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MICROFINANCE AND PERFORMANCE OF MICRO AND SMALL ENTERPRISES; DOES TRAINING HAS AN IMPACT

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ABSTRACT: *Access to finance is considered as very important for gaining high performance of Micro and Small Enterprises (MSEs). Yet it has been observed that despite the availability of access to finance the performance of several MSEs is poor, which is a major hurdle in the growth rate of MSEs. The purpose of this study was to find the difference in certain performance indicators of MSEs who owners have been given training against those whose owners have never been given any kind of training. In order to conduct study survey research has been conducted and a sample of 384 MSEs was selected on simple random basis. The findings revealed that all the performance indicators including sales increase, income increase, assets increase, employment increase, and meeting household expenses have shown a significant difference among the two groups. The findings of the study are very important for the policy makers and the people who are involved in microfinance industry.*

KEYWORDS: Training, microfinance, micro and small enterprises, performance, growth

INTRODUCTION

In developed and developing countries number of large enterprises are far lesser as compared to micro, small, and medium enterprises (Tambunan, 2011). In developing countries like Pakistan, the number of Micro and Small Enterprises (MSEs) is far higher (Aslam, 2013). Such kind of industrial setup is common amongst developing economies like Pakistan, where micro and small enterprises cover major businesses in the economy and provide employment to a large number of work force (Gindling & Newhouse, 2014). These kind of enterprises are common in both rural and urban areas (Ali, 2013). MSEs are important for the provision of cheap goods and services (Cowling & Liu, 2014). Because of significant contribution in employment and provision of cheaper goods and services, their importance cannot be ignored (Cruz, Justo, & Castro, 2012). MSEs are important for the indispensable growth of any developing country by enhancing the income level of the middle and lower middle class.

MSEs in Pakistan face major problem in accessing finance (Khan & Khalique, 2014). There are several microfinance institutions but still they met a very little portion of the demand for access to finance (Asad, Shariff, & AlEkam, Moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs, 2016). The demand for initial startup capital and working capital is very high and the supply is limited (Thio, Megananda, & Maulana, 2006). The formal financial institutions for the provision of microfinance are unable to meet the demand of low income earners (Ali, 2013). At the same time these formal financial institutions are unable to meet the needs of micro enterprises for the growth of their businesses (Babajide, 2012). The only source left for these low income earners or the owners of MSEs are banks which require collateral (Kausar, 2013). Secondly,

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commercial banks prefer large businesses and prefer to give huge loans at a high interest rate, which becomes difficult for the MSEs (Shahbaz, Javed, Dar, & Sattar, 2014). Furthermore, because of lengthy procedure and documentation it becomes difficult for the MSEs to get finance from the banks.

Other than the formal financial institutions and banks the alternative options available for the MSEs are self-financing, local money lenders, and Rotating Saving and Credit Association (ROSCA) (Harvie, Narjoko, & Oum, 2013). However, the first alternative option self-financing can be made available by savings which is another constraint because of low saving capability of MSEs, on the other hand money lenders charge huge interest rates which cause default of the lender and results as the sale of business (Aziz, 2013; Asad, Shariff, & AlEkam, Moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs, 2016). ROSCA apparently seems good but in actual several ROSCA because of being non formal end up in default. Thus, it would be right to say that microfinance is the only viable and suitable source for accessing finance for MSEs (Jasra, Khan, Hunjra, Rehman, & Azam, 2011). Microfinance institutions provide credit to low income groups without collateral (Shahbaz, Javed, Dar, & Sattar, 2014). Microfinance Institutions use different credit methodologies which serve as collateral substitute. These microfinance institutions provide loans at simple terms and conditions without any lengthy procedure, and have innovative recovery processes.

Along with financial access, another major issue is lack of business skills (Asad, Haider, Akhtar, & Javaid, 2011). Several studies have been conducted in different countries regarding the importance of training for gaining high performance from MSEs (Bembenutty, White, & Vélez, 2016; Karlan & Valdivia, 2011). Training adds the skills which the owners of MSEs usually lack. These skills include performing various business activities. With the right business skills the owners of MSEs can gain competitive edge. Another major advantage of training is that the owners develop networks, technology sharing, and learn skills to enhance their business by commercializing it to a bigger level (Sánchez, 2011). The basic reason behind acquiring all these skills is that such training are tailored to teach entrepreneurial skills among the owners of MSEs.

