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Risk Management on Access to Credit by Women Owned Small and Medium Enterprises

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Abstract

This study sought to establish the influence of risk management on access to credit by Women owned small and medium enterprises (SMEs). A descriptive research design guided by cross sectional survey was adopted for the study. The target population was drawn from women owned enterprises specifically owners of businesses in Nairobi County, Kenya. A sample of 370 was derived from the population. Data was collected from the respondents using structured questionnaires. Analysis of the data was done using SPSS version 24, both descriptive and inferential statistics (correlation analysis and multiple regressions) were used 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 risk management statistically and significantly predicts the access to credit by SMEs owned by women (i.e., the regression model is a good fit of the data) and that risk management significantly influence the access to credit by SMEs owned by women in Kenya.

***Key words**: Risk management, access to credit and women owned SMEs*

1.1 Introduction

Risk management is a process of determining the maximum acceptable level of overall risk of engaging in a proposed activity. It involves the use of risk assessment techniques in the determination of the initial level of risk and, if the level of risk is excessive, developing a strategy to mitigate appropriate individual risks until the overall level is reduced to a level that's acceptable. Risk management approaches vary from one firm to another, which partly reflects different risk management goals. Generally, large enterprises tend to manage risks effectively than small and medium enterprises (SMEs). This is perhaps surprising since small and medium enterprise are generally considered to be more risky. This phenomenon may be due to the fact that small and medium enterprises have limited access to derivatives markets and furthermore do not have personnel with advanced skills in risk management.

A paradigm change has occurred on how firms view the management of risks towards a holistic view instead of looking at risk management from a silo-based perspective. The frequently used definition of Enterprise Risk Management (ERM) is a process initiated by a business entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise. It is also designed to identify potential events that are likely to affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of a firm's business objectives.

1.2 Statement of the Problem

Many non-financial constraints inhibit the success of women owned SMEs. The SMEs owners are usually reluctant to be transparent or open up involvement of their businesses to outsiders. As such, they seem to be unaware of or oblivious to the obligations and responsibilities they have towards capital providers (14). Despite the dynamic role of women owned SMEs in the country's development, their operators face several risk management challenges. The risks, external or internal, threaten the profitability, general business performance as well as sustainability of the business (5). The external risk includes: natural disasters (e.g. flooding and earthquakes), wars, political crises, and government policies. The occurrence of risks may adversely lead to bankruptcy of the women owned SMEs and further deny the country of the expected contribution of the SMEs to national growth (11).

The ability of operators of women owned SMEs to deal with the dynamics of emergent market of the global economy is also largely influenced by their ability to carefully identify and analyze the types of risks that are faced by their business then examine the factors that need to be taken into account for control. Management of an enterprise include the risks that the enterprise is exposed to as well as other support services that are perceived to be cost prohibitive and non-value adding. Additionally, there is an existence of inadequate legal and institutional structures in Kenya that facilitate the management of women owned SMEs' risks that are associated with credit access. It is based on this notion that this study sought to examine the risk management influence on access to credit by women owned SMEs.

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1.3 Research Question

The study sought to answer a key question:

Is there any significant relationship between risk management and access to credit by women owned small and medium enterprises in Kenya?

2.0 Literature Review

It has been argued that perception of risks is an indispensable component of financial decision making and other risk-taking behaviors in business entities. Studies have indicated that measured risk aversion affects occupational and human capital investment decisions (6). For instance, individuals who are less risk averse are more likely to pick private sector jobs and are more likely to become entrepreneurs. The least risk averse are apparently those who can best assess and manage risks (10).

It is envisaged that the larger the capital base of the enterprise, the more likelihood its risk will be managed. This is because the amount that would be lost could be large (1). Also depending on the type of risk, the risk might not affect the entire capital base. It is only a portion that will be affected (5). Therefore, if the capital at risk is large, it will positively influence risk management decision (9). Depending on where the business sought its capital, the owner may decide either to manage risk or not. If the capital was sourced with collateral, then it is expected to have a positive influence on risk management decision (2). It is expected that daily sales/income influence risk management decision. The larger the income/sales, the positive the influence on risk management decision. Proportion of owned acres, off-farm income and level of business risks has been found to significantly affect the adoption of a risk management tool (4).

Government policies may either positively or negatively influence risk management decision (11). For instance high taxes by a government may influence risk management decision positively so as to minimize losses in order to get more revenue to pay tax (12). On the other hand, the tax competes with cost of risk management and other business expenditure and so with high tax, managers are more likely to compromise cost of risk management since government tax is statutory (16). Two sources of policies which are autonomous and independent from the state, namely the economic sector and civil society as external influences on business risk management. The state has an important role to play but that it also has its limitations which may be mitigated by other influences beyond the state (8).

Exposure to some risks is also dependent on the location of the enterprise. If the area is risk prone, then it will positively influence risk decision. On the issue of number of staff, the higher number of workers employed, depicts the larger capital base of the enterprise (6). Therefore the higher the staff strength, the positive influence it has on risk management decision. If the type of business is less risky, it is expected that it will have positive effect on risk management decision (14).

