required are low as also is the risks.

The study also revealed that majority of the women enterprises established their own enterprises, while others were assisted by their friends and family members. This finding corroborates those of ILO & GIDD (2003) which revealed that the overwhelming majority women entrepreneurs started the enterprises themselves, thus reflecting their high level of autonomy in decisions about starting a business.

Table 2: Motivating Factors that Lead to the Establishment of Enterprise

Main products	Frequency	Percentage
Urge to get money	24	8.4
Financial crisis in the family	149	52.1
Continuation of hobbies	19	6.6
Productive occupation	19	6.6
Desire for occupation and economic independence	54	18.9
Did not want to work for others	9	3.1
Threat of losing my job	9	3.1
Philanthropy	3	1.0
Total	286	100

N-286

It can be deduced from table above that majority 149(52.1%) of the women entrepreneurs went into business due to financial crisis in the family, followed by those who desired to have an occupation and economic independence. A minority of the respondents went into business as a result of philanthropy 3(1.0%) and threat of losing their jobs 9(3.1%). The findings concurs with those of ILO & GIDD (2003) who found that some of the women had gone into business for economic reasons, in order to fulfill their obligations to family maintenance, while others had gone into business mainly as career choices in order to utilize their education, skills, and experience, as well as to

improve their own standard of living. The findings also support those of the secondary research reviewed in the literature (JUDAI, 2002; Munachonga, 1991).

The study also established the changes in socio-economic status of women entrepreneurs. This was done by use of a four likert scale against the given statements. The respondents were requested to rate the changes as: S-same, I-increased, D-decreased, DE-deteriorated. Further the mean for each statement was calculated by assigning score for each scale as follows: S- 4, I- 3, D-2, DE-1. The findings are presented in the table below.

Table 3: Changes in Socio-economic Status

Statement	S		I		D		DE		Mean
	F	%	F	%	F	%	F	%	
Mobility	69	24.1	184	64.3	24	8.4	9	3.1	3.1
Recognition in family	58	20.3	207	72.4	15	5.2	6	2.1	3.1
Recognition in community	60	21.0	195	68.2	19	6.6	12	4.2	3.1
Interaction with outsiders	58	20.3	174	60.8	49	17.1	5	1.7	3.0
Education/literacy	69	24.1	193	67.5	21	7.3	3	1.0	3.2
Access to health services	68	23.8	193	67.5	19	6.6	6	2.1	3.1
Access to sanitation facilities	74	25.9	192	67.1	14	4.9	6	2.1	3.2
Family income	58	20.3	167	58.4	52	18.2	9	3.1	3.0
Skills	88	30.8	177	61.9	18	6.2	3	1.0	3.2
Individual income	76	26.6	181	63.3	22	7.7	7	2.4	3.1
Financial situation of the family	71	24.8	192	67.1	20	7.0	3	1.0	3.2
Role in decision making	71	24.8	184	64.3	27	9.4	4	1.4	3.1
Social image	51	17.8	194	67.8	34	11.9	7	2.4	3.0

N-286

Table above indicate that majority of the respondents were in agreement that their socio economic status as per factors stated had increased, this included recognition in family (72.4%), recognition in community (68.2%), education/literacy (67.5%), access to health services (67.5%), access to sanitation facilities (67.1%), financial situation of the family (67.1%) and social image (67.8%) among others. The same findings are also ascertained by the calculation of the means where all the statement attracted a mean above 3.0

signifying increased. Interpreted differently implies that the above factors of social economic status had an effect on the performance of the women entrepreneurs.

Present findings concurs with that of Mayoux (1998) which found that Women also interact with outside markets and the community, and this process gradually enables them to play an active role in social, political and economic issues affecting self, household and the community. **Rajasekhar (2004) argued that**

Women involved in IGAs have to interact with markets (for both buying and selling) located near and far from their homes. This implies improved mobility for women. Such mobility gradually enables them to play an active role in social, political and economic issues affecting self, household and community. Thus, micro-finance leading to income generating activities contributes to women's empowerment. Similar sentiments are also supported by Goheer (2003) findings, who established the majority of women entrepreneurs indicated that doing business had a positive effect on their family

life and had improved their image in society.

Further the hypothesis which had been formulated was tested using the chi-square. The null hypothesis stated that there is no significant association between social capital and the performance of women entrepreneurs. The findings are shown in the table below.

Table 4: Hypothesis Testing

Statement	df	χ^2	χ^2_{crit}	χ^2_{obs}
Effect of social capital on performance of women entrepreneurs	12	0.05	72.77	21.03

df- degree of freedom, χ^2 -level of significance

The chi-square value calculated in the table above is =72.77 and a critical value of = 21.03 The chi-square value is greater than the critical value at significant level of 0.05 thus we reject the null hypothesis which states that there is no significant effect of social capital on the performance of women entrepreneurs and we accept the alternative hypothesis. Interpreted differently implies that the above factors of social economic status had an effect on the performance of the women entrepreneurs.

