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The Impact of Training on Performance of Micro and Small Enterprises Served by Microfinance Institutions in Tanzania

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Abstract: This study examines differences in business performance between two specific groups of micro finance clients; the enterprises whose owners have received business and entrepreneurship training against those who had never. The analysis is centred on the premise that microfinance institutions enable their clients (mainly micro and small enterprises) to enhance their income earning capacity, attain firms' growth and improve owners' living standards. A total of 225 micro and small enterprises who are micro credit recipients was involved in the study. The performance analysis employed three growth indicators, namely sales revenue, employees number and firms assets value. An independent t-test was used in the comparative analysis. Prior to the test, the survey data was subjected to an application of natural logarithm to enable pulling of the highly skewed observations to a normal distribution. The comparison between the two groups was important in examining the impact of training in changing behavior and characteristics of businesses and the owners. The results of t-test revealed that micro credit client-enterprises owned by recipients of business training have higher level of assets and sales revenue compared to enterprise owned by non-recipients of training while insignificant differential impact on employment creation was demonstrated. Implications from the study is that training in business skills for Tanzanian micro and small entrepreneurs is vital for firms performance, growth and improved owners living standards in addition to credit access. Microcredit providers should therefore consider products modifications or work closely with training providers to achieve greater impact from micro finance services and poverty alleviation.

Key words: Impact, training, microfinance, micro/small enterprises, performance

INTRODUCTION

In many economies there are only few large enterprises, followed by a larger number of medium enterprises, whereas small businesses dominate the economic landscape of most countries (Benzing and Chu, 2009; Tarmidi, 2005). This industrial structure is common in most developing countries and in Tanzania alike, where the Micro and Small Enterprises (MSEs) are many and engage a significant proportion of the population from both rural and urban areas. The MSEs produce affordable goods and services, create a large proportion of jobs

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and thus contribute significantly to countries development and economic growth (Frempong, 2009; Masakure *et al*., 2009). The ILO/UNDP (2000) reported MSEs as players of almost indispensable developmental role through income and employment generation and the contribution to general society and local economies.

Despite their roles, MSEs are concentrated in activities which are described as unorganized/unregistered, third/parallel economy, non-institutional/bazaar economy and black market/underground market (Shuaib, 2004). The MSEs have very limited access to financial services from formal financial institutions in particular credits to meet their working and investment capital needs. Rweyemamu *et al*. (2003) argued that formal financial institutions have failed to serve the low income earners and their enterprises in both urban and rural communities. The commercial banks practices such as demand for conventional collateral, credit rationing, preference for high-income clients and large loans, bureaucratic and lengthy procedures of providing loans keep most of the low income earners outside the boundary of the formal sector financial institutions in developing countries.

Apart from commercial banks, self-financing, local moneylenders and microfinance schemes are considered as an alternative MSEs funding source. However, self financing is further constrained by the low MSEs' savings capability arising from low incomes while moneylenders with their high interest rate are very selective and also perceive MSEs without reference as having high default risk and thus decline to their general lending (Pretes, 2002; Sonfield and Barbato, 1999). Microfinance schemes have therefore been the only approach that is appropriate in providing credit to the low income earners who are not accepted by other sources of finance. These schemes are willing to loan small amounts to first-time or less creditworthy borrowers and most of the times to those lacking collateral (Ahmed, 2009; Pretes, 2002). They use credit methodologies that employ effective collateral substitutes, short loan processing time, innovative recovery practices, working capital loans to micro entrepreneurs (Hassan and Renteria-Guerrero, 1997; CGAP, 2003). The methods being adopted enable the MSEs' clients of microfinance schemes to grow through increasing incomes, to some extent creating employment and lifting the poor out of poverty.

It is argued that credit alone can not influence the MSEs performance; however, motivational factors significantly contribute towards the good performance of an enterprise (Benzing and Chu, 2009; Davidsson and Wiklund, 1999; Shane *et al*., 2003). These motivational elements can be acquired in different ways, one of which is training and education. In this regard, training enables participants to change behavior and how they perceived their activities. In Tanzania, most of MFIs provide credit without business training to their clients. MFIs' borrowers comprise MSEs whose owners have had opportunities to attend in business training for different causes. It is important to assess the manner in which business training impacts on MSEs performance compared to the MFIs clients without any training. This study therefore presents a comparative impact analysis on performance of MSEs borrowers from MFIs, by comparing those whose owners have undergone business training against those whose owners have had no business training.

