SMEs' Owners Perception of the Impact of Multiple Borrowing on Enterprise Performance

Chalu, H.★ & Lubawa, G. ★★

About the Authors

Henry Chalu★, University of Dar-es-Salaam School of Business (UDBS) -Tanzania
Galinoma Lubawa★★, Institute of Rural Development Planning (IRDP); Dodoma –Tanzania

Corresponding address: hchalu@gmail.com or galinoma@gmail.com

ABSTRACT

This study assesses the perceptions of Small and Medium Enterprises (SMEs) owners on the impact of multiple borrowing on small business performance and identifies reasons for multiple loans. Data were collected, using questionnaires, from 102 SMEs owners' selected through theoretical sampling. Analysis of this data was accomplished by using descriptive statistics and Pearson Chi-Square Test of Independence indicates that the major reason for multiple loans was business expansion. Further, entrepreneurs perceive multiple loans as having a significant influence on both the financial performance of their businesses and on their personal lives, especially among those who used the additional loans properly and invested in their existing opportunities. These findings underscore the need for information sharing among Microfinance Institutions (MFIs), the introduction of flexible financial micro services, and financial education for microfinance clients. They also indicate a need for new research on the analysis on the management quality of entrepreneurs on business affairs, particularly on financial matters of SMEs (e.g. working capital management, debt policy and capital structure), and marketing strategies.

Key words: SMEs, multiple borrowings, enterprises performance.

CITATION:

Chalu, H. and Lubawa, G. (2015). "SMEs' Owners Perception of the Impact of Multiple Borrowing on Enterprise Performance." *Inter. J. Res. Methodol. Soc. Sci.*, Vol., 1, No. 3: pp. 16-29. (Jul. – Sep. 2015).

1.0 INTRODUCTION

Multiple borrowings in Tanzania are common practices for Small and Medium Enterprises (SMEs) (Finscope survey, 2012; Mpogole et al, 2012; Chalu and Lubawa, 2014). There are about 3.16 million SMEs in Tanzania, where 54 percent of these operate in rural areas. In term of ownership, it was estimated that slightly more women (54%) than men (46%) own and run SMEs (Finscope Survey, 2012). In Tanzania, the SMEs development policy of 2002 definition categorizes SMEs according to number of employees and capital invested (Table 1).

Table 1. Categories of SME definition as per SME Policy 2002

Types of business	Number of Employees	Capital investment in Tanzania shillings
Small business	5 - 49	Above 5 million to 200 million
Medium business	50 - 99	Above 200 million to 800 million

Source: SME Development Policy, 2002.

The government financial sector reform decision in 1991 open microfinance institutions (MFIs) operations from urban to rural arears in form of Savings and Credit Cooperative Societies (SACCOS), Savings and Credit Associations (SACAs), Community Based Organizations(CBOs), Non-Governmental Organizations (NGOs), banks offering microfinance services, microfinance companies and Government microfinance programs (BoT, 2005). The event that led to growth of demand for micro credit borrowers and MFIs lenders (URT, 2001, 2003) and fuelling market expansion and competition. The main borrowers targeted were SMEs. The microfinance industries expansion has enabled MFI's clients to access wider choice of micro-credit products from multiple providers. The competition also puts downward pressure on micro credit prices and forces competitors to innovate and drive down costs (Drucker, 1985 McIntosh andWydick,2005). This structure of microfinance sector has been said to encourages multiple borrowing (Guha and Chowdhury, 2013).

The growth of microfinance in Tanzania has been considered as the best alternative in providing alternative sources of capital to SMEs in improving business performance. However, growth of demand for loans from SMEs led to difficulties in sharing information from the supplier side (Chalu and Lubawa, 2014). Micro-credit suppliers have been competing for the same clients in creating a loan portfolio for the wealth maximization. The competition led SMEs to access multiple credits from different MFIs. This phenomenon is referred to as "multiple borrowing" or sometimes as multiple loans. While Khalily and Faridi (2011) referred the concept as overlapping, Guha and Chowdhury (2013) termed the concept as 'double-dipping', i.e. borrowers taking loans from several MFIs. For this study multiple borrowing may refer to SMEs that borrow simultaneously from multiple MFIs as well as other sources like neighbours, relatives, and friends.

However, in Tanzania, the literature on multiple borrowing effects presents inconsistent findings. While some studies (e.g. Chalu and Lubawa, 2014) argue that multiple loans have positive effects on business performance, others (e.g. Mpogole et al, 2012) argue that it adversely affects firm financial performance. In light of these contradictory findings, what remains unclear is the perception of the SMEs' owners themselves on how they perceive multiple borrowing. This paper attempts to access the SMEs owners' perceptions on the effects of multiple borrowings in business performance. Specifically, it examines the reasons for multiple borrowings and its effects on revenue, profit, business assets, number of employees, development of new business, purchase of transport facilities and investment in building.

This study makes both theoretical and empirical contributions to the field of financial management of SMEs in developing countries. Theoretically, it builds on existing theories to explain the effects of multiple borrowings on enterprises. In this way, it widens the knowledge on multiple loans effects on SMEs. In practical aspects, the paper can be used to guide the development of microfinance industry policy framework that will facilitate enhancement of achieving optimal loan portfolio for both borrowers and lenders. The findings from the study could also be used to serve microfinance industry of other developing countries.

2.0 LITERATURE REVIEW

The literature shows that multiple borrowing is a commonest practices to developing countries SMEs (Khalily and Faridi, 2011; Mpogole *et al.*, 2012; Guha and Chowdhury, 2013; Chalu and Lubawa, 2014).