All over the world importance of training has been recognized as an important tool for enhancing the performance of MSEs. However, in developing countries like Pakistan least importance is given by the micro finance institutions and other government department on giving training to MSEs owners. Limited access to such skills restrict the ability of the MSEs owner to enhance their business beyond a certain limit and their growth remains stagnant (Asad, Haider, Akhtar, & Javaid, 2011). Several studies have highlighted the importance of capital and business skills for the enhancement and growth of MSEs (Rodrigues, Dinis, Paço, Ferreira, & Raposo, 2012). Therefore, in the light of above discussion it is obvious that availability of credit only is not enough to enhance the growth rate of MSEs but the training and teaching of business skills are also crucial. Thus, this study has been conducted to find the empirical evidence about the importance of training to enhance the performance of MSEs. This study has been designed to find the difference in the performance of MSEs financed by microfinance institutions on the basis of training and skills development. Therefore, this study is based on the hypothesis that MSEs that get access to finance and training perform better than those that do not get training.

LITERATURE REVIEW

In developing countries like Pakistan, MSEs are mostly un registered and are unorganized. These are scattered in informal markets which can also be termed as black market or underground economy as these are not registered (Sherazi, Iqbal, Asif, Rehman, & Shah, 2013). The major hurdle for MSEs in developing countries like Pakistan is access to financial resources (Asad, Shariff, & AlEkam, Moderating effect of entrepreneurial networking on the relationship between access to finance and performance of MSEs, 2016). In developing countries the major source of financing for MSEs are microfinance institutions (Rahmat, Megananda, & Maulana, 2006). Microfinance institutions provide only financing facilities like credit and savings (Aziz, 2013). It is argued that only credit cannot enhance the performance of MSEs. However, other factors that motivate the owners have a significant role (Cruz, Justo, & Castro, 2012). This motivation which is required for the high performance of MSEs can be acquired by several ways (Abdullah, 2013), the most common and influencing way is training and education (Karlan & Valdivia, 2011), which has a significant positive impact over the performance of MSEs.

Training has a major impact over behavioral change, it changes the way of perceiving the opportunities out of threats or challenges (Bembenutty, White, & Vélez, 2016). In Pakistan majority of the microfinance institutions provide credit without training their beneficiaries about how to run business successfully (Islam, Khan, Obaidullah, & Alam, 2011). The owners of MSEs have had the opportunity to attend in business training for different causes. It is very important to understand that in what manner business training of owners of MSEs influence the performance of MSEs (Cruz, Justo, & Castro, 2012). Likewise, it is also very important to understand the difference if any in the performance of MSEs financed by microfinance institutions and owned by trained or owners who have not been trained (Karlan & Valdivia, 2011). Thus, this study is an attempt to find a comparative analysis on performance of MSEs financed by microfinance institutions, by making a comparison between those whose owners were given training from the microfinance institutions against those who have had not been given training.

MSEs in Pakistan are shaped in terms of characteristics that shape them. The simplest definition given by the State Bank of Pakistan (SBP) differentiate micro, small and medium enterprises in terms of number of employees. According to SBP any enterprise employing less than ten employees will be considered as micro, whereas any enterprise employing more than ten and less than 20 will be considered as small, and if any organization as more than 20 and less than 500 employees will be considered as medium enterprise. The other definitions provided by Small and Medium Enterprise Development Authority (SMEDA) are slightly different and distinguish micro, small, and medium enterprises of different grounds. Other distinctions are with regard to sales, area, and startup capital. As SBP is the head of financial institutions, therefore, the definition provided by SBP has been used in this study to operationalize micro and small enterprises.

The human motivation is received and enhanced when they have appropriate knowledge about doing something (Cruz, Justo, & Castro, 2012). Knowledge regarding doing business is received through training. The human motivation in this aspect is viewed as that effects the behavior of business owners (Maslow, 1943) which shape the performance of MSEs. According to this theory social and psychological motive can significantly influence growth seeking behavior and therefore, growth of MSEs.

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According to this theory the needs of the owners act as motivator to seek further growth. These need are usually socially generated, sustained, and changed (Maslow, 1943). This clarifies that motivation of the owner of the MSE is more important than any other thing if the finances are available and even if the owner has shortage of capital but is motivated he can perform well. This level of motivation is mostly achieved by training (Kessy & Temu, 2010). Training helps the owners to understand and recognize opportunities in every threat. Other motivational factors include, self-control, up gradation of enterprise, sense of achievement, being opportunistic, skills development, working in challenges, and reduction in poverty level (Olusola & Olusola, 2013; Dahling, Melloy, & Thompson, 2013; Ghalib, Malki, & Imai, 2011). From this point of view it is evident that owners of MSEs with high need for achievement usually perform better, but the only thing that is required to groom their motivation level is training (Sánchez, 2011). Training and learning from others enhances the motivation level of entrepreneurs.

