



## THE EFFECT OF MICROFINANCE FACTORS ON WOMEN ENTREPRENEURS' PERFORMANCE: A STUDY IN NORTH GONDAR, ETHIOPIA

ADANECH GEDAF AW BIRHANU

Lecturer, Department of Marketing Management,  
College of Business and Economics, University of Gondar, Ethiopia

**Abstract:** *In recent times, empowering women entrepreneurship through microfinance is one of the most prominent issues more than ever in developing countries like Ethiopia in consideration with the significant contribution to the socio-economic development of their families and so on to countries through transition. As a part to add an ample value to the contribution, the support from the aspects of microfinance is determined to establish at every level of entrepreneurship among women. The importance of any research related to the same is going to benefit the community in terms of dexterous effectiveness; however, there is virtually little formidable data on the effect of microfinance factors on women entrepreneurs' performance in North Gondar, Ethiopia. The objective of this study is, therefore, to assess the role of microfinance factors on women entrepreneurs' performance. In order to achieve the same the researcher has employed a quantitative research approach with multiple regression analysis method. This paper explains how important it is to focus on the acknowledged effect and contemplate on the progress with reference to the results of multiple regressions which show microfinance factors having a remarkable contribution on women entrepreneurs' performance and offer recommendations for the standardized efforts of concerned officials.*

**Keywords:** *Microfinance, Women Entrepreneurship, Credit, Saving, Training*

### 1. INTRODUCTION

Entrepreneurships in general and women entrepreneurships specifically are vital to the economy of a nation with respect to the economic development and poverty reduction. In as much as the government of a country is required to provide the enabling environment for entrepreneurship development in terms of favorable financial access, savings, education or training, social capital functional infrastructure and market information and social networks (Shane, 2003).

Even if women entrepreneurs require flexible financial support mechanisms to be successful (Mayoux, 2003) literatures validate the fact that women entrepreneurs, generally in developing countries, do not have easy access to credit for their entrepreneurial activity (Ibru, 2009), due to this reason the rate of women participation in the

informal sector of the economy is largely higher than males (Akinyi, 2009). Moreover, Webster and Fidler (1996) argues that women entrepreneurs, especially in developing countries lack training that can help them to improve their skills, attitudes and abilities. The other microfinance factor is social capital which is fundamental for start-ups and growing firms and women entrepreneurs. Especially in developing countries, most women may experience low social integration and connections that are a source of information for access to microfinance factors (Mayoux, 2001). Furthermore, social capital has been widely measured and found to have positive impact on the performance of women enterprises in developing countries (Lawal *et al.*, 2009).

Acquisition of resources could also lead to opportunity for entrepreneurial activity. Appropriate use of acquired resources through

good business strategy and organizational design could lead to business performance (Brana, 2008). Ekye *et.al* (2010) also state that micro-finance factors could not lead to business performance without opportunity for entrepreneurial activity. Even financial management theorists believe that funds could only be sourced to finance a predetermined project, business or contract. Hence, micro-finance factors and enterprise performance is vital to under-represented women in Ethiopia due to the poor economic indices portrayed by high poverty, high unemployment, high population and high birth rate (ILO, 2009; CIA, 2009). In the light of this, the Ethiopian government has encouraged vulnerable women to form women cooperative societies, as groups, so as to access microfinance factors for business activities or improvements. Such enterprises would serve as a tool for improving their quality of life in particular and economy of the country in general.

However, to date, there is scarcity of studies that jointly links credit, savings, training and social capital to women entrepreneurs' performance especially in developing countries, Ethiopia inclusive specifically in the study area. Therefore, the aim of this study is to analyze the effect of microfinance factors on women entrepreneurs' performance in North Gondar of Ethiopia.

## 2. LITERATURE REVIEW:

Entrepreneurs play a significant role in the economic growth of entrepreneurs and the country at large. However, for long, women entrepreneurs have low business performance compared to their male counterparts and this has been attributed to factors which normally affect entrepreneurial performance such as lack of credit, saving, education or training, and social capital (Ruth *et al.*, 2013).

Enterprise performance implies attributes that show changes in the volumes of activities or physical size. It indicates the enterprises ability to succeed. Moreover, when changes are increasing, the performance is generally positive and this is caused by factors which normally contribute entrepreneurial performance and are usually provided by the microfinance institutions. Such factors include lack of credit, saving, education or training, and social capital (Shane, 2003).

**2.1 Training:** Entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 1998 and Blackwood & Mowl, 2000). Literatures also confirm that business skill training has positive effect on enterprise performance (Akanji, 2006 and Kuzilwa, 2005). However, many women lack this, especially in developing countries (Ibru, 2009), hence the need for training as a micro-finance factor especially in developing economies is highlighted. Therefore, based on the justification stated above, an assumption is made out to be a significant positive relationship between training and women entrepreneurs' performance.

