Effect of Table Banking Entrepreneurship Development on the Growth of Women Small and Medium Enterprises in Meru County, Kenya

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Abstract

SMEs play a significant role in economic development. They are an important source of job creation and innovation. Access to finance is commonly identified as the key factor holding small and medium enterprises (SMEs) back from realizing their full potential. Finance providers and the government fail to tackle this issue effectively. There has been differing opinion on whether table banking would have an effect on the nature and magnitude of their growth. The purpose of the study was to establish the effect of table banking entrepreneurship development and pooled investments on the growth of women owned SME enterprises. Descriptive and inferential designs were used. The target population was derived from all the women owned SMEs within Meru County that practice table banking and operating in different industries like retail, service, and agribusiness. Descriptive and inferential analysis were used in interpretation the study findings. The study findings concluded that entrepreneurship development and pooled investment lead to significant growth to small and medium sized enterprises. The study finally recommended that Table Banking strategy should be embraced as a source of providing financing to SME's.

Background to the Study

Women make up 40 percent of the world's workforce. Many of the sectors that are critical for economic growth in some of the poorest countries rely heavily on women. Small and medium-sized enterprises (SMEs) with female ownership represent 30 percent to 37 percent of all SMEs (8 million to 10 million women-owned firms) in emerging markets. These businesses have unmet financial needs of between US$260 billion and US$320 billion a year. This is their biggest barrier to growth and development. Access to credit can open up economic opportunities for women, and bank accounts can be a gateway to the use of additional financial services. However, women entrepreneurs and employers face significantly greater challenges than men in gaining access to financial services (Abuga, 2014).

The Global Findex, a comprehensive database measuring how people save, borrow, and manage risk in 148 countries, reveals that women are less likely than men to have formal bank accounts. In developing economies women are 20 percent less likely than men to have an account at a formal financial institution and 17 percent less likely to have borrowed formally in the past year. Even if they can gain access to a loan, women often lack access to other financial services, such as savings, digital payment methods, and insurance.

Restrictions on opening a bank account, such as requirements for a male family member's permission, restrict women's access to accounts. Lack of financial education can also limit women from gaining access to and benefitting from financial services (World Bank, 2014).
In addition, many women may have access to financial services in name only. A study in Pakistan showed that, although accounts might be opened in the name of a woman, the decision-making authority around the use of those funds often lies with a male relative. The World Bank's Gender at Work report (2014) asserts: "On virtually every global measure, women are more economically excluded than men." (World Bank, 2014).

The ability of firms to optimally exploit investment opportunities may crucially depend on the level of financial constraints that they face. Access to finance is commonly identified as the key factor holding women owned small and medium enterprises (SMEs) back from growing at their full potential. Finance providers and the government fail to tackle this issue effectively (Masinde, 2013). The specific characteristics of SMEs, namely their smaller size, greater likelihood of bankruptcy, greater operational flexibility making easier the substitution of assets, and the more opaqueness of information that aggravates the problems of asymmetric information, explain why the creditors consider too risky their investment in smaller firms. Consequently, women owned SMEs are subject to problems of adverse selection and credit rationing especially for young SMEs that have not yet acquired reputation. In Kenya, SMEs which are also owned by women are defined as Micro Enterprises having 1-10 number of employees with a turnover of Kshs 0-5million, Small Enterprises 11-50 employees with turnover of Kshs 5-50m and Medium enterprises having 51-100 employees and turnover of Kshs 51million -1billion (Republic of Kenya, 2009).

Table Banking

Table banking is a group funding strategy where members save and borrow immediately from their savings on the table, either in short term or long term loans (Brannen, 2010). Table-banking takes on the model of the Grameen Bank of Bangladesh and the village savings and loans schemes of Zanzibar (Ahlén, 2012). The members save and access loans for investments from their small contributions. This empowers them and eradicates poverty. Table banking concept is based on the belief that for the extremely poor, particularly women, and the best approach is to begin by building their financial assets and skills through savings rather than debt (Kanyi, 2014). Besides, few institutions exist in the rural areas and informal settlements, and where institutions do exist they often have inappropriate products and services. The reality is most extremely poor households have neither the assets nor the skills to interact with formal institutions, even those dedicated to reaching the poor.

