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Networking and Access to Credit by Women Owned Small and Medium Enterprises

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Abstract

Business networking has been gaining grounds as one of the factors that influence the success of business entities in the recent years. The aims of this study was therefore to establish the influence of networking 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 networking 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 networking significantly influence the access to credit by SMEs owned by women in Kenya.

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

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1.1 Introduction

Networking in business refers to the free association among business entities that creates structures that improve business decision making while incorporating the input from the members for the generation of output while maximizing the use of limited resources (3). Business networks are interconnected business relationships comprising groups or a collection of entities that have established repetitive contacts aimed at achieving a common objective (1). In today's highly competitive business environments, business networking is vital for the success of business entities, especially as a result of the dominance of a few significant business players in many industries or markets. Such business networks can be formed among business entities within the same industry or between business entities from different industries (2).

Strong and excellent business networking relationship can be maintained with trust between the networking SMEs, thereby facilitating the sharing of relevant information relating to credit access, market competition among others for the success of the networking partners (10). The openness among the SMEs are that networking creates an environment whereby there is an excellent flow of constructive business information among members. Trust is key to business networking among SMEs and can be used in predicting whether a particular business entity will cooperate with other entities or not (2). Trust ensures that uncertainty that may arise as a result of opportunistic characteristics among networking partners is removed (6). With good networking, SMEs are able to obtain accurate and relevant information regarding sources of credit to enable them make sound decisions before seeking credit from any particular source (10).

1.2 Statement of the Problem

A major drawbacks faced by women owned SMEs is that they lack legitimacy, this hinders them from establishing excellent networks as well as hiring skilled labor, obtaining capital to expand among others. As a result of financial constraints, the SMEs are facing challenge in the contribution of their own resources with the aim of improving the legitimacy of their network or the reputation which fortes member's own reputation and long term competitiveness. Among motives to business networking is "legitimacy" for the improvement of an entity's image, reputation or prestige within acceptable norms of business environment. Legitimacy also attracts safety and acceptance due to the larger number of grouped entities thereby business networking was promoted by certain licensing requirements, financial institutions' and other stakeholder requirements or even pressure by general public (8). Legitimacy provides competitive advantage to business in the business network (7). The women owned SMEs face challenges in relation to legitimacy which hinders them from establishing effective networks.

1.3 Research Question

The study sought to answer a key question:

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

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2.0 Literature Review

Small organizations that are restricted to resources may be inhibited from having contacts or engaging in any networks, due to the cost implicated by such associations. This may limit the degree to which they can manipulate the support machinery like legislation, infrastructure and policies that affect businesses. Small organizations therefore, face several constraints that are institutional in nature, but their limited or non-existent linkages, limit the extent and weak organizational ability to which they can deal with such constraints.

A study by (5) on "the role of credit reference bureaus on strategic credit access by SMEs in Kenya" revealed that having a credit reference bureau (CRB) allows commercial banks to have a network through which they can share credit information on prospective borrowers, which facilitates the assessment of credit requests by SMEs. The findings also indicated that sharing of credit information of SMEs allow commercial banks to mitigate the risks of bad debts consequently reducing the cost of credit and thereby enhancing their ability to access credit. A study to "establish the credit and employment growth among small enterprises in Kenya" found that limited access to technology and permanent networking websites were a constraint on SMEs' ability to access credit. Strategically located firms that have access to technology were more likely to access information than those that are not, thereby gaining access to credit (7).

Another study on the challenges faced by small and medium enterprise suppliers when bidding for tenders in Thika, Kenya revealed that poor networking among SMEs owned by women is a major constraint to gaining access to credit (11). In a study to examine the factors affecting the performance of small and medium enterprises (SMEs) traders at City Park Hawkers Market in Nairobi County, it was revealed that most organizations get their loans from their relatives and friends (9). The findings implied that credit is a constraint to enterprises development due to process of the credit allocation. This locks out organizations with feasible projects and the legal institutions framework that enforces contracts, making lenders to either deny loans to potential borrowers or rely on the social networks. The asymmetry of information that exists in these markets creates the need for contract and institutional arrangements that ensure enforcement of contracts. Nevertheless, these informal loans play a minor role in substituting bank loans. Most medium and large enterprises which are considered formal firms with established network systems acquire trade credit, with a superior percentage being from formal sector compared to micro and small firms which are considered informal firms and lacks good networks.

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,

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selection of buyers, overcapacity in production and asset securitization. Arising from the literature review, the following represents the conceptual framework of the study.