The MSEs in this study are defined in terms of the features that shape them; the most notable of which is the number of employees. In this regard micro enterprises employ very few workers mostly less than five including family members and have very limited productive/fixed assets with a capital less than 5,000 US dollars (Pretes, 2002; Tarka, 2004; United Republic of Tanzania, 2003). Small enterprises are formal and non formalized undertakings which employ between 5 and 49 employees with capital higher than that of micro enterprises (United Republic of Tanzania, 2003). These definitions provide enough flexibility to capture the MSEs (Trulsson, 2002) and therefore have been adopted for this study.

Different theories have been used to explain performance and growth of enterprises. The human motivation view as one among them explains the effects of business owners' behavior on the performance of enterprises. Subscribers of this theory assert that the social and psychological motive can significantly influence growth seeking behavior and therefore growth of the enterprise (Benzing and Chu, 2009; Shane *et al*., 2003). They further argue personal needs of owner managers motivate them to seek further growth and that these needs are socially generated, sustained and changed. This implies that human motivation factors are very important for business growth regardless of whether the business has enough capital or not. These factors and human needs can be shaped through training. Other motivation for growth include the completion of challenging tasks, having control over one's own job, upward movement of enterprises activities, creating more opportunities for enterprises, learning new skills by working in challenging environments and sometimes poverty reduction motive (Singh and Belwal, 2008; Davidsson and Wiklund, 1999; Shane *et al.*, 2003; Apospori *et al.*, 2005). In this respect, people including MSEs owners with a high need for achievement, would value particular work-task situations and perform well in them, while their counterparts will perform poorly. Likewise, the clients of MFIs with high achievement needs for growth are expected to have higher growth than those with low need for achievement. It should be however noted that some of these motivation characteristics can be acquired through training and learning from others (Roomi *et al.*, 2009; Grizzell, 2003; Bratton and Gold, 2003).

The importance of training as one tool for MSEs' growth has been recognized worldwide. Many studies have revealed that training contributes significantly in the growth of enterprises. For example, Edgcomb (2002) established that training has significant impact on participant characteristics and final participant outcomes. Training adds to the skills of MSEs owners, change their behavior on how they perceive and conduct business activities and in turn enhance their ability to perform better. With the right skills; the MSEs owners can gain important edges even under stiff competitive environment. Through training, the enterprise owners/managers can acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques. This is because business training is mainly geared towards building entrepreneurial skills and traits of the recipients in order to better their businesses practices (Roomi *et al.*, 2009; CIDA, 1999). Limited access to soft productive resources (particularly basic management and financial literacy) can restrict the capacity of business owners to participate effectively in business activities (Heino and Pagán, 2001; Panjaitan-Drioadisuryo and Cloud, 1999). Moreover, different others advocate that the most impending and strategic factor inputs for MSEs are capital and business skills (Gebru, 2009; Kuzilwa, 2005; Kessy and Urio, 2006). Microfinance programmes were introduced as a means to provide credit which is an important source of the needed capital. However, as argued above, provision of credit alone without business skills it will not be possible for enterprises to perform at an optimal level. It is also possible that the outcry from MSEs for credit could be reduced through enhanced business skills as the owners get exposed and gain more knowledge on how to better use/manage resources they have. Therefore present study was based on the hypothesis that the enterprises receiving both micro credit and training services perform better than those receiving credit alone.

MATERIALS AND METHODS

In spite of the above theoretical explanations, it was equally important to test empirically whether there is a difference on growth performance by making comparison between enterprises owned by recipients of business training against those owned by people without business training. To achieve the test, a survey was conducted in August to October 2007 to different MSEs supported by MFIs in Tanzania. Specifically the survey covered a total of 225 respondents from four different regions; Dar es Salaam (92), Mwanza (52), Arusha (47) and Mbeya (34). In assessing the performance of enterprises, three different measures i.e., sales revenue, number of employees and assets level were used for comparison. In this regard, independent t-test was used to perform the analysis. Before testing, we applied natural logarithm to all data because some of observations were highly skewed either to the right or left.

RESULTS

The profile of the respondents shows that the composition of sample size was 46.2 and 53.8% for males and females, respectively. Additionally, 43.1% of the enterprises were owned by recipients of business training while 56.9% were owned by individuals without business training. Apart from the profile of the respondents surveyed, we also used t-statistic test to compare whether there is a significant difference between the growth indicators of enterprises owned by recipients of training against those clients who had never received business training. Table 1 shows the output of group statistics. Out of 225 respondents, 97 respondents received training while 128 had never received training. The table of group statistics revealed that all performance indicator averages for the group of clients with training were higher than those of clients who have not undertaken any form of business training. This means that assets, average revenue and number of employees were higher for the MSEs owned by clients with business training compared to the assets, average revenue and number of employees of those enterprises owned by clients without business training.