In Kenya, table-banking was initially developed by the Poverty Eradication Commission (PEC) under the former Ministry of Planning and Vision 2030, targeting Millennium Development Goals one (MDG 1) on eradicating abject poverty, especially in rural settings in Kenya. Two pilot projects were started by the Government in 1999 and improved in 2004 in Bondo and Gatanga constituencies, which proved to be the best way to help women groups' prosper across the country. The results were very impressive but the government did not continue with the roll out there after (Kanyi, 2014).

Table-banking methodology is not based on assessing the material possession of a person; it is based on the potential of a person. Table-banking believes that all human beings, including the poorest, are endowed with endless potential. Unlike other financial institutions, table-banking looks at the potential that is waiting to be unleashed in a person and owned by poor members. Through table banking women in groups would pool formidable resources and loan it to well-trained entrepreneurial women whose investments would give them good returns enough to save (Masinde, 2013). Table banking has more structure than in many arrangements popularly called 'merry-go-round' where people have no repayment schedule. Often they just pay interest on the loan and the group cannot lend again because the capital is tied up. With table banking the group has to set rules for lending and repayment. Having shares requires rules and gives people 'ownership'. They have to be more businesslike and assess the capability of an applicant to repay. They also have to separate 'compassionate' handouts or loans (sickness and funerals) from the real 'banking' business (Abuga, 2014).

Table Banking and Growth of SMEs

Despite the important contribution to economic growth, SMEs continue to face numerous challenges including; inadequate infrastructural facilities, challenges with attracting skilled manpower, high rate of enterprise mortality, lack of a facilitative operating environment, restricted market access, and on wards regulatory requirements. However, one of the main areas of concern is access to funding for investment growth. SMEs require adequate financing to meet needs at each stage of their life cycle, from creation through operation, development, expansion and beyond. Financing is necessary to help them set up and enhance their operations, develop new products, and invest in new staff or production facilities (Kilonzo, 2011). Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investments to expand or innovate further. Access to funding and the high cost of finance for investment growth through the traditional channels have been major constraints to SMEs hence the need to explore alternatives like table banking (Oteh, 2010).

As put by Masinde (2013), the advantages of table-banking are that: all the money belongs to the group; member's savings are not taken away but instead used for loaning; ability to mobilize savings among the poor; interest earned remains with the group; periodic bonus and dividends; education and agriculture booster; capacity building of the groups on group dynamics, entrepreneurship, business skills, record keeping and many other areas relevant to our area of operation and, banking at the convenience of members' homes or table. Savings and investments by SMEs are as vital to financial well-being and security as to a healthy economy. People within table banking are better able to weather economic shocks such as a loss of income, to build assets for the future, and are less reliant on credit to cover unexpected expenses. Informal saving clubs also enable further welfare enhancing actions such as entrepreneurial activities and access to education and training. At the macroeconomic level, saving/investment clubs such a table banking drive growth by enabling SMEs to lend to businesses, and by financing – directly or indirectly – investment in companies (Bauer, et al, 2008). The ways in which SMEs operate can range from holding surplus income as cash, through simple informal saving mechanisms such as savings and loan clubs, to complex investments, or non-financial saving such as property or livestock. Some of these approaches are more suited to short-term investments and income smoothing, whilst others provide long-term investments.

SMEs in Meru County

According to the SMEs Baseline Survey, the sector employed 2.4 million persons. This increased to 5.1 million persons in 2002 as per the 2003 Economic Survey and translates to 675,000 jobs per year. The level of employment within Micro and Small Enterprises (SMEs) in 2002 accounted for over 74.2% of the total number of persons engaged in the country. Central Bureau of Statistics (Republic of Kenya, 2012) indicates that there is high rate of failure and stagnation among many start-up businesses and most of them close in their first three years of operation. This study revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth. Meru County Government estimates that there are 101,450 SMEs within the County (Meru County, 2014).

Nyagah (2013) state that SMEs in Meru are faced with the threat of failure; three out five fail within the first few months. Central Bureau of Statistics (2004) lists the causes of failure to include: competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity and debt collection. In order to overcome stagnation and avoid business failure due to lack of investments and growth, SMEs in Meru have embraced table banking. Table banking was introduced through Poverty Eradication Commission to enable people access their own funds to start income generating projects. These SMEs have formed groups and make use of table banking concept to empower themselves as it has enabled them save and access loans for investments from their small contributions. These groups run several projects, including: those that enable members to generate increased income, vocational training, and empowerment through education for adults and focuses on investing at the local level by providing funds for projects that address societal needs as identified by the members themselves (Craig & Drury, 2013).

