

European Journal of Economics,  
Law and Politics  
(ELP)

*2018 / June*

Publisher:

**European Scientific Institute,  
ESI**

Reviewed by the “European Journal of Economics, Law and Politics” editorial board  
2018

*June 2018 edition vol. 5, no. 2*

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*ISSN 2518-3761*

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*Sincerely,*

***Jose Noronha Rodrigues***  
***ELP Editor in Chief***

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# **Incorporating Sales Governance System into Sales Management: A Case Study on How it Could Minimize Risk of Losses and Damages from Fraudulent Sales Activities**

*Thaweesakdhi Suvagondha*

Professor of Business Administration, Thammasat Business School,  
Thammasat University, Thailand

Doi: 10.19044/elp.v5no2a1

[URL:http://dx.doi.org/10.19044/elp.v5no2a1](http://dx.doi.org/10.19044/elp.v5no2a1)

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## **Abstract**

The purpose of this article is to assist the management of any company to develop the sales governance system. This is to ensure that a sales department will generate trustworthy income for a corporation. The article utilizes the documentary research method (DSM), and will be divided into two parts respectively. The first part helps the manager to understand the nature of the sales fraud, through seven case studies. It also focuses on creating awareness among management, bearing in mind that fraudulent sales activities do not reside only within the confines of bribery. It could come up through other means such as; concealment, tie-in sales tactics, and so on. After taking into cognizance the sales fraud, its possible consequences and probable causes is based on the fact that it has become a necessity that the corporation must put in place a sales governance system that would govern the sales operation. Furthermore, it consists of three platforms and procedures which include: 1) The preventive platform that is aimed at preventing the new sales fraud, 2) The surveillance platform that focuses on controlling the preventive platform, and discovering existing but un-caught sales fraud, 3) The responsive platform which has room for recommended steps that management should follow in case any sales frauds was identified. The aim of the sales governance system cannot be overemphasized as they; minimize risk of financial losses and credibility damages, support corporate governance system, and as well enhance the effectiveness of sales management.

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**Keywords:** Trustworthy income, sales governance, fraud, corporations, management.

## **Introduction**

The reason a salesperson conduct sales activity and gain the support of other employees in related functions is to generate trustworthy income for his or her company. Such income must be derived from lawful and ethical practices, rather than manipulative or fraudulent sales operations. Therefore, the corporation must establish a sales governance system, or set of procedures, to see to it that all sales activities comply with its needs and conditions, as well as the authorities' rules, laws, regulations, and ethics. Moreover, such a system could aggrandize sales productivity and assist the firm to minimize the risk of losses and damages, which arise from undetected or pernicious fraudulent sales activities.

## **Research Method**

The article utilizes the documentary research method and was built upon two types of document; primary and secondary (Mogalakwi, 2006).

The primary documents include the author's experience, and as a former associate justice at the Central Intellectual Property and International Trade Court in Thailand. The secondary documents include the high profile cases in various industries and resource guides from authorities, such as the European Union; the US Government Agencies; and laws, rules and regulations.

The article will be divided into two parts, namely; the seven case studies and the sales governance system.

## **PART 1: SALES FRAUD CASE STUDY**

### **The Structure of the Case**

The hypothetical case will be split into three parts: the case scenarios, the consequences and the probable cause of the fraud.

### **Special Note**

Difficulties are deep-rooted in describing the case scenario, identifying the possible consequences, as well as the true cause of fraudulent sales activities. This is because;

- (1) Crime is, by its nature, a mystery, a conundrum, an unpredictable, and is not a scientific notion.
- (2) The confession or testimony of the culprit, inside and outside the court, is designed to result in leniency or a reduction in punishment. Therefore, it is often fabricated.

## **The Sequence of the Case**

Case number one through six other cases are based on sales activities along the sales process. However, Case number seven could happen at any time.

### **Case Number 1: Embezzlement**

#### **Case Scenarios**

The salesperson has to make a sales call to a particular customer. Through this means, he/she has embezzled the company's product with the agenda to resell into the black market. This is done by creating a fictitious sale through the following modus operandi.

1. The sales person has submitted a fictitious sales order to his/her supervisor, accounting department or credit controller for approval, and gets a permission to deliver the goods.

2. The salesperson embezzles the goods and resells them at a discount price rate, using the black market in exchange for cash on delivery.

#### **The Consequences of the Embezzlement**

The company suffers the following losses and damages;

1. **Financial Losses:** The company may suffer financial losses from incurred debts, commissions and incentives the salesperson received. If he or she quits or receives a termination letter, the company still has to pay a replacement cost.

2. **Unfair Performance Evaluation:** The salesperson's performance will include the fake sales and he/she could even receive an award for the salesperson of the year. An instantaneous promotion may crop up, or the chance to be a part of a human resources development program could spring up, such as talent management. Sadly, an honest and truly competent salesperson might feel unmotivated and may take rash decision such as leaving the company. The company has no other choice than to pay a replacement cost.