Women entrepreneurs' environment was also evaluated. This was attained by employing the use of a five point liker scale where SA-strongly agree, A-agree, U-undecided, D-disagree, SD-strongly agree against the formulated statements. Further the mean for each statement was calculated by assigning score for each scale as follows: SA-5, A-4, U-3, D-2, SD- 1. The findings are presented in table 4.19.

Table 5: Women Entrepreneurs' Environment

Statement	SA		A		U		D		SD		Mean
	F	%	F	%	F	%	F	%	F	%	
Overall environment is good	132	46.2	111	38.8	24	8.4	15	5.2	4	1.4	4.2
Family and social commitment is growing	140	49.0	89	31.1	30	10.5	23	8.0	4	1.4	4.2
Government support has increased	85	29.7	73	25.5	40	14.0	63	22.0	25	8.7	3.4
Access to credit has increased	141	49.3	110	38.5	28	9.8	5	1.7	2	0.7	4.3
Access to support network has increase	123	43.0	95	33.2	38	13.3	20	7.0	10	3.5	4.1
Market for women entre is expanding	136	47.6	100	35.0	28	9.8	20	7.0	2	0.7	4.2
Microfinance is key to women entrep	148	51.7	93	32.5	31	10.8	10	3.5	4	1.4	4.3

N-286

It can be deduced from the table above that majority of the respondents strongly agreed on the statement that: microfinance plays greater role in women entrepreneurs (51.7%), access to credit had increased (49.3%), family and social commitment had grown (49.0%) as compared with other statements within the same score. It can also be noted that the respondents agreed that the overall environment for women entrepreneurs was good (38.8%) and access to support network had increased (33.2%). Further, it can be observed that the respondents were equally divided on the statement that government support to women entrepreneurs had increased, the division may be attributed to the fact not all the women entrepreneurs may have benefited directly from the government support.

Conclusion

Microfinance programs have a potentially significant contribution to economic, social, political and psychological empowerment of the poor in general, and women entrepreneurs in particular. Based on objectives of the present study as stated in chapter one, the following conclusions have been arrived at from empirical results presented in chapter four. On effect of training on women entrepreneurs, the study revealed that majority (79.0%) of the respondents had undergone training in the last three years, while only a minority (21.0%) had not attended any training. It was also noted the training was very efficient and relevant in promoting the entrepreneurial activities of women. The study further indicated that majority of the respondents were in agreement that their socio economic status had increased, this included recognition in family (72.4%), recognition in community (68.2%), education/literacy (67.5%), access to health services (67.5%), access to sanitation facilities (67.1%), financial situation of the family (67.1%) and social image (67.8%) among the others. The same findings were also ascertained by the calculation of the means where all the statements attracted a mean above 3.0

signifying increased. This implied that the factors had an effect on the performance of the women entrepreneurs.

The present study established that 214(74.8%) of the respondents save up to 25% of their total profit/income, while 72(25.2%) save up to 50%. None of the women entrepreneurs save more than 50% of their profit /income in their business. This was attributed to the fact that majority of them rely on their business for household daily expenditure. The findings of the study indicated that majority of the respondents strongly agreed that savings had enabled them to access credit which in turn had impacted positively on performance of women entrepreneurs (49.0%), MFs promotes saving culture (46.9%), and that savings promotes performance of entrepreneurs (44.1%). The study also noted that women entrepreneurs agreed that savings acts as insurance to credit (50.7%) since many of them lack physical collaterals.

5.5 Recommendation of the Study

Based on the findings, reviewed literature and discussion of the study, the study derive the following recommendation to the government, microfinance's, women entrepreneurs and relevant stakeholders.

The government should promote marketing support to women entrepreneurs by identifying a local partner to organize an exhibition of women entrepreneurs' products/services, which should combine with training in specific areas e.g. marketing skills, packaging of products, networking. This could include: opening of a pilot showroom in Kakamega where women entrepreneurs

can exhibit and sell their products/services on either a permanent or regular (e.g. monthly) basis.

Microfinance's and Banks should provide a wider range of loan conditions, collateral requirements, interest rates and repayment periods for different segments of the small and medium entrepreneurs' market, particularly women entrepreneurs. The Government should consider incentives (such as giving tax rebates) to microfinance's and banks serving women entrepreneurs' needs. The government should identify and highlight successful women entrepreneurs operating in different sectors, to be used as role models through means such as documentaries, as resource persons, members of panel discussions, etc. These will

provide a means of sensitizing the business community and society at large to accept women in business, as well as giving positive messages to women themselves.

The government should establish structures and safe and secure market areas through which women entrepreneurs are able to market their products and services, e.g. incubators, display venues, market stall and trade fairs. Ministry of trade should develop a directory containing information about businesswomen, so as to encourage and promote networking among the women

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