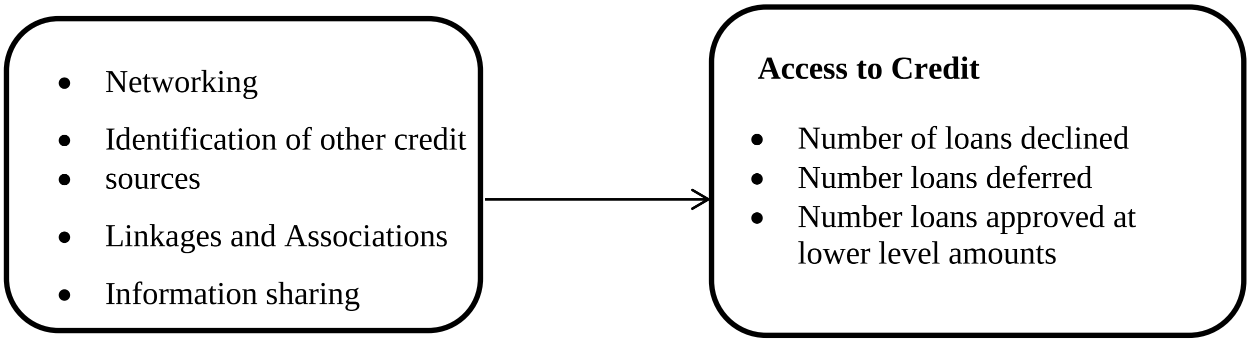

Figure 1: Conceptual Framework

3.0 Research Methodology

To determine whether networking 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 370 SMEs in Nairobi County. The correlation analysis was used to analyse the correlation between the variables. The strength of the relationship was tested by R-squared which also tested the model to determine its goodness fit.

Measurement of Variables

The variables of this study were measured using continuous indicators. Networking was measured by three items namely: Identification of other credit sources, Linkages and Associations as well as Information sharing. Network among women owned SMEs enables information sharing in relation to sources of credit, interests that various credit providers charge, collateral requirements among others. This enables the SMEs to make accurate decisions about sources of credit. A five point Likert scale was used. The results were in line with the findings by (11) on a study on the challenges faced by small and medium enterprise suppliers when bidding for tenders in Thika, Kenya which revealed that through the use of networks that include trade unions, professional bodies and other social groupings such as clubs provide valuable source of information on cheaper source of finances (6).

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4.0 Research Findings and Discussion

4.1 Descriptive Analysis

The study sought to determine the extent to which Networking influences access to Credit by women owned SMEs. The sub-variables measured were; (i) Identification of other Sources of Credit (ii) Linkages and associations (iii) Information sharing. Table 1 shows the results.

Table 1: Descriptive Statistics for Networking

Networking	1	2	3	4	5	µ	SD
Networking has enabled businesses owned by women identify other sources of credit	2%	11%	27%	25%	35%	4.01	.325
Networking has enabled businesses to create linkages and associations	3%	6%	14%	29%	48%	4.32	.534
Networking has enabled businesses share b eneficial information	33%	8%	22%	19%	18%	2.88	.754

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

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

Based on the data presented on Table 1, the following findings are generated:

4.1.1 Identification of other Credit Sources

Based on the findings, 3% strongly disagreed with the statement, 6% disagreed, 14% were neutral, 29% agreed with the statement while 48% of the respondents strongly agreed (µ=4.01; SD=.325) as illustrated in table 1. From the foregoing, majority (77%) of respondents concurred with the statement that networking has enabled businesses to explore new credit sources.

4.1.2 Linkages and Associations

The results showed that 2% strongly disagreed with the statement, 11% disagreed, 27% were neutral, 25% agreed with the statement while 35% of the respondents strongly agreed (µ=4.32; SD=.534) as illustrated in Table 1.

From the foregoing, majority of the respondents (60%) concurred with the statement that networ king has enabled the businesses owned by women to create useful linkages and associations. This is collaborated by findings by (7) in his study to establish the credit and employment growth among small enterprises in Kenya that found that limited access to technology and permanent networking websites were a constraint on SMEs' quest to accessing credit. This implies networking enables women owned businesses create linkages and associations that are beneficial to the growth and survival of the businesses.

4.1.3 Information Sharing

Results showed that 33% strongly disagreed with the statement, 8% disagreed, 22% were neutral, 19% agreed with the statement while 18% of the respondents strongly agreed (μ=2.88; SD=.754) as illustrated in Table 1. From the foregoing, majority of the respondents (41%) disagreed with the statement. The findings support the study by (9) on the factors affecting the performance of MSEs traders at City Park hawkers market in Nairobi County, Kenya which concluded that access to relevant information on sources of credit affects performance of MSEs to a great extent because it limits the entrepreneurs' ability to identify credit providers. A similar study conducted by (8) also revealed that information sharing is a direct determinant influencing access to Credit by SMEs.

