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Determine How Capital Budgeting Affects Profitability of Women Owned Medium Enterprises in Siaya County

Ouya Joyce Obiero1,Dr. Ofwa Joanes Otieno Wu'Adongo2, Dr. Dr.Mukanzi Clive3 & Mr. Malenya Abraham4

Jomo Kenyatta University of Agriculture & Technology1

Department of Accounting &Finance, School of Business and Economics & Jaramogi Oginga Odinga University of Science & Technology, Kenya2

Jomo Kenyatta University of Agriculture & Technology3

Jomo Kenyatta University of Agriculture & Technology4

Abstract

The objective of this study was to determine how capital budgeting affects profitability of women owned medium enterprises in Siaya county. This study used theories that support the independent variables which included; Resource – Based Theory of entrepreneurship, goal setting theory and joint liability theory. This research was conducted in Siaya County, where a target population of 105managers of women owned medium enterprises was used and from which a sample size of 83 managers of women owned medium enterprises was selected through purposive sampling technique to represent the entire population. Primary data was collected by use of self- administered structured questionnaires which were distributed to the respondents in Bondo and Rarieda Sub - Counties. Data collected was organized in tables so as to be analyzed easily using Statistical Package for Social Sciences (SPSS). Reliability of the research instrument was tested using Cronbach's Alpha and the coefficient was found to be 0.967, which was accepted. The study employed both descriptive and inferential statistics and there was use of multiple linear regression model, Karl Pearson's correlation, and ANOVA to analyze data. The results and findings were presented in form of frequency distribution tables and pie charts. Under descriptive statistics, percentages of responses were computed. The study revealed that capital budgeting has positive and significant relationship with profitability. The study concluded that short- and long-term targets help achieve the objectives of the business. The study recommended that a business should not only raise capital from owner's savings, but also from debt so as to expand the capital base for profit maximization. The study further recommended that businesses should keep track of all credit sales so as to avoid bad debt. Women owned enterprises should therefore employ the financial management practices in this study, especially capital budgeting for profit maximization.

Key Words: women owned enterprises, capital budgeting, profit maximization, savings and credit management

Introduction

Background of the Study

Fostering entrepreneurship of women is important for economic growth of every country. Performance of medium enterprises largely depends on the financial management practices employed by the entrepreneur. According to Capital Markets Authority (2010), SMEs form more than 99% of all enterprises in the world. Belandress (1987) asserts that Small and Medium Enterprise is a manufacturing or non-manufacturing service enterprise in which the owner manager doesn't necessarily engage actively in production but perform various tasks involved in the guidance and leadership without the help of specialized staff. Microenterprises are key drivers of economic growth, providing employment, market linkages across various sectors, promoting innovation, reducing poverty and contributing to GDP in both developed and developing countries, (Cole, 2010).

According to World Bank (2009) credit alone would not be the only determinant of better performance of SMEs; but other factors such as setting of targets, budgeting, ability to create savings, better education levels for entrepreneurs could also be significant in determining better performance of SMEs in developing countries. It further asserts that entrepreneurs should have basic knowledge of book keeping or accounting so as to have proper financial records. In Kenya, most SMEs are owned by women and McCormick (2001) noted significant differences in the performance of women's enterprises vis-à-vis those of Kenyan men.

Women's enterprises are smaller, less likely to grow, less profitable, and begin with less capital investment than those owned by men. There is a great deal of gender segregation by sector

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(with women dominating in food processing, beer brewing, hairdressing, dressmaking, and retail of second-hand clothing, while men dominate in metalwork, carpentry, vehicle repair, shoe making, construction and transport). Women and men operate from different locations. Men are twice as likely as women to locate in trading centers, commercial districts or roadside locations; women are almost twice as likely to be operating from the home. Women are three times as likely as men to belong to some type of business association, although there are indications that women's networks have less power to assist their businesses. Cynthia (2011) further notes that the reality is that larger family sizes impose a huge responsibility for rearing the young children to women and this reduces the time they have for running their businesses. In Kenya, microenterprises created over 50% of all jobs and contributed over 40% of the country's GDP (KNBS, 2013).

