EFFECT OF FINANCIAL ACCESS ON THE PERFORMANCE OF SOCIAL ENTREPRENEURSHIP FIRMS IN KENYA

Lemein Korei Koitamet and Professor Bitange Ndemo
EFFECT OF FINANCIAL ACCESS ON THE PERFORMANCE OF SOCIAL ENTREPRENEURSHIP FIRMS IN KENYA

1* Lemein Korei Koitamet
1*Post graduate student, University of Nairobi
*Corresponding Author’s Email: koolemein@gmail.com
2* Professor Bitange Ndemo
Lecturer, University of Nairobi

ABSTRACT

**Purpose:** The general objective of the study was to establish the effect of financial access on the performance of social entrepreneurship firms in Kenya.

**Methodology:** The study adopted a descriptive research design. The total population was 448 employees of Iko toilet and Care Kenya. The sample size was 79 employees of Iko toilet and CARE Kenya who were selected using stratified random sampling. This sample was selected using R software. The raw data obtained from the field was coded, scrutinized, organized and edited to enhance accuracy and hasten analysis by the help of Statistical Package for Social Sciences (SPSS). SPSS assisted in summarizing the data descriptively using frequencies, percentages, means and standard deviation. In order to test the relationship between the dependent and independent variables, inferential statistics that is spearman’s rank correlation r and regression analysis was used.

**Results:** The study found that financial access have a positive and significant relationship with performance of social entrepreneurship firms.

**Unique contribution to theory, practice and policy:** The study recommends that the government should formulate measure to ensure that social entrepreneurship firms are facilitated to gain financial access. In addition, the banking institutions should prolong the loan repayments periods so that the entrepreneurship firms can get enough financial access.

**Key words:** social entrepreneurship, financial access, performance.
1.0 INTRODUCTION

1.1 Background of the Study

Although they embrace a variety of ways of working, it is generally believed that successful social enterprises embody the following characteristics: gaining independence and autonomy through trading; entrepreneurial, innovative, risk taking behavior; flexible and adaptable practices; customers and community focus; stakeholder engagement; democratic and participative management; delivering socially and/or environmentally as well as financially; and financially viable, gaining their income from selling goods and services (Dees, 1994).

Numerous publications have provided ready-made compilations of critical success factors in the private sector. Social enterprises are characterized by already mentioned distinctive features. This features influence not only leadership style or sources of financing, but also in a special way influence organizational culture through unusually high degree of mission awareness and declared values. For lack of a comprehensive theory for the study of social entrepreneurship, most studies rely on the business entrepreneurship literature (Dacin et al., 2011). Whilst the main objective of the company operating in the private sector is to achieve a profit and economic returns, in case of social enterprise the main interest is the added value and social contribution, with emphasis on the sense of mission and service (Kanter & Summers, 1987). In addition, there difference in over-dependence of the social sector enterprises on external sources of funding, due to its inability to demand realistic fees for the services provided to the majority of its clients, in addition to its reliance on volunteers and staff ready to accept below-market wages (Kerlin, 2010). The above-mentioned characteristic features and differences appearing between private and public sector, to a large extent influence the specificity of critical success factors.

Various scholars such as Sharir & Lerner, 2006, Boyer, Creech & Paas, 2008, Mason, 2012, Di Domenico et al., 2010 and Wronka,2013, identified the eight most common critical success factors for social enterprises. These are: (i) strong leader (leadership): engaged into leading and coordinating the enterprise, with the high justification and suitable qualifications; (ii) partnerships: the ability to negotiate and maintain a core set of relationships for the benefit of the enterprise, especially with local public sector institutions; (iii) triple bottom line planning: a bottom line that measures economic benefits, but also measures the organization’s impact on people and on the planet. The triple bottom line is a way of expressing a company's impact and sustainability on both a local and a global scale; (iv) attractiveness and clarity of innovative concept: product proposed to the customers should be able to demonstrate, that a new idea has market potential; (v) business planning and marketing: either the leaders of the enterprise have business and marketing skills, or have access to those skills in their key partners; (vi) short and long term benefits management: enterprise should demonstrate how it is going to deliver both long and short term benefits for its stakeholders to keep them engaged and committed; (vii) local community engagement: success of the enterprise depends on the successful engagement of the local stakeholders and beneficiaries; (viii) risk management: planning of activities in order to avoid risk and impact of extrinsic factors.