There are critical success factors which can be used as a guideline on how to increase the effectiveness of risk management procedures (11). These factors are commitment and support from top management, communication, culture, information technology (IT), organizational structure, training and trust (12). These seven factors can increase the effectiveness of risk management procedures from the perspective of the financial industry (13). A holistic approach towards managing an organization's risk is generally known as enterprise risk management. Trust is one of the tools of driving impressive risk management and that ERM could be enhanced by improving and maintaining of organizational trust (15).

2.1 Conceptual Framework

To be able to do this effectively, there is need for an SME to build the risk management capacity of its employees to ensure they are competent enough to undertake risk analysis. After the identification of risks prevalent in the SME, there is need to measure or estimate the potential frequency of losses and the potential effect of the risk on the company operations and this will involve ranking the different risks in order of importance to the firm. Once the risks prevalent in an SME have been identified, it is necessary at this particular point to establish risk management priorities and provides a starting point for selecting appropriate risk management techniques.

The common risk mitigating techniques that SMEs can adopt include insurance, weather derivatives, selection of buyers, overcapacity in production and asset securitization.

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

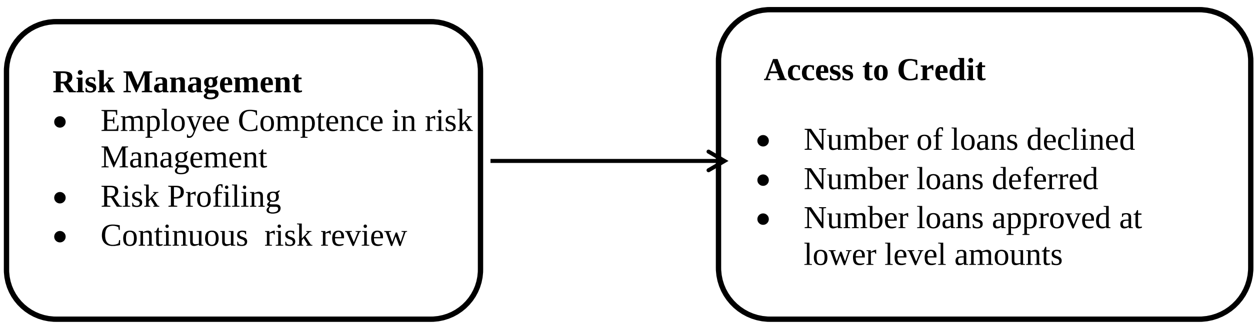

Figure 1: Conceptual Framework

3.0 Research Methodology

To determine whether risk management affects access to credit by women owned small and medium enterprises 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.

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Measurement of Variables

The variables of this study were measured using continuous indicators. Risk management was measured by three items namely: Employee competence in risk management, risk profiling and continuous risk review. Risks associated with the operations of women owned SMEs influence the decision of financial institutions to give credit to women owned businesses. Financial institutions insist on examining risks associated with women owned SMEs before giving credit. A five point Likert scale was used. The results supported those of (8) who established that SMEs whose repayments of loans are uncertain are considered risky by banks and hence are more likely to be credit rationed. Under this circumstance, the bank is threatened by default risk, being the risk that the SME cannot fulfill its obligations to the bank and to reduce this type of risk exposure, a bank will reduce loan advancement to such business units.

4.0 Research Findings and Discussion

4.1 Descriptive Analysis for Risk Management

The study sought to establish the extent to which risk management practices adopted influence Access to Credit by women owned SMEs. The following 3 sub-variables were measured; i) Risk profile of firm, ii) Operational environment, and iii) Corporate governance

Table 1: Descriptive Statistics for Risk Management

Risk management	1	2	3	4	5	µ	SD
The loan repayment history of the SMEs influence their new loan advance	8%	5%	14%	46%	27%	4.09	.463
The environments in which the women owned SMEs operate influence access to credit	26%	32%	26%	10%	6%	2.64	.876
The extent to which an SME uphold corporate governance influence their access to credit	24%	35%	25%	11%	5%	2.76	.708

n = 370, µ=Mean, SD=Standard Deviation

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

Based on the findings presented on the table:

4.1.1 Loan Repayment history

This section measured if the women owned SMEs loan repayment history influences their access to credit. The results are as follows: 8% strongly disagreed with the statement, 5% disagreed, 14% were neutral, 46% agreed with the statement while 27% of the respondents strongly agreed (µ=4.09; SD=.463) as illustrated in Table 1. From the foregoing, majority of the respondents (73%) agreed with the statement.

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4.1.2 Business Environment

This section sought to investigate whether the location of the business and the surrounding business area of operations influences access to credit by the women owned SMEs. The results are as follows: 26% strongly disagreed with the statement, 32% disagreed, 26% were neutral, 10% agreed with the statement while 6% of the respondents strongly agreed (μ=2.64; SD=.876) as illustrated in Table 1.