Statement of the problem

SMEs play a significant role in economic development. In Kenya, SMEs contribute 80% of employment and contributes about 40% to GDP (Mwarari & Ngugi, 2013). Despite such significant contribution made by the SME's, they continually face funding constraints in the formal financial market. Overall, the formal finance sector fulfils only about 25% of small firm financing needs which in effect constrain their investment needs, thus growth. It is against this backdrop that table banking has been adopted by SMEs to pool funds together yet despite this, the effectiveness of table banking on realizing this objective is still unknown.

There has been differing opinion on whether table banking would have an effect on the nature and magnitude of their growth (Ahlén, 2012 & Masinde, 2013). According to De Mel, et al (2009), in the absence of easy access to external finance, saving for business purposes should be positively correlated with entrepreneurial investment. However, Brune, et al (2011) state that the saving mechanism itself might be a critical element in determining the ability to reinvest. It can be hard to prevent the funds from being exploited for the general personal needs of the entrepreneur. Aghion, et al (2010) intimate that for those in saving clubs the opportunity cost of consuming savings instead of investing them is not only the loss of financial reserves but also the foregone interest income.

Although, literature on growth is extensive, however, majority have focused on the investment choices of large publicly listed firms. Little has been done on SMEs' growth, more so locally. Gitau (2013) did a study on the growth of SMEs in Kenya and established that lack of access to finance has constrained SMEs in making use of available investment opportunities. Mwarari and Ngugi (2013) did a study on capital raising opportunities of SMEs in Kenya and listed access to information as one of the determinant for raising capital for investment. Keter (2013) studied investment behavior of SMEs and found investment as a challenge to SMEs owing to lack of credit access. Mwarari's (2013) study looked at capital raising opportunity of Kenyan SMEs and established that access to information hinders access to capital raising opportunity. However, these studies did not look at how table banking, which is a fairly new concept in Kenya, affect growth of SMEs. This leaves a wide knowledge gap that this study seeks to fill in. The study will thus seek to establish the effect of entrepreneurship development and pooled investment on growth of women small and medium enterprises using table banking in Meru County Kenya.

Purpose of the study

The main objective of the study was to establish the effect of table banking entrepreneurship development on growth of women small and medium enterprises in Meru County Kenya.

Specific Objectives

The study aimed at achieving the following objectives:

i. To assess the effect of entrepreneurship development on the growth of women SMEs in Meru County
ii. To establish the effect of pooled investments on the growth of women SMEs in Meru County.

Research Questions

i. To what extent did entrepreneurship development affect the growth of women SMEs in Meru County?
ii. How did pooled investments affect the growth of women SMEs in Meru County?

Theoretical Review

Theory of Group Cohesion

The theory of group cohesion can trace its roots from the works of Tuckman (1965). This theory suggests that groups can be more than the sum of their parts and that people can change when put into groups. This argument was premised on the existence of dispositional and situational explanations. It is stated that if people have complementary character traits, then when put together, synergy is created. However, if the people in a group have conflicting traits, then they will never function as a team. Situational explanations examine how groups have a life of their own, separate from individuals forming them. This implies that groups develop through certain stages, regardless of the personalities of objectives of the people involved.

Tuckman (1965) proposed the forming-storming-norming-performing model of how groups develop. In the forming stage, members of a group get to know each other, work out their roles and where they stand relative to each other. Potential rivalries begin at this phase. The storming stage is characterized by conflicts and polarizations. There may be rebellion against the leader and members strive to establish their status and roles. The norming stage is characterized by replacement of conflict by cooperation as members strive to work towards a common goal. It is at this stage where group cohesion occurs which increases mutual respect. Personal opinions are freely expressed at this stage. At performing stage, roles become flexible and functional. Relationships have stabilized and the main goal at this phase is group success. Ideally, table banking involves self-help groups whose membership varies in numbers and backgrounds. However, the success of each group largely depends on cohesiveness of the group members. Indeed, more cohesive members are more likely to guarantee each other in the event members seek credit from table bankers. The reverse is true.