Bagnoli and Megali (2011) presented a multidimensional framework for measuring the performance of social enterprises and established three reference fields for management (a) economic-financial performance, linked to the determination of general performance (profits, value added.) and analytic results (production-cost of services, efficiency indicators); (b) social effectiveness, to measure the quantity and quality of work undertaken and to identify its impact on
the intended beneficiaries and the community and (c) institutional legitimacy, verifying conformity with law and mission statement. Economic and financial performance measurement is used by SEs to check their financial accountability. In this way, management control systems are necessary to measure an organization’s effort to reach economic equilibrium. Unlike other nonprofit voluntary organizations or foundations, social Enterprises are first and foremost enterprises, and therefore their social goals are to be pursued only by respecting economic and financial efficiency (Torres & Pina, 2003).

1.2 Problem Statement

Even though social entrepreneurs have increasingly been acknowledged for addressing the social, ecological and economic problems of our time (Zahra et al., 2009), there is a lack of understanding of this type of entrepreneurs and the issues affecting their activities. For instance, the way in which these entrepreneurs recognizes and exploits opportunities for the creation of social value is not fully understood (Doyle Corner & Ho, 2010; Mair & Martí, 2006). Compared to commercial entrepreneurs, social entrepreneurs are thought to face specific challenges while setting up their businesses, especially regarding financial and human resource mobilization. Their survival and growth is complicated by the combination of economic and social value creation that is widely considered to be a fundamental distinguishing factor between social entrepreneurship and commercial entrepreneurship (Dorado, 2006; Mair & Martí, 2006; Moizer & Tracey, 2010; Zahra et al., 2009).

Social enterprises face special constraints linked to their hybrid business model: access to finance, human resources, legal status, difficult markets, and management weakness (Smith & Darko, 2014). Based on a case study analysis by Dobele (2012), in most cases there is no existence of legal regulation on social entrepreneurship, there is lack of support instruments particularly for establishing and developing a social enterprise, and dependence on donations and subsidies for self-sustaining a social enterprise which constraints their performance. According to Alvord et al., (2004), the nature of innovation, characteristics of leadership, organizational and institutional features significantly affect the performance of these enterprises.

1.3 Research Objectives

The overall objective of this study was to establish the effect of financial access on the performance of social entrepreneurship firms in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Financial Liberalization Theory

The financial liberalization theory was brought into salience with the seminal work of McKinnon and Shaw (1973). They popularized the concept of financial repression as a financial system with policies that distort domestic financial markets and credit controls. The observation is that such a system interferes with the economic development of a country as the intermediaries are not well developed for mobilization of savings while allocation of financial resources among competing uses is inefficient. The early hypothesis of McKinnon and Shaw (1973) assumed that liberalization (absence of repression) which would be associated with higher real interest rates as controls are lifted would stimulate savings which would lead to higher levels of investments and therefore to economic growth. McKinnon and Shaw (1973) also suggest that liberalization of financial markets
allows penetration of financial services among the poor population. These groups of people are always on the lower cadre of the social cycle. Therefore, providing them with accessible tools of finance could be considered a very significant step towards achieving economic growth. This is because peasant communities could be mainly left out due to poor infrastructure, insecurity and abject poverty. Providing these people with access to credit gives them the opportunity to expand their business activities to middle class economy.

The critics of this theory include Allen and Santomero (1997) who reviewed financial liberalization theory and attempted to reconcile it with the observed behavior of institutions in modern capital markets. They argue that current theory of financial liberalization too heavily focuses on the functions of financial institutions that are no longer crucial in mature financial systems. They suggest that the emphasis on the role of intermediaries as reducing the frictions of transaction costs and asymmetric information is too strong; while these factors may once have been central to the role of intermediaries, they are increasingly less relevant. Allen and Santomero (1997) suggest a view on financial intermediaries that centres on two of their roles. First, they are the facilitators of risk transfer and deal with an increasingly complex maze of financial instruments and markets. The key area of intermediary activity therefore has become risk management, whereas traditional intermediation theory offers little to explain why institutions should perform this function. Second, financial intermediaries reduce participation costs and the costs of learning about effectively using markets as well as participating in them on a day to day basis and this plays an important role in understanding the changes that have taken place. This theory was also deemed relevant to this study because it informed the independent variable which was financial access. There is need for liberalization of financial markets so as to allow penetration of financial services. The two theories were adopted for this study because they helped to explain the relevance of the four determinants that have been selected to examine the performance of the social entrepreneurship in Kenya.