2.1 The reasons for multiple borrowing

Why would SME owner take out multiple loans? Recent studies from Uganda (McIntosh et al., 2003) and India (Morduch et al., 2003; Krishnaswamy, 2007; Venkata and Yamini, 2010) show that borrowers are driven into multiple borrowing for reasons of continuity, convenience, flexibility and reliability of access to financial services. Some SMEs owners thus borrow from more than one MFI in order to have a continuous source of credit or to meet some other needs, such as resolving a mismatch between the maximum single loan and the business needs of the SME. At times, borrowers may do this by hiding their real level of indebtedness (Jain, 2010; Diaz *et al.*, 2011; Mpogole *et al.*, 2012). According to extant literature, SMEs may also use multiple borrowing to cope with unexpected negative shocks (Gonzalez, 2008b) or unanticipated consumption needs. When this is the case, they may find it impossible to repay their debt. Thus, borrowers might decide to take another loan in order to repay the first loan (McIntosh *et al.*, 2005; McIntosh and Wydick, 2005; de Janvry *et al.*, 2008) or in order to revive their failing businesses.

Furthermore, an SME owner can take out a second loan to repay an earlier loan or simply start over after the first microfinance provider refuses to advance another loan due to a tarnished credit history. This only occurs in the presence of information asymmetry about client indebtedness (Jain, 2010). Likewise diverse interest rates may be another reason for multiple borrowing. According to Jain (2010), interest rates may also vary across the sector, encouraging clients to go to a second microfinance provider. (Krishnaswamy, September, 2007) in his study of multiple borrowing between MFI clients revealed that, gathering more credits was completely their voluntary decision and they used second loan for investment purposes.

Guarneri and Spaggiari (2009) lists a number of factors that may contribute to over-indebtedness, among them multi-borrowing from different areas, in particular informal lenders, aggressive growth targets of MFIs, "weak" policies and practices of assessing customer repayment capacities, and the absence of effective credit information systems. However, they do not differentiate findings country wise. Regarding the study done by Khalily and Faridi (2011) of Institute of Microfinance (InM) lists factors including enterprise financing, lumpy expenditure, lease-in of land and previous loan repayment.

2.2 Multiple Borrowings and SMEs performance

Studies of SMEs multiple borrowing have revealed that this tendency can have both financial and non-financial effects on both microfinance institutions (MFIs) as well as SME performance. These effects can both be negative and positive. For example, negative financial effects may include clients' loans repayment crisis and increased incidences of over-indebtedness consequently leading to loan default (Gwendolyn, 2001; Vogelgesang, 2003; Javin, 2010; Diaz *et al*., 2011; Mpogole et al, 2012). Non-repayments and delayed repayments will also adversely affect the portfolio at risk of MFI. If the impact moves beyond acceptance levels, lenders will rethink their future investments, making it difficult for MFIs clients to access credit (Khalily and Faridi, 2011). However, good management of multiple loans may lead to successfully business performance in terms of revenue growth, profitability, sound financial structure, efficiency and productivity. According to Kessy (2009) business performance can be measured in terms of several including sales revenues, number of employees, and use of business income, size of business and goals of the entrepreneurs.

Non-financial effects may include stress and mental burden; with increasing debts and misdirected funds clients turn to informal sources (friends, relatives, money lenders, etc.) for further credits, hence aggravating the debt trap. Several clients, in this situation, have held distress sales of movable assets. In extreme cases, mental depression resulting from the financial pressure causes some to commit suicide. These situations taint the image of microfinance sector (Khalily and Faridi, 2011). Apart from sustaining business operations, the profitable business will also help an entrepreneur to keep children in school, and provide support to families in distress due to medical emergencies, for example (Diaz *et al.*, 2011).

2.3 Theoretical Perspective of the Study

This study draws on both the transaction cost economics (TCE) and resource-based view (RBV) perspectives on SMEs. According to TCE, a transaction cost is a cost incurred in making an economic exchange. The origin of transaction costs lies in Ronald Coase's conceptual innovation, according to which market functioning implies certain specific costs, called transaction costs. In a broad understanding of the term, these are the costs of running the economic system (Rao, 2003). Kamyabi and Devi (2011) on considering the transaction costs of outsourcing management accounting services for SMEs argues that transaction costs are costs of purchasing an activity and include direct and indirect costs of negotiating, monitoring and managing contractual agreement. So, for SME having multiple loans (hence multiple contracts from different MFIs, obvious necessitate the possibility of increasing transactions costs (i.e. the cost of participating in the market).

(MFIs), should expect an incremental on monitoring and enforcement costs to make sure that the SMEs sticks to the terms of contracts, if not, taking appropriate actions, often legal actions. Although multiple partnership with MFIs may seem to increase the SME's transaction costs, however, these costs may exist only under circumstances of novelty and change. If nothing changes in the pattern of transactions, SMEs owners won't need to keep searching or think of a new contract or new bargaining cost, they can continue to trade with the same partners(MFIs) time, and hence internalise transaction costs to achieve economisation as far as no market operate without costs. The basic insight is that firms exist because they can sometimes reduce the costs of negotiating and enforcing terms and conditions of exchange relatives to market transaction (Coase, 1937).

On the other hand, the resource-based view (RBV) of the firm was developed in the field of strategic management, and constitutes a theory about the nature of firms, rather than seeking to explain why firms exist. Broadly, the concept RBV is concerned with how a firm actually conducts its activities or operations. It is based on the assumption that resources are heterogeneously distributed across firms, and that this distribution is long lasting. The RBV, therefore, emphasises the internal resources of the firm as the source of performance and competitive advantage, rather than the external environment.