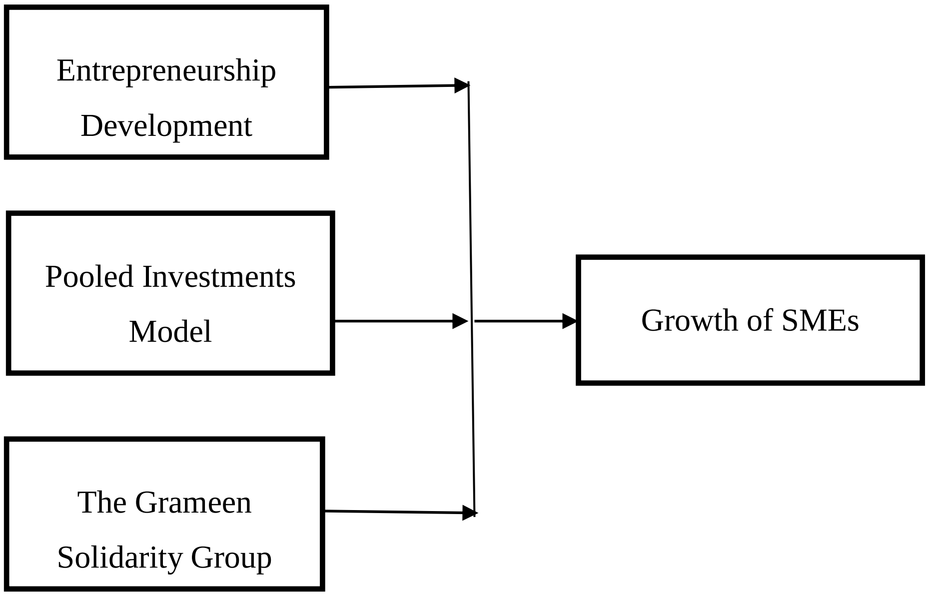
Rotating Savings and Credit Association (ROSCAs) Model

The rotating savings and credit association model is among the fourteen models identified by the Grameen Bank. Rotating savings and credit associations are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000). According to Harper (2003), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the group provides an opportunity for social interaction and is very popular with women. They are also called merry-go-rounds or Self-Help Groups (Yunus, 1999).

The Grameen Solidarity Group model

Also identified by the Grameen Bank, the Grameen Solidarity group model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Yunus, 1999). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach & Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model. They also highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (Yunus, 1999).

Theoretical Framework



Entrepreneurship Development

In the beginning of micro finance programs, much focus was given on only the credit aspect. However, since few years back, some initiations are made to offer entrepreneurship development programs to micro finance clients. Implementing training programmes and business development services can be used to enhance capacity building among entrepreneurs. Establishing and nurturing business associations so that they can organize workshops, provide support and mentoring programmes, facilitate access to credit and to markets, undertake advocacy, and provide best practice exchanges. However, it is observed that due to the lack of special focus on entrepreneurship development program on the side of TB and the insufficient willingness to invest resources, this additional type of intervention has not yet been widely used in most developing countries (Cheston & Kuhn, 2002).

Selecting a target market depends on the micro service provider and the perceived demand for financial services. In any country, there are underserved enterprises and households, ranging from the ultra-poor who may not be economically active, to small growing enterprises that provide employment in their communities. This range or continuum constitutes the demand size for micro finance services. Often, the supply side does not offer a corresponding continuum services. TB needs to supply services that fill the gaps and integrate the underserved group into the market (Guérin, 2006).

The goal of TB as development organization is to service the financial needs for served and underserved market as a means of meeting development objectives. The importance of table banking to entrepreneurial development made the Central Bank of Kenya adopt it as the main source of financing entrepreneurship in Kenya. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Kenya. While government and Non-Government Organizations (NGOs) have been engaging a number of programmes and policies to encourage entrepreneurship in the country, Kenya is still on the list of the poorest countries in the world with unemployment level rising alarmingly. It is therefore necessary at this juncture to undertake an assessment of the extent to which table banking can affect entrepreneurial development (Cheston & Kuhn, 2002).

Pooled Investments

Just as other saving and investment clubs, table banking is a great way for novice investors to learn more about investment strategy fundamentals without putting a large amount of money at stake. The regular periodic investing approach allows SMEs to build up a substantial portfolio over a period of time without having to make a large investment at any one time (Brannen, 2010). SMEs' owners can become a top investment performer by learning from others (De Mel et al, 2009).