2.2 Empirical Review

Murigi (2014) conducted a study on the effect of financial access on the financial performance of small and micro enterprises in Mukuru slums. According to the study the role of the small and micro enterprises (SMEs) continues to be in the forefront of policy debates not only in developing countries but also in developed countries in creation of employment, driving innovation and entrepreneurship, reduction of poverty and other social challenges. This is more so for SMEs in slums as debate on how to improve living standard in informal sector attracting a lot of interest. Financial access has been found to be the blood of small and micro enterprises and a key determinant of financial performance in developed countries. The role of ensuring financial access is facilitated by the financial sector that mobilizes savings and allocates them to economic uses while providing critical information and discipline for economic agents as well as a mechanism for the allocation and management of risks and hence influencing firm’s financial performance.

Due to the short term nature of the financing needed by the SMEs in slums, informal and semiformal financial institutions respond relatively well compared to the formal financial institutions to provide the required finances. However, the effect of finance access to Mukuru slums SMEs remains unknown with studies neglecting the area. The study adopted descriptive research design. The research data was collected using questionnaires and secondary data from financial statements. Data was analyzed using SPSS version 21. The study found that financial access has positive and significant effect on SMEs financial performance in Mukuru slums.
Further, 43% of the SMEs in Mukuru slums finance their operations from informal financing, 34% from formal sources and 23% from semiformal sources. The study concluded that informal sources of finance lead to better financial performance on SMEs that formal and semi-formal source of finance. The size of the SME and the age were found to have positive and significant effect on financial performance. However, it was noted that there are no proper measures to facilitate financial access to the SMEs hence; the study recommends the formulation of measures to ensure that SMEs in slums areas are facilitated to gain financial access. This formed a gap that the current study sought to address.

Macharia (2012) in his study on the effects of access to finance on micro and small enterprises investment growth in Ongata Rongai Township, established that financing of micro and small business, largely involved family and friends who played a big role in helping the business owners boost their operations with an average of 40% of the finances coming from them, an average of 24% came from financial institutions while on average 30% of the finances were from business savings. The study also found that the main hindrance of SMEs in getting access to formal financial services due to lack of credit services awareness, lack of collateral, banks vetting procedures, requirements of a guarantor, cost of loans and the employment as a security issue are some of the obstacles hindering utilization of the available credit facilities.

Sabana (2014) conducted a study on entrepreneur financial literacy, financial access, transaction costs and performance of micro enterprises in Nairobi City County, Kenya. According to this study entrepreneur financial literacy has been identified as one of the major competencies required for the establishment and management of microenterprises. A cross-section design was adopted for the study. The data was analyzed using both descriptive and inferential statistics. Hypothesis testing was done by use of regression and correlation analysis. The findings of the study indicated that entrepreneur financial literacy had a statistically significant influence on enterprise performance therefore the hypothesis that financial literacy influences enterprise performance was supported.

The study also established that financial literacy had a statistically significant influence on financial access therefore the hypothesis that financial literacy influences financial access was supported. The study also revealed that intervening influence of financial access on the relationship between entrepreneur financial literacy and performance microenterprises was statistically significant. Further, the results revealed that transaction costs had a statistically significant moderating influence on the relationship between entrepreneur financial literacy and performance of microenterprises. Finally, the study established that the joint influence of entrepreneur financial literacy, financial access, and transaction cost is statistically significant. This implies that the study variables jointly predict enterprise performance. However, there is no such study that has been conducted directly to assess the effect of finances on the performance of social entrepreneurship in Kenya, this is the gap that the current study filled.

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive research design. The total population was 448 employees of Iko toilet and Care Kenya. The sample size was 79 employees of Iko toilet and CARE Kenya who were selected using stratified random sampling. This sample was selected using R software. The raw data obtained from the field was coded, scrutinized, organized and edited to enhance accuracy and hasten analysis by the help of Statistical Package for Social Sciences (SPSS). SPSS assisted
in summarizing the data descriptively using frequencies, percentages, means and standard deviation. In order to test the relationship between the dependent and independent variables, inferential statistics that is spearman’s rank correlation r and regression analysis was used.