By considering RBV tenets, SME's resources can be categorised as both tangible and intangible, including physical capital, human capital, and financial capital. By combining bundles of tangible and intangible assets, SMEs can gain a sustainable competitive advantage on managing the multiple loans acquired from various MFIs. Thus, multiple loans as financial resource if used properly will lead the SMEs to sustainable performance.

3.0 METHODOLOGY

3.1 Study area

The study was conducted in Iringa Municipality in Tanzania. The municipality covers an area of 162 square kilometres with one division, 14 wards and 162 Mitaas. The location was purposively selected due to having both has both characteristics of urban and semi-urban features which enables microfinance services to grow rapidly while the prevalence of multiple borrowing is very high.. According to Creswell (2009) and Kumar (2011), the choice of study location and data collection depends upon other things; like the resources available and the demographic characteristics of the study population.

3.2 Study design

The study was carried out in the study area between June and November, 2012, covering 14 wards of Municipality. The study involved 102 entrepreneurs with multiple loans across a range of industry. In order to reach the entrepreneurs for the study, the following microfinance offices (MFIs) in Iringa Municipality were visited to identify their members and business location; PRIDE,POSTAL BANK, MBF, TUMAINI MICROFINANCE, and SIFA SACCOS. The selected SMEs owners' were surveyed with a questionnaire and then interviewed to supplement the information. The study sample size was estimated using the following formula (Amin, 2005).

$$n = \frac{(Z_{\alpha})^2 P(1-P)}{\lambda^2} \qquad (1)$$

where by n = sample size; P = percentage of entrepreneurs with multiple loans in the area of study; λ = maximum error; since P was not known for the particular study population, its value was assumed to 50% as it ensures maximum sample size (Nwankwo and Nwoke, 2009). By assuming confidence interval of 95% for the estimated population proportion, maximum error of 10% and non-response rate of 6%, a final sample was calculated to be 102 SMEs' owners. Purposively Sampling was used to select 102 SMEs' owners with multiple loans. Collected data was analysed using descriptive statistics and IBM SPSS, version 20 for Pearson Chi-Square was used to test if there is significant relationships between multiple borrowing and business performance in terms of revenue, profit, capital, additional of new products, investments in building and development of new business.

3.0 FINDINGS AND DISCUSSIONS

3.1 Description of Respondents

The data collected on respondents' demographic characteristics were age, gender, and level of education. The sample consisted of both male and female respondents (See Table 2). Of the total 102 surveyed respondents, 30 respondents (44%) were male and 56% were female. This is an indicative that irrespective of the gender imbalance both the male and female respondents practices the multiple borrowings, although female shown to be more active. Therefore gender is not a functioning factor in multiple borrowing behavior. This is contrary to the expectation that men would have more multiple loans than women because they are less risk averse compared to women (Olomi, 2009). According to these findings, one can assume that African families have now realised that women can manage to run business financed by multiple loans and enhances their social wellbeing.

About 70% of all surveyed respondents were in the 20 to 39 age group. This implies that the majority of respondents who enjoy multiple borrowing services are those in productive age. Consequently, it can be argued that by improving multiple loans structure services will enable productive age to create businesses which will help to create huge potentiality for creating employment, generating income, alleviating poverty and overall economic development. In addition, the findings show that entrepreneurs aged 40 years and above comprised only 30% of the sample. This suggests that, either older people freely chose not to engage themselves in multiple borrowings or MFIs discourage them to avoid risk of loan repayment failure due to the fact that life expectancy at birth in Tanzania is 51 years (NBS, 2010). According to SMEs Finscope Survey (2012), majority of SMEs owners are between 25 and 49 age group which is described as mature, aggressive and settled down. These findings indicate that individual attributes (such as age) may play a vital role in multiple borrowing practices. Tundui (2012) asserted that most of the small business owners were young than 40 years. According to Shane (2003) the difference between individuals may be brought by risk involvement and attitude towards risks.

In terms of education in which respondents were selected irrespective of their educational qualifications the results show that most of the respondents (about 76%) were primary and secondary school leavers, 10% were diploma or certificate holders, 14% were degree level and above and about 5% had no formal education. Although the most SMEs owners' were primary school level, however, the findings imply that both level of education are taking part in multiple borrowing. Surprising even those with informal education were entrusted by MFIs and acquired multiple loans. By definition, adults with no formal education are the ones who never attended school whether primary or adult education (HBS, 2009). In this study it was expected that individual with low levels of education would have less loan contracts as compared to individuals with higher levels. Literally, majority of SMEs owners (72%) have never received any skills training whatsoever, Finscope Survey (2012). The findings are consistent with several studies; For instance, Mpogole *et al.* (2012) noted that of all respondents in multiple borrowing, most of them are primary school levers and to noted that even complete illiterate people were entrusted with loans. Peter (2001), found that participation in entrepreneurial activities is influenced by level of education and it has been suggested (Wit & Van 1989) that people with a low level of education have more difficulties finding a paid job and therefore sees no other possibility than to engage in small business activities.

Table 2. Characteristics of Respondents

Variable	Category	Frequency	Percent	Cumulative Percent
Sex	Female	57	56	56
	Male	45	44	100
Education level	None	5	5	5
	Primary	38	37	42
	Secondary	35	34	76
	Diploma &Certificate	10	10	86
	Degree & above	14	14	100
Age structure	Below 20 years	0	0	0
	20-29 years	19	19	19
	30-39 years	52	51	70
	40-49 years	26	25	95
	50- and above	5	5	100

3.2 Existence of Multiple Loans and their Rationale

The incidences of multiple loans and reasons for multiple loans are summarised in Table 3. The results indicate that 68 (67%) of all survey respondents had two loans, while 34(33%) had three or more loan contracts with different MFIs at the same time. This is indicative of prevalence of multiple borrowings in microfinance market is very severe. The findings also revealed that despite of MFIs' loans, the SMEs owners are also beneficial of loans from relatives and friends. The findings comply with Mpogole *et al.* (2012) that the prevalence of multiple loans is higher in Iringa Municipality.