In the light of above discussion it is obvious that access to finance and training both are very important (Kithae, Nyaga, & Kimani, 2013). Measuring performance of MSEs is another challenge. In the literature the major indicator of performance are return on assets and return on equity. Return on equity and return on assets can only be calculated if the formal accounting records are available (Van Horne & Wachowicz, 2008). The major issue as mentioned above that MSEs especially in the developing countries are not properly organized or registered and therefore, do not keep proper accounting records. Therefore, the performance of these enterprises is measured with reference to perception of their owners regarding increase in sales, increase in income, increase in asset base, increase in employment, increase in savings, and meeting their household and other daily expenses easily. Therefore, in this study the analysis was mainly based on the difference in these performance indicators because of training given or not to the owner of the MSE.

In the light of the above discussion following were the major objectives of the current study:

1. To find the difference in sales increase on the basis MSEs Owners who have been given training and who have not.
2. To find the difference in income increase on the basis MSEs Owners who have been given training and who have not.
3. To find the difference in assets increase on the basis MSEs Owners who have been given training and who have not.
4. To find the difference in employment increase on the basis MSEs Owners who have been given training and who have not.
5. To find the difference in meeting house hold expenses on the basis MSEs Owners who have been given training and who have not.

METHODOLOGY

Research methodology guides about the process of conducting research and is based on the objectives of the study (Hussey & Hussey, 1997; Collis & Hussey, 2009). Despite the fact that there are several theoretical explanations available about the importance of access to finance

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and training, yet it is important to empirically test that whether training makes a significant difference or not. This difference has been observed in different performance indicators. In order to meet the research objective following hypothesis have been developed:

1. There is a significant difference in sales increase between MSEs Owners who have been given training and who have not.
2. There is a significant difference in income increase between MSEs Owners who have been given training and who have not.
3. There is a significant difference in assets increase between MSEs Owners who have been given training and who have not.
4. There is a significant difference in employment increase between MSEs Owners who have been given training and who have not.
5. There is a significant difference in meeting house hold expenses between MSEs Owners who have been given training and who have not.

In order to meet the objectives of the study survey research was conducted (Hair, 2007). The survey was mainly conducted in the major cities of Punjab. The basic reason behind choosing Punjab was that more than 50% of the MSEs are situated in Punjab and Punjab is considered as the hub of MSEs in Pakistan. Questionnaire was adopted as instrument of data collection (Haider, Asad, & Almansour, 2015). A sample of 384 MSE owners who have accessed credit from any of the microfinance institution was selected on simple random basis (Zikmund, Babin, Carr, & Griffin, 2012). Before applying any parametric test the normality of the data was accessed by checking the Skewness and kurtosis (Shane & Eckhardt, 2003). After ensuring that the data is normal Levene's test for equality of variance was applied. Before conducting the Levene's test in order to get the idea about the situation regarding performance indicators, descriptive were conducted for all the performance indicators.

FINDINGS

Initially the profiles of the respondents were analyzed. There were almost 72% males and 28% females. The genders were identified because they might would have an impact over the performance (Chirwa, 2008). Out of all the owners of MSEs almost 46% were given business training and almost 54% have not been given any kind of business training.

In this study independent sample t test has been applied using Levene's test for equality of variance to find that is there significant difference between the performance indicators of those microfinance beneficiaries who were given training and those who have not received training.

Table 1 shows the output of group statistics. Out of 384 respondents, 117 were given trainings, whereas rest 207 were not given any kind of training. The descriptive analysis revealed that all the performance indicators have shown better results for the MSEs whose owners were given training as compared to those MSEs whose owners were not given any kind of training. In the table it is clear that the mean values of sales, income, assets, employment, and meeting house hold expenses of the MSEs whose owners were given training were better than the mean values of the same for the MSEs whose owners were not given any training.

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In order to further strengthen the hypothesis and to be sure that the picture which is depicted by the descriptive analysis is correct, Levene's test for equality of variances has been applied (Gastwirth, Gel, & Miao, 2009). In this test it has been observed that all the variables have shown the value of significance greater than 0.05 showing that the two groups of trained and not trained for all the variables have equal variances. It gives a green signal to further conduct the analysis by considering the row equal variances. In table 3 after assuming that the variances for both the groups for all the variables are equal which are mentioned in table 2. Thus, by applying t-test for equality of means the significance in the differences have been observed.