The diversity of most investment club's membership brings a breadth of investment experience and knowledge to the group; each club is rich in diversity; for instance doctors, engineers, telecommunications technicians, plumbers, accountants, financial directors and many more. Some table banking is started primarily as a social club with investment interests, whilst others are started as a focused business group (Brannen, 2010). While these investment clubs are certainly interested in making a profit, members should also find that investment clubs are a great way to learn about successful investing (Brune et al, 2011). Growth refers to determination made by management as to how, when, where and how much capital (how much capital to spend and/or debt to acquire) is to be spent on investment opportunities including determining costs and returns for each option. It also refers to the capacity of an SME to know or understand the demands of external fund providers such as investors, SMEs or venture capital funds and hence be able to access the funds for growth and startups (Brannen, 2010).

Both supply and demand-side constraints explain why smaller firms are less willing to use debt financing and rely on internal equity or, if external financing is required, why they prefer debt over outside equity including 'contentment proposition' (Bell & Vos 2009). SMEs are more vulnerable often lacking access to capital as well as funding sources. Growth SMEs access to funding for investments is constrained by the demand side weaknesses. Most of the SMEs are usually not investment ready. The owners of the SMEs are usually not willing to explore external funding while those that are willing fail to understand what investors are looking for; for instance, how to sell themselves and their businesses to these investors. A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity.

Kaufmann and Valderrama (2008) consider that investment behaviour can be described as aggressive, innovative, proactive, risk taking, and autonomy seeking. Owner-managers tend to concentrate on the day-to-day at the expense of investments. La Rocca, et al (2011) warn that typical entrepreneur's features such as: impulsive character i.e. speed is preferred to accuracy (uncalculated risk and carelessness), inability to change problem solving strategies (low degree of flexibility) and inability to learn from mistakes (risk of vicious circle trap) may affect negatively the process of growth making.

Research Methodology

Research Design

The study adopted descriptive design. A descriptive research design determines and reports the way things are (Mugenda & Mugenda, 2003). Descriptive research is the investigation in which quantitative data is collected and analysed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time.

Target Population

The target population was from SMEs practicing table banking in different categories of business like retail, service and agribusiness. The study targeted at least two active members from each group making a total of 768 members who will also be the target respondents since there are 384 SMES practicing table banking. Questionnaires were administered by any two active members of a group. Either a chairperson, secretary, treasury or an ordinary member of each SME practicing table banking.

Sampling Technique

Stratified random sampling technique was used since population of interest is not homogeneous and could be subdivided into groups or strata to obtain a representative sample. The technique was used to subdivide the study population into subpopulations (stratum). For the case of the research, the strata are the target categories of business namely: retail industry, service industry and agribusiness industry. Stratifying assisted in avoiding biasness in the selection of the unit of analysis. Samples was selected from each stratum proportionately.

Sample Size

Sample size was determined on the basis of the sampling procedure used. Sounders *et al*. (2012) noted that the sample size is a compromise between the accuracy of the findings and the amount of time and money which will be used in data collection and analysis. According to Mugenda & Mugenda (2003), a sample must be at least 10% of the target population. Therefore the researcher used sample of 12% that is 12/100 = 92. Using this as a benchmark a sample of 92 respondents was selected. A sampling ratio was established by dividing the sample size by the population size, that is, 92/768=0.12. From each strata 12% of the respondents was selected.

Research instruments

The questionnaire was used to get information from the respondents. The questionnaire was structured into two sections; section I and II. Section I constituted demographic information while section II constituted variables related to table banking. One set of questionnaire was used because the set of independent and dependent variables used in the study require same kind of data that will come from the respondents from different women owned SMEs. The respondents was expected to self-administer the items. Both structured and unstructured items in the questionnaire was used. Structured items was set in such a way so as to capture all the likely answers from the respondents. The unstructured answers gave the respondents a complete freedom of response which will enrich the data. Questionnaires were used because they produced high quality data and results compared to other instruments.

Data Analysis

In this study both descriptive and inferential data analyses techniques was used. Descriptive data was analyzed by use of frequencies. Data was edited, coded, classified and summarized into categories. Inferential data was analyzed using regression analysis techniques. This was to determine whether the proposed variables influence the dependent variable in question. The statistical package for social science (SPSS) package was used to analyze the data.

Regression was used in this study to achieve the study objectives.