We asked respondents to mention the one major reason for multiple borrowings. The results show that (*see* Table 3); 56 (54%) of the respondents said they took multiple loans for the purpose of expanding their businesses. 21(21%) of respondents mentioned that the small amount loans issued by MFIs and the needs of the clients were also reasons for multiple loan contracts. Family obligations were mentioned by 15 (15%) of the respondents, and 10% mentioned hedging the risk inherent in Income Generating Activities (IGAs). These are factors pushes the practices of multiple borrowings in microcredits market. It not surprising to found that although MFIs are providing loans for business purpose, however, some SMEs owners' used to settle family obligations. One can assume that the MFIs are not able to prevent its clients to part use the loan issued for family obligations. Mpogole *et al.* (2012) noted also that mismatch between the size of loans issued by MFIs and the needs of the clients, family obligations, loan recycling, and relaxed or simple loan procedures, influence of friends who are taking multiple loans, and delayed loan disbursement from the MFI in which the client first applied were the major reasons for multiple loan contracts in microcredit markets. Guha and Chowdhury (2013) argue that the structure of the sector encourages multiple borrowing. Based on practical experience, it is known that SMEs' returns from investment are not sufficient to cover interest charges of two or three loans, so by borrowing from two or more MFIs it implies that lenders are unaware of the transaction costs facing borrowers and hence cannot offer loan contracts which are tailored to the needs of the individual borrowers.

Table 3. Incidences of Multiple Loans and Reasons

Category	Variable	Frequency	Percent	Cumulative Percent
Number of loans from MFIs	Two	68	67	67
	Three or more	34	33	100
Loans from Friends/individuals	Yes	22	22	22
	No	80	78	100
Reasons for multiple loans	Small amount of loans from MFIs	21	21	21
	Business expansion	56	54	75
	Hedging risks of IGAs	10	10	85
	Family obligations	15	15	100

3.2 Business Ownership Status

Business ownership distributions of respondents are summarized in Table 4. Findings show that respondents are involved in three types of businesses. Personally owned businesses accounted for 24% of the respondents. Family businesses accounted for a 62 (61%) and 16 (15%) were in group businesses. Thus most MFIs clients had family businesses, which is consistent with other research on microcredit in other countries that has noted that the majority of small-to-medium-sized enterprises (SMEs) are family owned (Chua et al., 2004; Gersick *et al.*, 1997; Daily and Dollinger, 1993; Donckels and Frohlich, 1991). This shows that multiple borrowing is a multi-concern phenomenon for different ownerships.

Table 4. Business Ownership Distribution of Respondents

Business ownership	Frequency	Percent	Cumulative Percent
Own business	24	24	24
Family	62	61	85
Group	16	15	100

3.3 Sources of Initial Working Capital /Start-up

Table 5 below summarize the sources of initial working Capital/start-up distribution of respondents. From interviewed SMEs' owners, 54 (53%) used their own savings for starting up their business. This was expected as small business tends to rely on own savings as start-up capital (Cassar, 2004; Frederick *et al.*, 2006; Finscope survey, 2012). Further analysis show that some of respondents depend on family or relatives/friends support for their starting capital, few of them supported by MFIs. This implies that the SMEs sector does not have reliable source of financing at start-up stage. These initial financing sources cannot give them huge and sufficient capital. Therefore, it is expected that small business owner would seek for external financing in case of business expansion or growth. If the external loan is insufficient, as most MFIs issued small packages of loans, then it is obviously that SMEs would probably opt for multiple loans from micro‐credit markets (Mpogole et al, 2012; Afroze et al, 2014). Fazzari et al (1988) argued that small business would go for external financing to normalize its business investment if larger cash flows are needed. Berger and Udell's (1998) financial growth model evident that small business financial growth cycle suggest external funding during growth period as the firm gains further experience and becomes more transparent with its information. Unsurprising, it is worth noting that no SME's owner used bank's commercial loan for business establishment. Commercial banks tend to ignore small business sector as risky, with lack of collateral and asymmetric information (Mori and Richard, 2012).

Table 5. Sources of Initial Working Capital

Category	Frequency	Percent	Cumulative Percent
Commercial banks	0	0	0
MFIs	5	4.9	4.9
Friends/relatives	12	11.7	16.6
Own saving	54	53	69.6
SACCOs	7	6.9	76.5
Family saving	24	23.5	100
Total	**100**	**100**	

3.4 The Effects of Multiple Borrowings

Table 6 shows the SMEs owners' perception regarding the effects of multiple borrowing. The respondents mentioned diverse effects. The questionnaire requires the respondent to show his or perception regarding the business performance when financed by multiple loans. The results indicate that; 63 (62%) of the respondents reported an increase in their revenue, while 39(38%) reported that multiple loans had no effects on revenue. In case of business capital, 61 (60%) of respondents reported that multiple loans help the business an increase on capital amount, while 41(20%) of respondents reported multiple loans had no effects. On profitability, 67(65.7%) reported an increase in profit, while 35(34.3%) reported that multiple loans had no effects. The respondents 59 (57.8%) reported to increase business assets after taking multiple loans, while 43(42.2) reported that multiple loans didn't help to acquire additional business assets.