**2.2 Credit Access:** The result of credit assistance to entrepreneurs, especially women, is often seen in improved income, output, investment, employment and welfare of the entrepreneurs (Kuzilwa, 2005; Lakwo, 2007; and Peter, 2001). Despite the fact that Karnani (2007) argued that microcredit do not lead to women entrepreneurs' performance; rather the government should build more industries to create jobs, credit have been found to have positive impact on business performance of entrepreneurs in Kenya (Peter, 2001), Nigeria (Ojo, 2009), Tanzania (Kuzilwa, 2005), UK (Carter & Shaw, 2006), USA (Reavley & Lituchy, 2008). Contrary to this, credit

also had positive impact on the income and wellbeing of women in Uganda (Lakwo, 2007). However, the study found that most women in developing countries like Kenya have no access to loans as it is required that there must be signatory from their spouses for those who are married (Peter, 2013). In expectation with the stimulation of women's confidence levels in improving business through the adequate knowledge and practice in the credit access, a significant positive relationship between credit access and women entrepreneurs' performance is assumed.

**2.3 Saving:** Scott (2003) defines savings as income not spent or differed consumption. The savings mobilization has recently been recognized as a major force in microfinance. The saving women entrepreneurs to deal with severe crisis and to cope up with the shocks and reduce vulnerability and bought property that can be sold also to deal with the crises; savings could be used to acquire another microfinance cycle and also to start and expand the existing micro enterprise activities (Rahmat & Maulana, 2006; and Ojo, 2009;). Common determination of any women on saving attitude is expected to be constructive enough and even in this study, there is a significant positive relationship between saving and women entrepreneurs' performance is hypothesized.

**2.4 Social capital:** It is very important to small business both new and established, and can positively impact on their performance and access to finance. Okten and Osili (2004) found that the formation of networks helps entrepreneurs to tap resources in external environment successfully. In addition, networks increase a firm's legitimacy, which in turn positively influences the firm's access to external financing. Networks also help a firm learn appropriate behavior and therefore obtain needed support from key stakeholders and the general public. However, Women entrepreneurs,

especially in developing countries, lacked social connections that are a source of credit and market information (Olomola, 2002), whereas social capital has been found to have positive impact on the performance of women entrepreneurs (Brata, 2004; Lawal et al., 2009; Olomola, 2002). Development of social capital to be gained by women is tougher because of the accessibility and imitateness; if the same is developed, the chances of business growth will increase so as the anticipation of positive relationship between social capital and women entrepreneurs' performance is apparent.

### 3. OBJECTIVES OF THE STUDY

1. To evaluate the importance of women entrepreneurship in North Gondar of Ethiopia.
2. To assess the role of microfinance factors on women entrepreneurs' performance in North Gondar of Ethiopia.
3. To offer the productive outcome through the research by fostering training, credit access, saving and social capital to better the women entrepreneurship in the country.

#### Hypothesis:

**H1:** There is a significance positive relationship between training and women entrepreneurs' performance.

**H2:** There is a significance positive relationship between credit access and women entrepreneurs' performance.

**H3:** There is a significance positive relationship between saving and women entrepreneurs' performance.

**H4:** There is a significance positive relationship between social capital and women entrepreneurs' performance.

#### 4. METHODOLOGY OF THE STUDY

The quantitative research approach was used to generalize or makes claims about the population from the sample results (Creswell, 2003). The target population of the study was all micro and small entrepreneurs who are running their own business in the North Gondar Urban areas in which it has twenty five districts. The reason behind for the exclusion of rural areas, credit is used for farming and rearing activities and mostly this credit is under the control of men.

The information from Amhara credit and saving institution (ACSI) indicates that more than 10, 000 women clients are getting microfinance services in the zone. According to Godden (2004) population greater than 10,000 is categorized as infinite population and usually the minimum sample size for infinite population is 384. In addition to this, the researcher added 10% of the total sample size (38) for non-response rate making the total sample size 422. To select the specified target population two stage sampling procedure: purposive and simple random sampling sequentially was used. In the first stage, five districts, including Gondar special district were selected purposively from the twenty five districts. Purposive sampling was used here is to avoid any cultural, social, economical and geographical influences on the conclusions of the study.

As far as the second sampling stage concerned, microfinance service users of women from the five districts were selected randomly on the basis of Probability Proportionate to Sample Size (PPS) until the 422 predetermined respondents is

obtained. In addition to the survey study, key informant interview from some specific management body was performed in each of the five selected districts purposively. Because Patton (2002) pointed out that purposive sampling techniques is typically designed to pick a small number of cases that will yield the most important information about a particular phenomenon and leads to greater depth of information from a smaller number of carefully selected cases. Finally, Pearson correlation and multiple regressions were used as data analysis methods.