Ethical Issues

Due to sensitivity of some information collected, the researcher held a moral obligation to treat the information with utmost propriety. Since the respondents were reluctant to disclose some information, the researcher reassured the respondents of confidentiality of the information given and that the research report is purely for academic/examination purpose. The researcher was also obliged to avail a copy of the completed thesis to the respondents upon their request.

Data Analysis Results

The study conducted correlation analysis to establish the association and relationship between the study variables. The findings obtained are presented below:

		EDEV	PINVE		
EDEV	Pearson Correlation	.259*	.389**	1	
	Sig. (2-tailed)	0.031	0.001		
PINVE	Pearson Correlation	.252*	.423**	.524**	1
	Sig. (2-tailed)	0.035	0	0	
	N	70	70	70	70

Entrepreneurship development had a significant positive effect on entrepreneurship development (r=0.259, p<0.05). This concurs with a study by Cheston and Kuhn, (2002), who found out that implementing training programs and business development services can be used to enhance capacity building among entrepreneurs. Establishing and nurturing business associations so that they can organize workshops, provide support and mentoring programs, facilitate access to credit and to markets, undertake advocacy, and provide best practice exchanges. The findings on entrepreneurship development was in line with the likert scale findings where the members agreed to a great extent that, seminars, workshops and entrepreneurship skills affects growth of SMEs. The effect of enterprise development from table banking and financial management was to a moderate extent on SMEs growth.

Investment pooling had a significant positive effect on entrepreneurship development (r=0.252, p<0.05). This therefore mean that pooling of resources for SMEs that had adopted table banking would improve their financial performance. This agreed with likert measurement where pooled investment had a great extent effect on growth of SMEs through pooled investment on table banking, pressure groups/focus business group and investment, experience and knowledge. The findings were also confirmed by conducting a bivariate regression analysis where finding on entrepreneurship development is presented below.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.110	.239		4.639	.000
EDEV	.562	.098	.569	5.709	.000

a. Dependent Variable: SGROW

The findings indicate that when the SMEs engage entrepreneurship development strategy, the SME Growth will improve by 0.562, with a P value of 0.000, ($p<0.05$). This infers that entrepreneurship development strategy was statistically significant to SME growth. The bivariate regression analysis findings on pooling of investments is presented below.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.253	.324		3.870	.000
PINVE	.467	.126	.410	3.706	.000

a. Dependent Variable: SGROW

The findings indicate that when the SMEs engage Pooled investment strategy, the SME Growth will improve by 0.467, with a P value of 0.000, ($p<0.05$). This infers that Pooled investment strategy was statistically significant to SME growth.

Conclusions

The objective of the study was to analyze the effects of entrepreneurship development table banking on women owned small and medium enterprises in Meru County by assessing the role of entrepreneurship development and pooled investment on growth of SMEs. The results showed that there was positive relationship between entrepreneurship development and pooled investment on growth of SMEs. The study thus concluded that entrepreneurship development and pooled investment lead to significant growth to small and medium sized enterprises.

Recommendations

The recommendations on the study of Table Banking effects on the growth of women owned small and medium enterprises in Meru County gave the below specific solutions on every objective and explained and justified with the support of the finding.

Entrepreneurship development means developing the skills and capacity of the members. This means that the women SMEs need to organize for seminars, workshops, financial and management counseling as the means of growing their SMEs. Entrepreneurs are the bedrock of SMEs, which, in turn, become the kernel for the development of much larger firms. As well as promoting technological, scientific and innovative capabilities, the tertiary education sector is an ideal forum to develop the business skills and acumen needed to take entrepreneurial ideas to the next level. With sound business understanding, these ideas can and do become a reality.

Pooled investment and growth of SMEs was significant to the study. Savings from the group members forms a pooled investment, the pooled savings benefits the members by allowing them to borrow more than what they have saved from the group. Members repay back amounts loaned to them with an interest thus growing the pooled investment. At any one given time the group will have extra cash, and should thus invest the money in financial institutions to ensure security and safety of the money.

Suggestions for Further Research

The study was confined to the selected women entrepreneurs in Meru County and the specific objectives and so the study was not able to cover all other areas and variables. Further research should be done to cover the factors affecting growth of women SMEs, and also the study variables can be further analyzed for more conclusive findings since this study can be of benefit to other SMEs investors in Kenya and the world, scholars and academicians in pursuit of knowledge and the government in financial institutions and regulations.

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