The questionnaire also was asking if the SME did manage to add new employees, new products, adding new business or purchasing transport facilities after business capital strengthens by multiple loans. The results indicate that 31 (30.0%) of respondents reported to increase number of employees, while majority of respondents 71(70%) didn't manage. In case of adding products, 58 (57%) of the respondents reported adding new products as a result of multiple loans, 60 (59%) success in developing new businesses, 50 (49%) purchasing transport facilities, and 59 (58%) constructing new business sites.

According to the data available only 44(43%) of the respondents did not add new products, and 42(41%) developed no new businesses. The simple interpretation of this is that the respondents in these categories failed to exploit innovations to create opportunities they had through multiple credits. The innovations they missed may include new technologies, new products or services, new markets or risk management and new distribution channels. Given these finding, we can conclude that innovation is still a challenge to entrepreneurs in our country. Christensen (2002) referred innovation as the use of improved products, processes, services, technologies or ideas accepted by markets, governments, and society.

Table 6. The Effects of Multiple Borrowings

Category	Outcome	N = 102	Pearson Chi-Square	Chi-square values
Revenue	Increased	63(62%)	4.113	χ^2 =0.128
	Otherwise	39(38)		
Capital	Increased	61(60%)	6.716	χ^2= 0.035**
	otherwise	41(20%)		
Profit	Increased	67(65.7%)	3.758	χ^2 = 0.153
	otherwise	35(34.3%)		
Business Assets	Increased	59(57.8%)	3.343	χ^2 = 0.188
	otherwise	43(42.2%)		
Employment	Increased	31(30%)	19.812	χ^2 = 0.000**
	otherwise	71(70%)		

Add new products	Yes	58(57%)	2.432	$\chi^2 = 0.089$*
	No	44(43%)		
Developed a new business	Yes	60(58.8%)	0.000	$\chi^2 = 0.583$
	No	42(41.2%)		
Purchase transport facilities	Yes	50(49%)	1.255	$\chi^2 = 0.181$
	No	52(51%)		
Invested in business site, building	Yes	59(57.8%)	0.322	$\chi^2 = 0.363$
	No	43(42.2%)		

** P value significant at $p < 0.05$; * P value is significant at $p < 0.1$

Further analysis was also carried out to test whether or not multiple borrowing have significant relationship with business performance in terms of revenue, profit, capital, additional of new products, investments in building and development of new business. The results for Chi-square test of independent are summarized in table 6. The tested hypothesis is as follow: *There is significance relationship between multiple borrowing and business performance.*

The results indicate that there is positive relationship between multiple loans and revenue. The increase of revenue is a result of sufficiency capital to run the business. The capital also indicates that the higher amount of loan the good performance of business. Furthermore, results for the variables influencing business performance show that, multiple loans have been enhancing the purchasing of business assets, transport facilities, additional of new products and investments on building, development of new business venture and additional of new work forces. Therefore these outcomes could mean that multiple loans enhance small business performance for owners who properly use their multiple loans. The positive impact of proper use of multiple loans will lead to new business development and hence new employment generation. The government would also benefits from tax revenue. Thus, multiple loans as financial resource if used properly will lead the SMEs to sustainable performance as suggested by RBV that by combining bundles of tangible and intangible assets, firm can gain a sustainable competitive advantage from existing assets to enhance its performance.

5.0 CONCLUSION AND RECOMMENDATIONS

This study suggests a significant relationship between multiple borrowing and performance of entrepreneurs' business for those engaged in multiple borrowings from MFIs in Iringa Municipality. Multiple borrowing is not just the consequence of some lack of economic education among microfinance clients. It can be a rational behaviour to meet certain economic circumstances such as consumption smoothing, or as coping strategy given incomplete information sharing. Clients will decide to borrow loans from multiple sources as a consequence of distress or opportunity situations. Distress borrowing can create negative welfare effects by increasing the chances for over-indebtedness, while opportunity borrowing carries potential for positive welfare effects if correctly served. MFIs contracts and products must become more flexible and go beyond the traditional idea of providing loans solely for productive purposes. The welfare effects of multiple borrowing depend highly on the institutional environment. Strong credit information systems, consumer protection principles and a tailored regulatory framework for microfinance can mitigate potentially negative welfare effects caused by multiple borrowing.

One important financial decision entrepreneurs are confronted with is the financing choice or capital structure choice. This decision is particularly crucial given the effect it has on the value of the firm. The empirical results of this study indicate that multiple loans have significant influence on both the financial performance of entrepreneurs' business and the entire personal life of the entrepreneurs. The results have shown that entrepreneurs businesses have significant financial and non-financial performance especially for those who properly used the additional loans and invested on the existed opportunities. However, we should not condemn or discourage multiple borrowing as a harmful behaviour because the study has shown that there are yet others who managed multiple loans and made successful businesses. The increase in income, number of employees, assets level and number of businesses owned are a good evidence for positive changes towards the growth of an enterprise (Kessy, 2010).

From the findings obtained from questionnaires one can assume that, by examining the multiple loans to entrepreneurs from various angles, multiple borrowing is not necessarily detrimental to the borrowers. According to the findings of this study, a number of entrepreneurs thought that multiple borrowing from the second financial institution, relatives, friend or neighbour was beneficial to their management of IGAs and household economy. They keep these surplus funds for contingency situations surrounding their business and household economy. This complies with other researchers from several countries who have noted the same findings (Krishnaswamy, 2007; Chen *et al*., 2010; Kappel *et al*., 2010; and Yasuhiko, 2011).