Table 1 output of group statistics

Indicator	Group	N	Mean	SD
Sales increase	Training received	177	5.07	1.074
	Not trained	207	3.79	1.896
Income increase	Training received	177	5.21	1.237
	Not trained	207	4.01	1.965
Assets increase	Training received	177	5.02	1.269
	Not trained	207	3.86	1.895
Employment increase	Training received	177	4.89	1.086
	Not trained	207	3.27	1.852
Meeting house hold expenses	Training received	177	4.57	1.178
	Not trained	207	3.98	1.913

Table 2 Levene's test for equality of variance

Performance Indicator	F-Value	Sign.
Sales Increase	2.486	0.101
Income increase	2.854	0.203
Assets increase	2.632	0.302
Employment increase	2.258	0.096
Meeting house hold expenses	2.256	0.037

Table 3 t-test for equality of means

Performance Indicator	Assumption on Variance	T value	Sig	Mean diff.	SE diff.
Sales increase	Equal Variances assumed	3.21	0.001	0.791	0.212
	Equal variances not assumed	3.13	0.001	0.791	0.213
Income increase	Equal Variances assumed	2.96	0.005	0.821	0.235
	Equal variances not assumed	2.68	0.004	0.821	0.224
Assets increase	Equal Variances assumed	3.13	0.002	0.654	0.258
	Equal variances not assumed	3.25	0.002	0.654	0.256
Employment increase	Equal Variances assumed	3.01	0.004	0.689	0.186
	Equal variances not assumed	3.07	0.008	0.689	0.198
Meeting household expenses	Equal Variances assumed	2.99	0.01	0.598	0.192
	Equal variances not assumed	2.91	0.02	0.598	0.189

At this stage table 3 has been used to find the significant differences among the two groups. The significance values of all the performance indicators have shown a significant difference among the means of the two groups as the values for all the indicators is below 0.05. Thus,

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from the analysis it is clear that there were significant difference on sales increase, income increase, assets increase, employment increase, and meeting household expenses of the MSEs owners who were given training against those who have not. By using 5% significance level it can be concluded that all the hypothesis have been accepted and it is concluded that there is a significant difference between the two groups one who have undergone through training and one who have not.

DISCUSSIONS

The findings of the study are very interesting and eye catching especially for the researchers and the practitioners in the field of microfinance industry. All the performance indicators of growth have shown significant differences between those MSEs owned by owners with training against those without training. Increase in Sales, income, assets, number employees, and meeting house hold expenses of MSEs whose owners were trained were statistically significant higher than the same of MSEs who owners have never been given training. The growth of an MSE is also accompanied by investment and introduction of new technologies. But in this study, this growth aspect has not been catered. But it was slightly covered under the head of increase in assets as assets include all the assets including technological assets. On the basis of the findings of the study, it would be right to say that training has a significant impact over the performance of MSEs in Punjab, Pakistan. Thus, there is no harm in saying that training play a significant role in facilitating the growth of MSEs that receive microfinance services. The emphasis that is given in theories is supported by the empirical findings of the study. According to human motivation view motivational characteristics can be acquired through training. These motivational characteristics change the behaviors of the owners of MSEs towards the way they look into opportunities and enhance their opportunism along with enhancing need for achievement. Trainings helps micro and small entrepreneurs in thinking in a different way and helps them in getting new ideas. These new ideas may be regarding way to improve clientage or productivity from the available limited resources, declining the cost of production by keeping the production same or increasing it.

CONCLUSIONS

The results of the data analysis highlighted that training of microfinance beneficiaries is vital for getting better performance. Training facilitates growth perspective. The growh rate of MSEs whose owners have been trained were better as compared to those MSEs whose owners have never been given training. The findings of the study calls for further research on finding the same differences among male and female entrepreneurs. Furthermore, the findings of the study is important for the policy makers regarding the development of MSEs that trainings should be provided to the owners of MSEs and such modules should be developed in the business studies to develop entrepreneurial orientation among business students. Development of entrepreneurial skills is necessary in order to enhance business activities in the country and to promote the performance of existing MSEs in the country. Likewise, the owners of the microfinance institutions should realize the importance of training in order to enhance the recovery rate because better the performance of MSEs better would be their repaying capacity.

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With the help of proper training the behavior of the MSEs owners can be changed for doing business in a better way. Training also helps the MSEs in meeting the changing needs of the businesses and increases their chances of survival and growth in the increasing competition. In order to succeed in the current competitive environment the business owners need proper marketing and business skills. Furthermore, the skills that are acquired during training becomes an asset for the entrepreneur, which no flood can take away no earth quake can take away. Thus, the importance of trainings cannot be ignored as it opens new avenues of opportunities.

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