4.1.3 Corporate Governance

The study sought to investigate if observance of corporate governance in an organization influences the access to credit by women owned SMEs. The results in Table 4.1 show that: 24% strongly disagreed with the statement, 35% disagreed, 14% were neutral, 11% agreed with the statement while 5% of the respondents strongly agreed (μ=2.76; SD=.708) as illustrated in Table 4.13. From the foregoing, majority (59%) respondents disagreed with the statement. This implies that financial institutions do not rely on the state of corporate governance in the women owned SMEs as a basis of advancing loan facilities.

4.2 Correlation Analysis

4.2.1 Correlation between Risk Management and Access to Credit

This study sought to examine whether there was any form of correlation between Risk management and access to Credit. The findings are summarized in Table 2.

Table 2. Correlation between Risk Management and Access to Credit

		Access to Credit	Risk management
Access to Credit	Pearson Correlation	1	.108**
	Sig. (2-tailed)		.000
	N	370	370
Risk management	Pearson Correlation	0.108**	1
	Sig. (2-tailed)	.000	
	N	370	370

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

From the findings in Table 2, a negative correlation coefficient of 0.108 (or 10.8%) exist between risk management practices adopted and access to credit by women owned SMEs.

4.3 Regression Analysis

H_{01}: There is significant relationship between risk management and access to credit by women owned small and medium enterprises in Kenya.

4.3.1 Risk Management and Access to Credit Model Summary

This Model Summary Table 3 presents an R^2 result of .442 or 44.20%, meaning that the independent variable, Risk Management alone can explain up to 44.20% of the total variability in the dependent variable, access to Credit. The remaining 55.80% of the variation in the dependent variable is unexplained by this one predictor model but by other factors not included in the model.

Table 3. Model Summary of Risk Management and Access to Credit

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.665[a]	.442	.419	.1390

a. Predictors: (Constant), risk management

4.3.2 Risk Management and Access to Credit

The F statistics was used to test for the model goodness of fit. Table 5 (F=122.034, p value =0.000) indicates that there is a significant relationship between risk amangement and access to credit and at least the slope (ß coefficient) is not zero.

Table 4. ANOVA for Risk Management and Access to Credit

Model		Sum of Squares	d.f	Mean Square	F	Sig.
1	Regression	458.908	1	458.908	122.034	.000
	Residual	1390.009	369	3.7605		
	Total	1848.917	370			

Dependent variable: Access to credit

Predictor: constants, Risk management

4.3.3 Risk Management and Access to Credit Regression Weights

The study hypothesized that risk management by women owned SMEs affects the access to credit. The study findings showed that there was a positive and significant relationship between risk management and access to credit (ß=0.820, p-value=0.000<0.05). The analysis showed that Risk Management negatively affects the access to Credit. That is, an increase in mean index of Risk Management reduces the access to Credit by women owned SMEs in Kenya by a unit mean index value of 0.445. 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 risk management has a significant influence on access to credit.

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Table 5. Coefficients of Risk Management and Access to Credit

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.820	.379		2.164	.000
	Risk management	-.445	.764	.187	5.825	.000

a. Dependent Variable: Access to Credit by Women Owned SMEs=0.82-.445Risk Management

5.0 Summary and Discussion

The study findings imply that Risk Management is a significant variable that influences Access to Credit in Kenya. The findings of the study support the research hypothesis that risk management affects the access to credit. The results of the regression analysis indicate that risk management has significant effect on access to credit. The findings support the literature by (12) who argues that the borrower would be unable to repay credit if risk perception is increased by the lender. This is due to the fact that the cost of borrowing would turn out to be higher than the return on investment for the entrepreneurs. Due to the cost of the credit the lender may desist from lending to a borrower who demands for credit when the interest rates are higher.

5.1 Conclusions

Based on the findings of this study, risk management has a negative influence on access to Credit by women owned SMEs in Kenya. While making strategic decisions on credit, women owned enterprises consider credit sources with high risk management whether credit is needed for short or long term basis. High risk management discourages women owned enterprises in their efforts to seek credit from sources that are considered to offer credit at very high risk management.

5.2 Recommendations

The findings suggest that risk management has a positive and significant effect on the access to credit by women owned SMEs. From previous literature, it has been found that SMEs lack a holistic approach to risk management. Therfeore it is recommended that banks, Saccos and other financial institutions need to include business advisory services, capacity building and training on their loan package for SMEs that are seeking loans. It is also important for women owned SMEs to know how to effectively identify, analyze as well as respond to various risks in today's business environment for them to survive sinec thet are afacted by various risks due their structural features and limited resources compared to larger organisations. Additionally, since SMEs generally have have significant contribution in human capital and value-added creation, they require the adoption of effective risk management (RM) systems.

Managing risks is a major issue for women owned SMEs today. It is therefore important for the women owned SMEs to develop effective internal processes for identifying major business risks. The women SMEs should undertake the identification of key business risks in a timely manner, examining their likelihood, determining the significance of the financial impact of the risks on the outcome of business, establishing priorities for the allocation of necessary resources as well as communicating results.

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