The general perception of respondents in the study felt that multiple loans is not a problem, because if used it properly it had a positive impact on general lives because they saw an increase in their incomes, capital, assets, development of a new business, additional of new products and they had an opportunity to save money that contributes to children's education, health service to family members, and they were better able to purchase household assets, and thus adhere to RBV that, multiple loans as financial resource if used properly could have possible benefits. Contrary to our expectation with argument from TCE, that transaction costs associated with multiple loans would affects the owners' perceptions, however, with positive perceptions from the SMEs' owners about multiple loans, one may assume that these multiple loans benefits override the transaction costs pain.

This evidence supports the findings of Bagachwa (1995), who commented that the use of micro-savings from micro-loans can be used to finance education of children and to invest or expand business. The phenomenon of multiple borrowing is not controllable only by MFI. Rather, it also depends on information sharing among the stakeholders: MFIs, MFIs clients and the Government. Therefore, we proposed two recommendation: (i) Necessity of information sharing among MFIs, and (ii) Introduction of Flexible Financial Services.

(i) Necessity of information sharing among MFIs: One of the practical solutions to this problem is to collect and manage borrowers' information by introducing a credit bureau and implementing informal information sharing activities concurrently. MFIs in Tanzania can establish an effective and efficient information sharing system among them (a credit Bureau). The establishment of an effective information sharing system is an important step to prevent overlapping borrowing among microfinance borrowers. Above all, creating a "Credit Bureau" is one of the most effective measures to prevent unnecessary over-borrowing. With the introduction of a credit bureau, it is possible to establish an efficient information system which would create a screening effect that improves risk assessment of loan applicants. This would raise portfolio quality, which in turn would reduce rates of arrears. In addition, the very existence of such an information system would act as a deterrent that may prevent borrowers from taking a risk of borrowing excessive loans, particularly if they know the information available and the risks involved.

(ii) Introduction of Flexible Financial Services: An introduction of flexible financial services is also an important step for MFIs to maintain their borrower's satisfaction and prevent them from multiple borrowing. The increasing number of multiple borrowing borrowers indicates that their demand is not necessarily fulfilled by the financial services of each single MFI in Iringa Municipality. Above all, repayment schedule and loan sizes are the seeds of discontent among microfinance borrowers. Indeed, many borrowing borrowers told the author on general questionnaires' comment that a one year loan with weekly/monthly payments and small loan sizes do not match with dynamics of their business economy. As for the repayment schedule, it is recommended that MFIs should make it more flexible.

Flexibility in loan sizes would also act as a strong deterrent to prevent multiple borrowing. This would be especially beneficial to MFIs clients whose enterprises are entering an expansionary phase. When the business is growing, entrepreneurs need more money to satisfy their financial demands of working capital. Business expansion has been stated as one of the major reasons which drive these entrepreneurs to borrow from multiple MFIs. The problem is that this inflexibility incurs the costs of multiple memberships among dynamic clients with good repayment capacity.

In general MFIs credit policies need to be adjusted in a manner that allows minimum multiple borrowing. For example, microcredit for agriculture needs to adjust to size and repayment provide in a manner that is suitable for agriculture. As a growing number of entrepreneurs have access to multiple borrowing through microfinance, it is necessary to introduce financial education to these people. In terms of multiple borrowing problems, it is vital for microfinance borrowers to know that excessive loans might cause serious damage to their business and household economies. The purpose of financial education is to teach entrepreneurs concepts of money and how to manage loan-portfolio wisely. In addition, the financial statements frameworks which have been used by entrepreneurs are the ones used by large companies. It is suggested that a friendly financial statements should be developed to suit the business framework of the entrepreneurs in Tanzania.

REFERENCES

Afroze, T. & Rahman, S.M, Towhidur & Yousuf, S. (2014); Multiple Borrowing through Microcredit and Its Impact on Loan Repayment: Study in Bangladesh. *Research Journal of Finance and Accounting.* Vol.5, No.21:107 - 119, 2014, ISSN 2222-2847 (Online).

Amin, M.E., (2005). *Foundations of Statistical Inferencefor Social Science Research*. Makerere University Press, Kampala, Uganda, pp: 338

Bagachwa, M. (1995).“Estimating the Second Economy in Tanzania”. *World Development,* 23(8), 1387-1399.

Bailey, K., (1994). *Methods of Social Research, Fourth Edition*, New York: The Free Press. A Division of Myllan Inc.

Berger, A.N. and Udell, G.F. (1998). “The Economics of Small Business finance: The Roles of Private Equity and Debt Markets in The Financial Growth Cycle”, *Journal of Banking and Finance*, Vol. 22 Nos 6-8, pp. 613-73.

Cassar, G. (2004). The Financing of Business Start-Ups. Journal of Business Venturing, Vol. 19, pp 261-283.

Coase, R. (1937). “The Nature of the Firm.” *Economica.Economica.Volume 16*, 386-405.published on line 19,Feb 2007, http://www.interscience.wiley.com.

Chen, Greg, Rasmussen, Stephen, and Xavier Reille, “Growth and Vulnerabilities in Microfinance,” *CGAP Focus Note 61*, CGAP, 2010

Cohen, M. and Sebstad, J. (1999). *Microfinance and Risk Management*: *A Client Perspective*. AIMS, Washington DC.

Collins D., Morduch J., Rutherford S. & Ruthven O. (2009). *Portfolios of the Poor: How the World's Poor live on $2 a Day,* Princeton University Press, 320 pages.

Chittenden, F., Hall, G. and Hutchinson, P. (1996).“Small firm Growth, Access to Capital Markets and Financial Structure: Review of Issues and an Empirical Investigation*”, Small Business Economics,* Vol. 8 No. 1, pp. 59-67.

Christensen, J.F. (2002) “Corporate Strategy and the Management of Innovation and Technology”, *Industrial and Corporate Change*, Vol. 11 No.2 pp 263-288.