Problem Statement and Justification

Kenya, as a developing country yearns to see the growth and sustainability of SMEs in order to solve the high poverty and unemployment levels that exist today. The government therefore promotes entrepreneurship among vulnerable groups, youth, women, PLWD among others as a means towards a sustainable source of income. Despite this substantial contribution to the Kenyan economy, SMEs continue to face challenges that limit their growth and development. A study conducted by Njoroge (2013), reveals that in Kenya most business owners suffer from weak levels of financial literacy, limited access to financial services and high transaction costs. These findings were supported by Mengich (2013), who asserted that weak levels of financial management practices lead to high failure rates among small and medium businesses. According to Berman, (2008), financially literate business owners manage resources more wisely, use financial information well and hence improve profitability of their enterprises. A financially literate entrepreneur knows the most suitable financing and financial management options for his / her business at various growth stages (USAID, 2009).Lack of proper information concerning the alternative sources of finances and inability of SMEs to evaluate their financing options were some of the major challenges facing entrepreneurs, (Orser, 2000). A study by Mugo (2012) to investigate factors affecting women entrepreneurs' performance in Central Business District (CBD) of the City of Nairobi, identified finance as the major challenge affecting performance of women entrepreneurs. In a study carried out on the effects of access to microfinance on the financial performance of SMEs owned by youths in Nairobi- Kenya, (Mugori 2012) concludes that SME owners receive training from MFIs in various aspects relating to running of businesses and that training in basic business skills scored highly. He recommended that MFIs should enhance training for clients on the entrepreneurial skills. His study, however generalized on need for training without a specific area of interest. Most researchers therefore generalize the need for financial management practices by small and medium enterprise owners in an attempt to improve profitability, but do not mention the specific type of financial management practice that has greatest effect on profitability of medium enterprises. The Kenyan governments through WEF, NGOs and other interventions like KWFT, Faulu Kenya and Equity bank have been in the fore front in offering various types of training on financial management practices to entrepreneurs in an attempt to improve profitability. It is not clear however, which one has highest effect on the profitability and this is what this study seeks to find out among women owned medium enterprises in Siaya County.

Objective:

Determine how capital budgeting affects profitability of women owned medium enterprises in Siaya County.

Hypothesis

H_0: Capital budgeting has no significant effect on profitability of women owned medium enterprises in Siaya County.

Literature Review

Theoretical literature Review

According to Robson (2002), a theory is an explanation of what is going on in the situation; phenomenon or what is being investigated. Theoretical review guides the researcher on variables to be measured. This study will be guided by theories which include: Resource- based theory of entrepreneurship, Goal setting theory and Joint liability theory. The essence of the Resource Based Theory (RBT) is that given resource heterogeneity, resource immobility, satisfaction of the requirement of value, rareness, imperfect imitability and non- substitutability, a firm's

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resources can be a source of sustained competitive advantage (Barney, 1991). Three basic types of resources may provide competitive advantage, namely physical resources, organizational capital resource and human resources (Barney, 1991). RBT posits that resources are embedded in organizations and standard carriers of resources are entrepreneurs, whose personal resources impact upon the firm's competitive advantage and performance (Bamford *et al.*, 1999). Kinuthia (2011) used RBT to investigate the marketing strategies and factors influencing their implementation by garment making micro enterprises in Nakuru town and concluded that both internal and external resource factors influenced the implementation of marketing strategies in micro enterprises. Mira et al (2013) used the RBT theory to examine the challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central District in Kenya.

Thepa (2014) used the RBT to examine the influence of managerial foresight on enterprise performance in Nepal and established that managerial foresight had a crucial role on enhancing microenterprise performance and that managerial foresight mediated the effects of several entrepreneur- enterprise environment and related factors on microenterprise performance. Okeyo (2013) used RBT to examine the relationship between entrepreneurial orientation, business environment, business development services and performance of small and medium manufacturing enterprises in Kenya. This theory is relevant to this study because actually for a business to do well, it must have necessary resources. These resources are in terms of financial, human, physical and technological resources.

Empirical literature

The existing literatures explain the benefits of different financial management practices on the profitability of medium enterprises, though they are not specific on a particular one that has highest effect and the extent to which it can improve profitability of these medium enterprises. The literature reviewed didn't also express concern for improving women owned enterprises only, apart from the general view of the fact that financial management practices have effect on profitability of SMEs. There was therefore need to carry out this research to establish specific financial management practice that actually has highest effect on profitability of women owned medium enterprises in Siaya County.