4.0 ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Demographic Characteristics

The respondents were asked to indicated their gender. Majority of the respondents who were 65% indicated that they were men while only 35% indicated that they were female. The study found that they were less than 30 years, 29% indicated that they were between 31 – 40 years, 12% indicated that they were between 41 – 50 years while only 10% were above 50 years. The results also showed that majority of the respondents who were 50% were single, 29% were married while only 21% were divorced. The respondents were further asked to indicate their level of education. The results also revealed that majority of the respondents who were 50% indicated that their highest level of education was secondary level, 32.4% indicated primary, and 14.7% indicated college while only 2.9% indicated university. The respondents were further asked to indicate the duration of time they have worked in the firm. The results also revealed that majority of the respondents who were 53% had worked in the firm for 2 to 5 years, 29% had worked in the firm for 6 – 10 years, 12% had worked in the firm for more than 10 years while only 6% had worked in the for less than one year.

4.2 Descriptive Statistics

4.2.1 Financial Access

The objective of the study was to establish the effect of financial access on the performance of social entrepreneurship firms in Kenya. The results in table 1 revealed that majority of the respondents who were 64.7% (47.10% + 17.60%) indicated that cost of finance affect their ability to access credit to a great extent. The results further revealed that majority of the respondents who were 77.9% indicated that short repayment period affect their ability to access credit to a great extent. The results further revealed that majority of the respondents who were 67.6% indicated that collateral affect their ability to access credit to a great extent. The results further showed that that majority of the respondents who were 70.6% indicated that lack of the social entrepreneurship credit worthiness information affect their ability to access credit to a great extent. The results further showed that that majority of the respondents who were 80.9% indicated that the firms profit position affects its ability to access finance to a great extent. The results further showed that that majority of the respondents who were 82.3% indicated that many financial institutions still have a problem financing social enterprises because of the profitability challenges to a great extent.

On a five point scale, the average mean of the responses was 3.78 which mean that majority of the respondents indicated to a great extent; however the answers were varied as shown by a standard deviation of 1.13.
Table 1: Financial Access

<table>
<thead>
<tr>
<th>Statement</th>
<th>Very low extent</th>
<th>Low extent</th>
<th>Moderate extent</th>
<th>Great extent</th>
<th>Very great extent</th>
<th>Mean</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of finance</td>
<td>4.40%</td>
<td>17.60%</td>
<td>13.20%</td>
<td>47.10%</td>
<td>17.60%</td>
<td>3.56</td>
<td>1.11</td>
</tr>
<tr>
<td>Short Repayment Period</td>
<td>1.50%</td>
<td>14.70%</td>
<td>5.90%</td>
<td>50.00%</td>
<td>27.90%</td>
<td>3.88</td>
<td>1.03</td>
</tr>
<tr>
<td>Collateral</td>
<td>4.40%</td>
<td>14.70%</td>
<td>13.20%</td>
<td>44.10%</td>
<td>23.50%</td>
<td>3.68</td>
<td>1.13</td>
</tr>
<tr>
<td>Lack of the social entrepreneurship</td>
<td>14.70%</td>
<td>10.30%</td>
<td>4.40%</td>
<td>48.50%</td>
<td>22.10%</td>
<td>3.53</td>
<td>1.34</td>
</tr>
<tr>
<td>Collateral</td>
<td>14.70%</td>
<td>10.30%</td>
<td>4.40%</td>
<td>48.50%</td>
<td>22.10%</td>
<td>3.53</td>
<td>1.34</td>
</tr>
<tr>
<td>The firm's profit position affects its ability to access finance</td>
<td>2.90%</td>
<td>14.70%</td>
<td>1.50%</td>
<td>41.20%</td>
<td>39.70%</td>
<td>4.00</td>
<td>1.13</td>
</tr>
<tr>
<td>Many financial institutions still have a problem financing social enterprises because of the profitability challenges</td>
<td>4.40%</td>
<td>4.40%</td>
<td>8.80%</td>
<td>48.50%</td>
<td>33.80%</td>
<td>4.03</td>
<td>1.01</td>
</tr>
<tr>
<td>Total</td>
<td>4.30%</td>
<td>4.30%</td>
<td>8.80%</td>
<td>48.50%</td>
<td>33.80%</td>
<td>4.30</td>
<td>1.01</td>
</tr>
</tbody>
</table>

4.3 Inferential Statistics

4.3.1 Correlation Analysis

Table 2 below presents the results of the correlation analysis. The results revealed that financial access and performance are positively and significant related ($r=0.548$, $p=0.000$). These findings agree with that of Murigi (2014) who argued that financial access has been found to be the blood of small and micro enterprises and a key determinant of financial performance in developed countries. The study concluded that financial access and financial performance are significant related.
Table 2: Correlational Analysis