Chua, J.H., Chrisman, J.J. and Chang, E. (2004). “Are Family Firms Born or Made? An Exploratory Investigation”, *Family Business Review,* Vol. 17 No. 1, pp. 37-55.

CGAP website http://www.cgap.org/

Creswell, J. W. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*, 3nd edition. California: SAGE Publications.

David Bartocha. (November, 2010). *“How to Adress Over-indebtedness of Microfinance Clients?”* GTZ.

Daily, C.M. and Dollinger, M.J. (1993), "Alternative methodologies for identifying family vs non-family managed businesses", *Journal of Small Business Management, Vol. 31, pp. 70-90.*

De Janvry, A., McIntosh C., and Sadoulet, E. (2008), *The Supply- and Demand-Side Impacts of Credit Market Information,* MIMEO.

.Drucker, E. (1985).*Management Tasks: Responsibilities Practices.* New York: Herper and Row.

Donckels, R. and Frohlich, E. (1991). "Are Family Businesses Really Different? European Experiences from STRATOS", *Family Business Review,* Vol. 7, pp. 149-60.

Gersick, K.E., Davis, J.A., McCollom-Hampton, M. and Lansberg, I. (1997).Generation to Generation, Harvard Business School Press, Boston, MA.

Guha, B. & Chowdhury, P.R. (2013). "Micro-finance competition: Motivated micro-lenders, double-dipping and default." *Journal of Development Economics,* 105, 86-102.

Fazzari, S., R.G.Hubbard, and B.Petersen, (1988) "Financing Constraints and Corporate Investment." *Brooking Papers on Economic Activity* **1**, 141-195.

Finscope Survey (2012). "National Baseline Survey Report for Micro, Small, and Medium Enterprises in Tanzania". Ministry of Industry and Trade, Dar es Salaam; Financial Sector Deepening Trust (FSDT).

Frederick, H.H., Kuratko, D.F. and Hodgetts, R.M. (2006). Entrepreneurship: Theory, Process and Practice. Asian-Pacific ed. Australia. Cengage Learning.

Gonzalez, A. (2008b). "Microfinance, incentives to Repay, and Over-indebtedness: Evidence from a Household Survey in Bolivia." The Ohio State University.

Guarneri, Micol, and L. Spaggiari (2009)."*Findings from Social Ratings*", Milan, MicroFinanza Rating.

Hamelin, A., (2007). Les limites de l'utilisation du micro crédit dans la lutte contre la pauvreté: le cas du travail des enfants, Université Robert Schuman de Strasbourg, Presentation CERMi 18 December 2007, 11 pages.

Herbert, M (1990). Planning a Research Project, Cassell Education Ltd.

Hudon, M. (2008).'Norms and Values of Various Microfinance Institutions'.International Journal of Social Economics. 35(1/2), 35 – 48.

Household Budget Survey (HBS), (2009). *Household Budget Survey 2007*. Ministry of Finance and Economic Affairs United Republic of Tanzania.

Hulme, D (2000). "Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice". *World Development* 28, no. 1: 79-98.

Hulmen (1997).*Impact Assessment Methodologies for Microfinance: A Review*. Paper Prepared for The Virtual Meeting of The CGAP Working Group on Impact Assessment Methodologies.

Jain, R. (2010). Narrowing Benefits: Multiple Borrowings. http://www.microfinancefocus.com/2009/11/07/narrowing-benefits-multiple-borrowings/.

Johan Diaz and Jesila M. Ledesma (2011); *Over-indebtedness in the Philippines: Clients' Perceptions*. Manila, Philippines December 2011

Johnson, S.And Rogaly, B. (1997). Microfinance and Poverty Reduction.OXFAM, UK and Ireland.

Kappel, V., Krauss, A., Lontzek, L. (2010). Over-Indebtness and Microfinance-Constructing an Early Warning Index.Center for Microfinance-University of Zurich & ResponsAbility.

Kumar, R. (2011). Research Methodology (Third edition).Sage; Los Angeles, London, New Delhi, Singapore, and Washington DC.

Khalily and Faridi (2011). *Multiple Memberships (Overlapping) in Microcredit Market in Bangladesh*,

Krishnaswamy, K. (September,2007). *"The Competition and Multiple Borrowing in the Indian Microfinance Sector".* Institute for Financial Management and research Centre for Micro Finance,India.

Lapenu C., Zeller M., Greeley M., Chao-Beroff R. and Verhagen K., (2004), Performances Sociales: Une Raison D'être Des Institutions De Microfinance Et Pourtant Encore PeuMesurées. Quelquespistes, MondesenDéveloppement Tome 32, 38 pages 51-68.

Louangrath, Paul T.I. (2014), "Sample Size Determination for Non-Finite Population." International Conference on Discrete Mathematics and Applied Science, May 2014 (ICDMAS 2014). University of Thai Chamber of Commerce (UTCC). Conference Proceedings. Applied Science Section, Article No. 2.

McIntosh, C., de Janvry, A. and Sadoulet, A. (2005), How Rising Competition among Microfinance Institutions Aspects Incumbent Lenders, *The Economic Journal*, 115, 987-1004.

McIntosh, C. and Wydick, B. (2005), Competition and Microfinance, *Journal of Development Economics*, 78, 271-298.

McIntosh, Craig, de Janvry, Alain, and Sadoulet, Elisabeth, "How Rising Competition among Microfinance Lenders Affects Incumbent Village Banks", *Economic Journal*, vol. 115(506), pp. 987–1004, 2003.

Mori, N. and Richard,E.(2012)." SMES Access to Financial Services: Tanzanian Bankers' Eye". *Chinese Business Review*, Vol. 11, No. 2, pp. 217-223, 2012 from accessed on 24th October, 2015 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1881548.