In order to use the results in Table 1 for meaningful statistical conclusion, the Levene's test (O'Neill and Mathews, 2002) was used to evaluate the homogeneity of variance assumption. In this test as indicated in Table 2, all indicators for growth have values greater than 0.05 (i.e., Levene's significance value for asset, number of employees and average revenue were 0.110, 0.238 and 0.141, respectively). These results mean that the two groups had approximately equal variances. This test indicates that the analysis should be carried out by considering the row equal variances. This was done by assuming equal variance and the results are shown in Table 3.

The findings in Table 2 set a way forward to use the results of t-test for equality of means to test our study hypothesis. Specifically the row of equal variances assumed in

Table 1: Output of group statistics

Indicator	Group	N	Mean	SD	SEM
Asset	With training	97	14.39	1.892	0.192
	Without training	128	13.60	1.589	0.140
Average revenue	With training	97	13.33	1.497	0.152
	Without training	128	12.81	1.335	0.118
No of employees	With training	97	5.38	4.764	0.484
	Without training	128	4.27	3.271	0.289

Table 2: Levene's test for equality of variance

Indicator	F-value	Sig.
Asset	2.576	0.110
Average revenue	1.399	0.238
No of employees	2.185	0.141

Table 3: t-test for equality of means

Indicator	Assumption on variance	t-value	df	Sig.	Mean diff.	SE diff.	95% C.I. of the difference	
							Lower	Upper
Asset	Equal variances assumed	3.41	223.0	0.001	0.792	0.232	0.334	1.250
	Equal variances not assumed	3.33	185.9	0.001	0.792	0.238	0.322	1.262
Average revenue	Equal variances assumed	2.75	223.0	0.006	0.521	0.189	0.148	0.894
	Equal variances not assumed	2.71	193.5	0.007	0.521	0.192	0.142	0.900
No of employees	Equal variances assumed	2.08	223.0	0.039	1.116	0.536	0.059	2.172
	Equal variances not assumed	1.98	161.3	0.049	1.116	0.564	0.003	2.228

Table 3 was used to test whether there were significant differences among the values of growth indicators of enterprises owned by these two groups. The values of these indicators in the column of sig. (2-tailed) revealed that the significance values for assets and average revenue were less than 0.05 (i.e., less than 0.025 for 2-tailed test). This means that there were significant differences on assets and revenue as growth indicators of the enterprises owned by the clients who had received business training against the enterprise owned by the clients without any form of business training.

The fact that the averages of these two indicators for the enterprises owned by the microfinance clients who had received business training were greater than the averages of enterprises owned by the clients who have not received any form of business training, it can be concluded that business training has an impact on assets level and revenue level. In this case the enterprises owned by the clients with business training, evidenced higher level of growth in terms of assets and revenue, than those owned by clients without or with only a minimum level of training.

On the other hand, the results from t-test for equality of means revealed that the number of employees of the enterprises owned by the clients who had received business training has no significant difference compared to number of employees of enterprises owned by client who had never got opportunity to attend business training. The significance value for this case was 0.039 (because the test was 2-tailed, this value in total is two times and it is equal to 0.078), which is greater than the traditional value of 0.05. Although, the mean of number of employees for the enterprises owned by clients who had business training was greater than their counterpart, the value that compares differences is insignificant and therefore the null hypothesis that the two groups have approximately equal means could not be rejected.

By using the specified level of significance for this study (i.e., 5%) it can be concluded that training has no significant influence on the growth in terms of number of employees of the MSEs surveyed. This insignificant relationship/decision could be due to the fact that change in number of employees normally occurs after a significant change in the size of other growth indicators like sales revenue and assets level. In this case when a number of employees is used as a measure of enterprises growth it provides in most of the cases a lower-bound estimate of net enterprise expansion (Liedholm, 2001).