#### 5. ANALYSIS OF THE STUDY

##### 5.1 Correlation analysis

Table 5.1: Correlation between the microfinance factors

Variables	WEP	Social capital	Training	Credit access	Saving
WEP	1.000				
Social capital	0.093	1.00			
Training	0.332	0.060	1.000		
Credit access	0.524	0.134	0.155	1.00	
Saving	0.794	0.155	0.219	0.497	1.00

Table 5.1 displays the correlation between explanatory variables and women entrepreneurs' performance. To find the association of variables with women entrepreneurs' performance Pearson correlation was used. As the result indicates, all the correlation coefficients between independent variables were less than 0.75, which indicates the

non-existence of multi-collinearity problem. Thus, it is possible to safely run multiple regressions in order to investigate the influence of explanatory variables (microfinance factors) on women entrepreneurs' performance (WEP).

### 5.2 Multiple Regression Analysis

Variables	Coefficient	Hypothesis	Results
Training	0.16**	H1	Accepted
Saving	0.11*	H2	Accepted
Credit Access	0.698**	H3	Accepted
Social Capital	0.010 (insignificant)	H4	Rejected
Adjusted R Square	0.65		
F-Value	102.17		
Sig. F Change	0.000		

\*\* significant at 5%, \* significant at 10%

As depicted from Table 5-2, coefficients show that the direct effect of microfinance factors (saving, training, social capital and credit access) on women entrepreneurs performance. The adj R square is 0.65. In other words, microfinance intervention factors explained 65% of the variance on women entrepreneurs' performance. However, social capital was insignificant to explain women entrepreneurs' performance against the hypothesis stated. The overall regression model is significant (Sig. F change = 0.000, R-square = 0.65). This means that the saving, training and credit access

have relevant contribution to women entrepreneurs' performance in North Gondar of Ethiopia.

### 5.2 Discussions

Except social capital, all microfinance factors (saving, credit access, and training) which have been included in the model have positive and significant contribution for women entrepreneurs' performance.

When we look at the effect of each microfinance factor, training was positive and statistically significant in explaining women entrepreneurs' performance and the first hypothesis was supported. This indicates that the in the study area skill acquisition training have a significant contribution on the effectiveness of small women businesses. This might be due to the fact that microfinance institutions provide trainings for women entrepreneurs at various stages of their business process on issues related to business plan preparation, marketing, customer handling, reporting and other services. The result of this study is also in line with the finding of Ekpe et al. (2013), Soltane and Imen (2013) and (Ibru, 2009).

Similarly, in this study there was a positive and significance relationship between saving and women entrepreneurs' performance in the North Gondar in line with the stated hypothesis. This indicates that saving encourages women to develop confidence and helps them to access more credit and run their business without having financial difficulties. This result is further supported by the findings of Kithae (2013), Stevenson and Onge (2005), Iheduru (2002), and Gakure (2003).

The **multiple regression** result also indicates that there was a significant and positive relationship between credit access and women entrepreneurs' performance. This also supports the hypothesis of

the study which implies that adequate credit support leads to good women entrepreneurs' performance. This finding is also in line with the previous research results of Ekpe et al. (2010), Kuzilwa (2005); Brata (2004), and Lawal et al. (2009).

However, among the microfinance factors, the contribution of social capital was found to be statistically insignificant in explaining women entrepreneurs' performance ( $p$ -value = .817) which is against the hypothesis of the study. This implies that the social participation of women entrepreneurs did not have any value addition in their business. This means that being member in various local associations and groupings could not build effective and efficient relationship with financial institutions like microfinance institutions for the sake of forming a borrowing channel which can contribute for their business performance. This might be the reason that social capital had no contribution to women entrepreneurs' performance. Therefore, the finding of this study is against Lawal et al. (2009) and Brata (2004) findings.

## 6. CONCLUSION

Significant contribution of illustrative microfinance factors such as training, credit access and saving have positive relationship on women entrepreneur performance which should be contagious enough in terms of the efforts of constructive programmes by the concerned officials to gain the maximum productivity out of performance. Social capital may be insignificant enough but cannot completely be ignored because of the education on how social capital can pave the way for the prolific results of performance with respect to the applicability of the same to all aspects of the business development. The result of the study leads to a conclusion that the North Gondar Micro and Small enterprise office

and microfinance institutions in Amhara region should work together to fill the credit access gap and arrange sufficient business skill trainings for women entrepreneurs on how to use the credit and manage their business. Such opportunities can assist women entrepreneurs to scan business environment through building social capital. Further research is anticipated on the promotion of exceptional business prospects for women and planning and implementation of strategic management tools by women in the business especially in urbanized region like Gondar. It is also rational to incorporate the opportunity variables and evaluate its effect on the performance of the women entrepreneurship with respect to the operational productivity out of the stated microfinance factors.