Morduch J., (1999). The Microfinance Promise, *Journal of Economic Literature*. Vol. XXXVII, pages 1569-1614.

Morduch, Jonathan, and Rutherford, Stuart, "*Microfinance: Analytical Issues for India*", a report for the World Bank, South Asia Region – Finance and Private Sector Development, April, 2003.

Michaelas, N., Chittenden, F. & Poutziouris, P. (1999). "Financial Policy and Capital Structure Choice in UK SMEs: Empirical Evidence from Company Panel Data." *Small Business Economics* **12**, 113-130.

Mpogole, H., Mwaungulu, I, I., Mlasu, S.& Lubawa, G. (2012). Multiple Borrowing and Loan Repayment: A Study of Microfinance Clients at Iringa, Tanzania. *Global Journal of Management and Business Research* (USA), Volume 12 Issue 4 Versions 1.0, March 2012.

National Baseline Survey Report on SMEs in Tanzania (2012): Micro Small and Medium Enterprises in Tanzania. Ministry of Trade and Indusrty.

National Bureau of Statistics (NBS), (2010). Tanzania in Figures 2009. Ministry of Finance and Economic Affairs United Republic of Tanzania.

National Bureau of Statistics (NBS), (2007).Iringa Region Socio-Economic Profile.NBS and Iringa Regional Commissioner's Office, United Republic of Tanzania.

National Microfinance Policy", Ministry of Finance, United Republic of Tanzania, May 2000)

Nafukho, F.M. (1998). "Entrepreneurial Skills Development Programs for the Unemployed youth in Africa: A Second look," *Journal of Small Business Management*, Vol 36.No. 1, pp101-104.

Nayak, A. and Greenfield, S. (1994). "The Use of Management Accounting Information for Managing Micro Businesses", in Hughes, A. and Storey, D. (Eds), Finance and the Small Firm, Routledge, London, pp. 182-231.

Nwankwo, B.O. and E.A. Nwoke, 2009. "Risky sexual behaviour among adolescents in Oweri Municipal: Predictors of unment family health needs." *Afr. J. Reprod. Health*, **13**(1): 135-145.

Olomi, D. R. (Ed.) (2009).*African Entrepreneurship and Small Business Development: Context and Process*. Otme; Dar es Salaam.

Peter, B. K. (2001). *Impact of Credit on Women-Operated Microenterprises in UASIN GISHU district*, Eldoret, Kenya. In P. O. Alila& P. O. Pedersen (eds). (2001). Negotiating Social Space: East African Microenterprises. ILO, Geneva, database. [Online] Available: http://books.google.com.my/book.

Pilipinas, S. (2002). Notes on Microfinance.www.bsp.gov.ph/archive/Regulations_2002/Circulars/notes.htm.States, w. -U.

Rao, P. (2003). *The Economics of Transaction Costs.* Pailgrave MacMillan.

Satta, T.A. (2004). "Microfinance Regulation Influence on Small firms' financing in Tanzania", Journal of Financial Regulation and Compliance', Vol. 12 No. 1, pp. 64-74.

Saunders, M., Lewis, P. *et al.* (2007). *Research Methods for Business Students*, 3rd Edition. Prentice Hall, Pearson Education.

Shane, S. (2003). A General Theory of Entrepreneurship: The individual-opportunity nexus. UK: Edward Elgar.

Severin, S.Kessy (2009). Microfinance and Enterprises Performance in Tanzania: Does Gender Matter?(http://www.microfinancegateway.org/gm/document-1.9.41398/Microfinance and Enterprises Performance in Tanzania.pdf) site visited 26/06/2014.

Severin S.A Kessy & Fratern M.Urio (2006): The Contribution of Microfinance Institutions to Poverty Reduction in Tanzania, Research Report 06.3 Mkuki and Nyota Publishers Dar-es-Salaam, Tanzania.

Sharma, A., & Upneja, A. (2005). "Factors influencing financial performance of small hotels in Tanzania." *International Journal of Contemporary Hospitality Management*, **17**(6), 504–515.

Tundui, H.P. (2012). Gender and Small Business Growth in Tanzania: The Role of Habitus: University of Groningen, the Netherlands, 161 pp.

UN-ECE, (2002). Internationalization of MSEs (online). http://www.unece.org/indust/MSE/internat.htm

United Republic of Tanzania (2003), "Small and Medium Enterprises Development Policy", Policy Document, Ministry of Industries and Trade, Dar-es-Salaam, July.

Venkata N A and Veena Yamini A, "Why do Microfinance Clients Take Multiple Loans?" MicroSave India Focus Note 33, MicroSave India, 2010.

Vogelgesang, U. (2003). "Microfinance in Times of Crisis: The Effects of Competition, Rising Indebtedness and Economic Crisis on Repayment." *World Development*, **31**(12): 2085-2115.

Wisniwski, S. (2010). Over Indebtedness: Evidence, Causes And Consequences. European Fund for Southeast Europe, Prague, Czech Republic.

Wit, G. & Van Winden, F. (1989).An Empirical Analysis of Self-Employment in the Netherlands. Small Business Economics, **1**(4), 263-272.

Yasuhiko Yuge (2011). "The Current Situation of Microfinance in Bangladesh: A Growing Concern about Overlapping Loan Problems – From a field Visit to Rajshahi and Comilla.

Kamyabi, Y., & Devi, S. (2011). Using transaction costs and resource-based views in management accounting outsourcing: an empirical study of Iranian SMES. *Middle-East Journal of Scientific Research* **10**(1): 87-98, 2011