Akintoye et al (2008), in their study on theory of micro enterprises in Nigeria, argue that accounting skill is necessary for successful entrepreneurial and small business development. Their view is supported by Akande (2011), whose study looked at the accounting skills of the business women in Nigeria and how this affected their performance. According to Akande (2011), accounting skills are the totality of skills ranging from record keeping, attention directing, performance evaluation and business reporting of any enterprise. These studies talk about the fact that entrepreneurs should embrace record keeping, however they could have included other variables in financial management practices which can also help improve profitability.

The studies also concentrate on general record keeping and not specifically financial record keeping. Akande (2011), also talked about attention directing instead of target setting which should be the main concern of a medium enterprise. According to Peter Van den Bos (2010), a firm should set its goals by having clear vision on what it wants to achieve and how. He asserts that a smart manager or entrepreneur understands the value of target setting in order to steer a business in the right direction. Unfortunately, figuring out exactly what the right direction is and the road map to get there is a real problem. An enterprise should therefore set targets so as to go the right direction. Mushumiyamana (2008) conducted a study to analyze the relationship between access to capital finance and business performance. The study sought to identify the constraints faced by women owned small businesses in Nairobi. Semi structured questionnaires were administered to women owned SMEs. The study revealed that women were able to hire more employees and increase turnover, because of available capital finance.

The study by Mushumiyamana (2008) could have included other aspects of capital, not just sources of capital only. It could have mentioned about ploughing back capital, estimation of cash inflows and outflows and expansion decision making. A study by Cooper (2012), in Nairobi on the impact of microfinance services on the growth of SMEs in Kenya, found a strong positive correlation between microfinance services and the growth of SMEs. The study however does not outline the specific areas of growth like profitability of the business from availability of finance.

This view was also asserted by Faith *et al* (2013), who concluded that provision of financial services for women entrepreneurs has become component of microfinance programs because

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supporting entrepreneurship of women is having important trickledown effect on wider poverty alleviation and gender equality. This study is also more on financial provision to women entrepreneurs but does not elaborate on other financial management practices which may affect profitability of enterprises. Provision of finance is therefore very important for growth of enterprises though it is not the only factor that has effect on profitability of the enterprises.

Reseach Methodology

Research design

Descriptive survey research design was used in this study because data was to be collected by use of questionnaires. This research design helped to obtain information on the then current status of profitability after administration of different financial management practices by women entrepreneurs. It also ensured collection of large amounts of data. According to Mugenda and Mugenda (2003), a descriptive survey research design determines and reports the way things are and uses a pre- planned design for analysis. When detailed description of existing situation is required, then this method is suitable (Cohen *et al*, 2000).

Target Population and Sample Size

Polit and Beck (2003) state target population as the name for the list of the items from which the required sample is chosen from. A sampling frame should capture, in a statistical manner, the target population and that a perfect sampling frame is one that is complete, accurate and up-to-date. This study targeted 105 managers of women owned medium enterprises in Siaya County.

Sample Size and Sampling Procedure

Cresswell (2013) asserts that the entire population may not be easy to study. A researcher, therefore, has to draw a sample from the study population. This study adopted purposive sampling technique because it allows the researcher to gather information with respect to the objectives of the study. In this study the Yamane model was used to obtain the sample size.
According to the model,

$$n_s = \frac{N}{[1 + N\,(e^2)]}$$

Where;
n_s- Sample size
N- Population Size
e- Precision level (at 95% confidence level, e = 0.05)
Given N = 105, then

$$n_s = \frac{105}{1+105(0.05^2)} = 83 \text{ respondents}$$

Sampling Frame

NAME OF SUB COUNTY	POPULATION OF MANAGERS	SAMPLE SIZE
BONDO	61	48
RARIEDA	44	35
TOTAL	**105**	**83**

Source: Ministry of Public Service, Youth and Gender Affairs– County government of Siaya, (2018).

Reliability and Validity of Research Instruments

To test reliability of the research instruments, the instruments was administered to the same group of individuals on two separate occasions. The results were compared by correlating the sets of scores and calculating reliability coefficient. To ensure content validity, questionnaire was subjected to thorough examination by independent persons and late calculate the content validity index (CVI)

Data collection and Data Analysis

A structured questionnaire was developed to collect primary data. Sections contain questions relating to constructs of capital budgeting. Quantitative data will be analyzed using descriptive and simple inferential statistics especially multivariate regression analysis which is instrumental in indicating whether the independent variables;

Statistical model Specification

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Simple Linear Regression Model was used to analyze data;

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Y- Profitability of women owned medium enterprises
β_0 – Constant
β_1Regression coefficients (change induced in Y by each X)
X_1– Capital Budgeting
ε– Error term.