4.2 Regression Analysis

Ho1: There is significant relationship between networking and access to credit by women owned small and medium enterprises in Kenya.

4.2.1 Networking and Access to Credit Model Summary

Table 2: Model Summary of Networking and Access to Credit

Model	R	R2	Adjusted R2	S Error of the Estimate
1	.551a	.304	.227	.9043

Predictors: (Constant), Networking

Table 3: ANOVA for Networking and Access to Credit

Model		Sum of Squares	d.f	Mean Square	F	Sig.
1	Regression	320.002	1	320.002	65.1695	.000
	Residual	1045.900	369	4.9103		
	Total	1365.902	370			

Dependent variable: Access to credit

Predictor: constants, Networking

Table 4 Coefficients of Networking and Access to Credit

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1(Constant)	.980	.143		6.853	.000
Networking	.208	.038	.187	5.444	.000

a. Dependent Variable: Access to Credit by women owned SMEs=0.98+.208networking

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The study carried out a regression analysis between networking and Access to Credit in Kenya. The findings were presented in Table 2. This Model Summary presents an R2 result of .304 or 30.40%, meaning that the independent variable, networking alone can explain up to 30.40% of the total variability in the dependent variable, Access to Credit by women owned SMEs. The remaining 69.60% of the variation in the dependent variable is unexplained by this one predictor model but by other factors not included in the model.

An ANOVA test was performed on networking and Access to Credit by women owned SMEs and the results obtained are presented in Table 3. From the ANOVA Table 3, the model is statistically significant as the p-value is less than 0.05. The values of $F(1, 369) = 65.1695$, $P < 0.05$, shows that networking statistically and significantly predicts the Access to Credit (that is, the regression model is a good fit of the data) and that networking significantly influence the Access to Credit by women owned SMEs. This means that the alternative hypothesis that networking has a statistical and significant influence on Access to Credit by women owned SMEs is accepted.

These results indicated on Table 4 show that networking contributes a statistically significant value (p-value =.000) of .208 to the regression model. The value of networking is statistically significant ($t=5.444$, $p< .05$).

4.2.2 Effect of establishing networks on Access to Credit by Women Owned SMEs

The study sought to investigate if networking practices adopted by the women owned SMEs affects their access to credit. The study adopted the capacity to identify other sources of Credit, linkages and associations and information sharing capabilities by women owned SMEs in Kenya, to proxy the network dimension of decision making. The results reveal that close to three-fifth (60%) of the respondents recognize that networking had facilitated the SMEs to identify other sources of capital for their businesses and that over three-quarters (77%) agreed that networking had resulted in important linkages, and slightly over one-third (37%) were of the view that the networks that the SMEs had adopted had facilitated sharing of beneficial information.

These findings reinforce the importance of networking in an SME organization quest to accessing credit because of the resultant benefits that include a wide network of similar line organization that can share beneficial information on how and where to access credit under favourable terms. This result lends credence to an earlier finding by (11) who found that by a business organization establishing appropriate network with other players in the market, then it will be able to access useful information about lender with favourable terms. It has also been established that being a member of professional clubs and local Chama as is a valuable source of information on cheaper source of finances (6).

Correlation between the networking variable and women owned SMEs to access credit results in a positive (r=0.196). The results indicated that networking alone can explain up to 30.40% of the total independent variables in the dependent variable and it contributes statistically a significant value (p-value = 0.000) of 0.208 to the regression model. The second hypothesis thus shows that networking affects the access to credit by women owned SMEs with a t-value of 5.444 (p-value =0.000). The research hypothesis that there is a significant relationship between networking and Access to Credit by women owned SMEs is accepted.

5.0 Conclusion

Based on the findings, despite the fact that networking does not necessarily enable businesses get information about cheaper credit but it enables women owned SMEs identify new credit sources, new markets, create linkages and associations that are beneficial to the growth and survival of the businesses, it can be concluded that networking is a determinant of access credit by women owned SMEs in Kenya.

5.1 Recommendations

SMEs inclination to find and have a network to share knowledge, information and resources could open channels and enable SMEs to interact and develop relationships with influential people that might have a positive influence on their firms, for instance, by learning more from other entrepreneurs/individuals and improving the performance of their firms. Besides, networking by spreading knowledge of the firm's existence and improving the legitimacy of the firms could increase the firms' chance to have access to the bank loan.

Financial institutions should design appropriate lending models that promotes outreach and opening of branches to serve large population of women entrepreneurs in the remote villages that cannot for one reason or the other access them in urban centres. Numerous potential women entrepreneurs outnumber the few lending institutions in other parts of Kenya; consequently there is need to encourage formation of business clubs for networking and mentorship purposes.

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