Therefore, it is clear from the findings in Table 3 that the enterprises owned by clients who had received business and entrepreneurship training demonstrated a different growth level in terms of assets owned and revenues obtained compared to enterprises that owners had never been exposed to any form of business and entrepreneurship training. On the other hand, training has a very minimum influence on the growth of enterprises when it is measured in terms of number of employees. The results have also shown the importance of using more than one indicator in measuring the growth of enterprises supported by microfinance institutions. The fact that the significance value of the number of employees was slightly above 5%, one can generally conclude that training has significant impact on the growth of enterprises, although growth in terms of number of employees can be realized after a considerable period of time. This was expected because the number of employees normally grows slowly and therefore can be observed after a sizeable increase in sales revenues.

DISCUSSION

Interesting findings were observed in this study because not all indicators of growth showed differences between those enterprises owned by individuals with training against those without training. The assets and revenue of the MSEs owned by recipients of training in business were statistically significant higher than the assets and revenue of the micro credit borrowers without business training. However, there was no statistical significant difference with respect to the number of employees among the two groups.

Number of employees which showed statistical insignificance in this study could be caused by different factors. One of which could be due to the fact that the two groups had opportunity to meet each other in the MFIs offices. This is true because the comparison was made among the MFIs clients (those with training and without). From this interaction, there is a possibility of the two groups to share some experiences. This means that the clients with business training may have shared what they knew with other clients who have never received training. The statistical insignificance may further be based on the argument that in measuring the growth of the enterprises; the number of employees changes slowly compared to other indicators like revenue generated and assets accumulated. A possible explanation could be that MFI clients employ additional labour after a long period of accumulating assets and revenue which increase operations of enterprise and therefore demand for more workers. It is from this reasoning, different writers argue that net changes in real sales has been observed to be twice as much compared to the change in employment in many studies of enterprises growth (Kirkwood, 2009; Mead and Liedholm, 1998). However, at this point it could be noted that, although, the number of employees was not of a significant difference; the results show that the number of employed people in the enterprises whose owners attended business training was higher than those owned by their counterparts.

The growth of an enterprise is also accompanied by capital investment and introduction of new technologies. Therefore, change in number of employees may take longer time to take effect because in the processes of growing; MSEs owners may decide to opt for capital rather than labour intensive technologies. This decision will lead to the accumulation of more assets probably of higher monetary value in their enterprises while leaving limited room for employing additional people. Given the above reasoning and the study findings, potential conclusion can be derived from the findings. It is can be safely concluded that training plays an important role in facilitating the growth of enterprises that receive micro finance services.

The contribution of training in growth is also emphasized in theories and empirical findings. For example the human motivation view argues that motivational characteristics can be acquired through training and learning from others (Grizzell, 2003; Bratton and Gold, 2003). These motivational characteristics are therefore considered to be important factor in changing behaviors of business owners towards high need for achievement, value particular work task situations and performing well in their businesses. Proper accomplishment of tasks leads to the good performance within the enterprises which trigger the growth process. Other findings like that of Roomi *et al*. (2009), Singh and Belwal (2008), Edgcomb (2002), ILO/UNDP (2000) and Fisher (1998) also established that training has significant impact on participants' characteristics and final participants' outcomes. The impact of training on positive outcomes can be realized because the training helps the owners of enterprises to get new ideas on how to improve their businesses through productivity, reduced production costs, improved management skills and easy access to more profitable and expanded markets.

CONCLUSIONS

The results of the study data testing revealed that training is very important in facilitating the growth of enterprises. It was further shown that the enterprises owned by individuals who had got business related training demonstrated higher growth than enterprises owned by individuals who had never got any kind of business training. The study results call for special attention in addressing the problem of limited business and entrepreneurship training. In particular the business owners who have benefited from microfinance services need to undergo special training that will build their capacity in conducting their business with growth prospects. On the other hand, providers of micro finance services need to realize the value of business skills training to their clients and take appropriate actions by either linking them to training providers or modified their products delivery.

Through training the owners of enterprises are expected to change their behavior and how they perceive business activities. Additionally, they will be endowed with motivational characteristics discussed under human motivation view. Training helps small business owners, managers and potential entrepreneurs to meet the challenges of today's business environment manage the ever-changing world and plan for future of their business. This would be achievable because it is argued that in order to effectively pursue growth strategies an entrepreneur requires business and marketing skills to improve management and marketing efficiencies. Furthermore, skills obtained in training become an asset that can help to overcome uncertainty in decision making and open new avenues for opportunities. It is from this argument that different writers and also the findings of this study established that training has significant impact on participant characteristics and final participant outcomes (Roomi *et al*., 2009; Singh and Belwal, 2008; Edgcomb, 2002; Bratton and Gold, 2003; Grizzell, 2003).

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