## 7. REFERENCES

- Akanji, O. O. (2006), Microfinance as a strategy for poverty reduction, Central Bank of Nigeria, *Economic and Financial Review*, 39 (4).
- Blackwood, T., & Mowl, G. (2000), Expatriate-owned small businesses: Measuring and accounting for success, *International small Business Journal*, 18(3), 60–73.
- Brana, S. (2008), Microcredit in France: Does gender matter? 5th Annual Conference-Nice, European Microfinance Network.
- Brata, A. G. (2004), *Social capital and credit in a Javanese village*, University of Atma Jaya, Yogyakarta, Indonesia: Research Institute.
- Central Intelligence Agency (CIA)-The World Factbook-Ethiopia (2009), *Ethiopian Gross Domestic Product*, from <http://www.cia.gov/library/publication/the-worldfactbook>.



Creswell, J W. (2003), *Research design: qualitative, quantitative, and mixed method approaches*, 2nd ed., Sage publisher, California.

Ekpe et al. (2010), The Effect of Microfinance Factors on Women Entrepreneurs' Performance in Nigeria: A Conceptual Framework, *International Journal of Business and Social Science* Vol. 1 No. 2.

Ekpe, Isidore (2011), *Women Entrepreneurs' Performance: Microfinance Factors with Mediating Effect of Opportunity and Moderating Effect of Attitude*, PhD thesis, Universita Utara Malaysia.

Ibru, C. (2009), Growing microfinance through new technologies, Federal University of Technology, Akure, Nigeria.

International Labor Organization (ILO) (2009), *Gender employment*, from <http://www.ilo.org>

Karnani, A. (2007), *Microfinance misses its mark*, Retrieved May 10, 2013, from Stanford Social Innovation Review: <http://www.ssireview.org/articles>

King, K and S. (1998), Rethinking Small Enterprise Development: Between Poverty and Growth". Paper Presented at the Conference held in the Centre for African studies, University of Edinburgh.

Kuzilwa, J. (2005), The role of credit for small business success: A study of the National Entrepreneurship Development Fund in Tanzania, *The Journal of Entrepreneurship*, 14 (2), 131-161

Lakwo, A. (2007), *Microfinance, rural livelihood, and women's empowerment in Uganda*. Retrieved June 3, 2013, from African Studies Center Research Report 2006: <http://www.google.com>

Lawal, J. O., Omonona, B. T., Ajani, O. I. Y., & Oni, O. A. (2009), Effects of social capital on credit

Mayoux, L. (2003), Women's Empowerment and Participation in Micro-finance: Evidence, Issues and Ways Ahead, Samskriti Publishers, New Delhi, India.

Mayoux, L. (2001), Tackling the Down Side: Social Capital, Women's Empowerment and Micro Finance in Cameroon, *Development and Change*, vol.32, pp. 435-464.

Ojo, O. (2009), Impact of microfinance on entrepreneurial development: The case of Nigeria, Faculty of Administration and Business, University of Bucharest, Romania.

Okten, C. & Osili, U. O. (2004), Social Networks and Credit Access in Indonesia. *World Development*. 32(7): 1225-1246.

Olomola, A. S. (2002), *Social capital, microfinance group performance and poverty implications in Nigeria*: Nigerian Institute of Social and Economic Research.

Patton, Q. (2002), *Qualitative research and evaluation methods*, 3rd ed. Sage.

Peter, B. K. (2001), *Impact of credit on women-operated microenterprises in UASIN GISHU district*, East African microenterprises.

.Reavley, M. A. & Lituchy, T. R. (2008), Successful women entrepreneurs: A six-country analysis of self-reported determinants of success-more than just dollars and cents, *International Journal of Entrepreneurship and Small Business*, 5 (3-4), 272-296

Shane, S. (2003), *A general theory of entrepreneurship: The individual-opportunity nexus*. UK: Edward Elgar.

Venugopal Koppala., Swathi Konchada (2014) "Materialization of Women Entrepreneurship in Tribal Areas" 'International Journal of Entrepreneurship and Business Environment Perspectives' Pezzottaite journals Publications., April -June 2014., Vol: 3 No: 2., pp : 5-11

*Business* , 5 (3/4), 373-385.

Webster, L., & Fidler, P. (1996), "The Informal Sector and Microfinance Institutions in West Africa". *World Bank, Washington*, 21-42.

Ruth Marjory Adhiambo Ocholah Simeo Okelo Cainan Ojwang Fredrick Aila Patrick B. Ojera(2013), "Literature Review on the Relationship between Microfinance Provision and Women Enterprise Performance". *Greener Journal of Social Sciences*: Vol. 3 (5).