Findings and Discussion

Correlation analysis was conducted between capital budgeting (independent variable) and profitability (dependent variable). Results are presented in Table 4.17.

		Profitability	Capital Budgeting
Profitability	Pearson's Correlation	1.000	0.996
	Sig (2- tailed)	0.000	
Capital budgeting	Pearson's Corr	0.996	1.000
	Sig (2-tailed)	0.000	

Table 4.17 Correlation Matrix

Results in table 4.17 indicated that there was a positive and significant association between capital budgeting and profitability (r = 0.996, p = 0.000).These findings agree with those of Carter (2004), who observed that capital planning is crucial for a business to gain profit. This implies that according to Carter (2004), Capital budgeting and profitability are positively correlated.

Regression Analysis

The results presented in table 4.18 present the fitness of model used of the regression model in explaining the phenomena. Capital budgeting was found to be satisfactory variable in explaining profitability. This is supported by coefficient of determination, also known as the R Square of 99.1%. This means that capital budgeting explains 99.1% of the variations in the dependent variable which is profitability.

Variables	Coefficients
R	0.996
R Square	0.991
Adjusted R Square	0.989

Table 4.18: Model Fitness

Std. Error of the Estimate 9.385

The results on analysis of variance are presented in table 4.19.

	Sum of Squares	df	Mean Square	F	Sig.
Regression	30736.938	1	30736.938	348.938	0.000
Residual	264.262	3	88.087		
Total	31001.200	4			

Table 4.19: Analysis of Variance

Table 4.19 provides results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variable is a good predictor of profitability.

This was supported by an F statistic of 348.938 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. Regression of coefficient

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results is presented in Table 4.20

	B	Std. Error	t	Sig.
(Constant)	28.823	6.026	4.949	0.016
Capital budgeting	0.850	0.046	18.680	0.000

Table 4.20: Regression of Coefficient

Regression of coefficients showed that capital budgeting and profitability had a strong positive and significant relationship ($r = 0.850$, $p = 0.000$). These results were consistent with those of Mushumiyamana (2008), who found a positive relation between capital budgeting and growth of Small and Medium Enterprises.

$$Y = 28.823 + 0.850X_3$$

From the regression equation, when capital budgeting changes by 0.850%, profitability changes by 1%. This shows that there is positive relationship between the variables.

Conclusion

Results from primary data revealed that most businesses receive funding from Uwezo and WEF. This finding means that other sources of capital are also important for the expansion of businesses. A business should not just rely on fixed sources of funds. The result also revealed that main source of capital is owner’s savings. This finding means that a greater percentage of capital must come from the owner of that business and this is necessary before an entrepreneur sources for funds from outside. The results further revealed that businesses plough back profit. These findings agree with that fact that firms that realize high profitability do not share out the entire dividend but instead plough back profit. The results revealed that businesses also raise capital from debt for their expansion and that the owner’s savings may not be enough. Businesses normally estimate their cash inflows and outflows, according to the study findings and this is true because this is done as they try to project their profit. The results revealed that businesses make decisions to expand their operations. These findings mean that profitability comes from expansion. Correlation results revealed that there is a strong positive and significant relationship between capital budgeting and profitability.

Recommendation

The study recommended that businesses may look for extra sources of funding to help in their expansion. The study also recommended that businesses need to plough back profit to bring about expansion of capital which enhances profitability. The study further recommended that external debt is also important to businesses beside capital from owners’ savings. Businesses should also estimate their cash inflows and outflows so as to work hard towards achieving the objectives. The study also recommended that businesses should always make decisions to expand their businesses. This helps the business to earn high profit. Correlation results revealed that there is a strong positive and significant relationship between capital budgeting and profitability.

Suggestions for Further Research

Studies should be conducted on effect of financial management practices on profitability in other counties. Similar studies should be conducted on men owned businesses only, so as to compare the effects with those that are women owned. A similar study should be carried out on effect of financial management practices on profitability of large enterprises. A research study should also be carried out on effect of financial management practices on profitability of micro and small enterprises. Further research should be done on effect of training on financial management practices. Other studies should also look into other financial management practices, apart from the ones in this study.

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