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Performance</th>
<th>Financial access</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Pearson Correlation 1.00</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial access</td>
<td>Pearson Correlation 0.548**</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

4.3.2 Regression Analysis

The results in table 3 presented the fitness of model of regression model used in explaining the study phenomena. Financial access was found to be satisfactory variables in performance of social entrepreneurship firms. This was supported by coefficient of determination also known as the R square of 56.0%. This meant that financial access explain 56.0% of the variations in the dependent variable which was performance of social entrepreneurship firms. The results further meant that the model applied to link the relationship of the variables was satisfactory.

Table 3: Model Fitness

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.748</td>
</tr>
<tr>
<td>R Square</td>
<td>0.56</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.532</td>
</tr>
<tr>
<td>Std. Error of the Estimate</td>
<td>0.343658</td>
</tr>
</tbody>
</table>

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4 provided the results on the analysis of the variance (ANOVA). The results indicated that the overall model was statistically significant. Further, the results implied that the independent variables are good predictors of financial sustainability. This was supported by an F statistic of 20.022 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 4: Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.458</td>
<td>4</td>
<td>2.365</td>
<td>20.022</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>7.44</td>
<td>63</td>
<td>0.118</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16.899</td>
<td>67</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Regression of coefficients results in table 5 revealed that financial access and performance are positively and significant related (r=0.249, p=0.025). These findings agreed with that of Murigi (2014) who argued that financial access has been found to be the blood of small and micro enterprises and a key determinant of financial performance in developed countries.
Table 5: Regression of Coefficients

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.539</td>
<td>0.501</td>
<td>-1.077</td>
<td>0.286</td>
</tr>
<tr>
<td>Financial access</td>
<td>0.249</td>
<td>0.108</td>
<td>2.296</td>
<td><strong>0.025</strong></td>
</tr>
<tr>
<td>Entrepreneurial Culture</td>
<td>0.275</td>
<td>0.106</td>
<td>2.600</td>
<td><strong>0.012</strong></td>
</tr>
<tr>
<td>Management</td>
<td>0.314</td>
<td>0.102</td>
<td>3.079</td>
<td><strong>0.003</strong></td>
</tr>
<tr>
<td>Technology</td>
<td>0.306</td>
<td>0.101</td>
<td>3.026</td>
<td><strong>0.004</strong></td>
</tr>
</tbody>
</table>

Thus, the optimal model for the study is;

\[
\text{Performance of social entrepreneurship firms} = -0.539 + 0.249 \text{ Financial access}
\]

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Findings

The objective of the study was to establish the effect of financial access on the performance of social entrepreneurship firms in Kenya. The study found that financial access and performance of social entrepreneurship firms are positively and significant related.

These findings agreed with that of Murigi (2014) who argued that financial access has been found to be the blood of small and micro enterprises and a key determinant of financial performance in developed countries. The study concluded that financial access and financial performance are significant related. The findings were also consistent with that of Macharia (2012) who found that the main hindrance of SMEs in getting access to formal financial services due to lack of credit services awareness, lack of collateral, banks vetting procedures, requirements of a guarantor, cost of loans and the employment as a security issue are some of the obstacles hindering utilization of the available credit facilities.

5.2 Conclusion

Based on the study findings the study concluded that financial access have a positive and significant relationship with performance of social entrepreneurship firms.

The study also concluded that ability to access credit, short term repayment period greatly affect social entrepreneurship firms to access finance. In addition, collateral affect social entrepreneurship firms to access finance. Lack of the social entrepreneurship credit worthiness information also affects their ability to access credit to a great extent.

5.3 Recommendations

The study recommends that the government should formulate measure to ensure that social entrepreneurship firms are facilitated to gain financial access. In addition, the banking institutions should prolong the loan repayments periods so that the entrepreneurship firms can get enough financial access.

The study also recommends that all social entrepreneurship firms should enterprise should use planning to forecast its activities. This helps them to boost their performance. The firms should also ensure effective control of activities in their enterprise. In addition there should be a clear structure of management in all social entrepreneurship firms. All employees in all social entrepreneurship firms should be well trained in their areas of operation to enhance their performance.
REFERENCES


Macharia, P., (2012). *The effects of access to finance on micro and small enterprises investment growth in Ongata Rongai Township*. University of Nairobi MBA project.