3. **Unlawful Financial Gain:** The company must include the fictitious sales in its income statement, and the company is however liable for taxes on those sales.

4. **Damaging Economic System:** The fraudulent salesperson has to dump the goods at very low prices, which leads to serious damage for the company and competitors.

5. If the salesperson steals the information or identity of a real person or a company, and uses it to create his/her own customer, a cybercrime known as identity theft would have been committed (fbi.gov). Consequently, the company may violate the European Union's data protection rules (europa.eu), which was enforced on May 25, 2018.

## Probable Causes

Crime is a conundrum and the following are probable causes:

### Management

- **Management Negligence:** When management fails to establish prevention and control procedures, an avenue is created for the salesperson to commit fraud.

- **Management shows an example by not taking responsive action.** This is perhaps because the financial losses are small or recoverable from the insurance company. Nevertheless, this is possible if the company has a fidelity or crime insurance policy.

- **Sales Performance Management:** The sales performance is evaluated only once, rather than on a continuous basis at every step within the sales process.

- **Setting Sales Goals:** Management might have set sales goals unrealistically, which are high in comparison with the rest of the industry. Therefore, the salesperson has to cheat to avoid facing redundancy.

### The Salesperson

- The salesperson has a heavy debt, which may arise from gambling, an affair, or support of a sick family member.

- Some salespersons simultaneously possess certain features such as; fearlessness, shamelessness, and delusion, which ignites an unquenchable desire in them to commit fraud.

- The salesperson has to join a clique to commit fraud.

## Case Number 2: Concealment

### Case Scenarios

The salesperson, who acts as a representative of the company, presents the features and benefits of the company's product and services to a group of customers. The main purpose is to induce the new customer to start buying the product, or convince a current customer to continue buying the product and or using the services.

The sales presentation fraud could be executed, unintentionally or deliberately, by a salesperson.

1. A salesperson deliberately commits a crime by concealing harmful and negative features, with the intention to make the product and services appear more appealing to the customer.

2. The salesperson may unintentionally convey falsified product information, as issued by the corporation, to the customer. Nevertheless, to make falsified claims appear real, the management has to orchestrate all promotion activities through every media channel. Of course, this involves the salesperson transmitting the falsified messages to the customer. The falsified reports may be scientific, medical, engineering related, or any number of other



categories. However, in regards to this particular case, the salesperson is "wholly" innocent. (en.wikipedia.org)

### The Consequences of the Sales Presentation Fraud

Everyone, be it the customer, the public, competitors, and the company, could lose out due to sales presentation fraud.

1. The customer could lose on both sides; economically and health wise, bodily and psychologically.

2. The public may face environmental hazards, which is seen as a major political issue.

3. Competitors may lose market share and revenue to fraudulent corporations.

Therefore, the company itself may face the following losses;

1. Financial losses may emerge from fines, legal costs, and cost of recalling the product from the market for modification or destruction. Also, the company may need to compensate the plaintiffs. In some countries with class action lawsuits, the company is liable for a very large amount of compensation.

2. Credibility losses may occur among stakeholders, the public and financial institutions. This becomes apparent from unlawful financial gain or from a dishonest and unreliable corporation.

3. Damaging Performance Appraisal System: The dishonest personnel, at any level of the organization, may receive rewards, promotions, or other recognition because the fraud may increase sales and enhance other performances. Nonetheless, honest and competent personnel who cannot tolerate such wrongdoing may leave the company.

### Probable Causes

1. Falsification of the product or service information could occur at any level of the organization. Also, upper management may engage in the following fraudulent activities for their personal gain in financial exploitation, advancement and recognition through the following activities;

- They falsify reports to achieve financial goals by concealing harmful product information or negative features, to make the product look more appealing to the customer to buy or use.

- They are incompetent in validating the information.

- They seize advantage of loopholes in local regulations. For example, this can be seen in cases where the punishment is very lenient. In some countries, a consumer must pay high costs to take legal actions against a corporation or to deal with the authorities. However, the bureaucratic system may be inefficient and slow to enforce corrective action.

2. The sales management, if not conspiring with upper management or the salesperson, fails to monitor the salesperson to make the right sales presentation. Sales management may not give adequate sales training to the sales force. This is because they are not competent enough to conduct the training and they do not receive enough support in finance and other resources from the company.

3. The salesperson may make the following wrongful presentation to be intentional or unintentional.

- **Misrepresentation:** The salesperson has to convey the product information in accordance with the company's instructions, without any knowledge that the information is falsified.

- **Concealment:** In order for the salesperson to be able to meet and exceed the sales goals, he/she covers up harmful or negative features to persuade the customer to either start or continue using the product or services.

### **Case Number 3: Unlawful Sales Tactics**

#### Case Scenarios

After the customer has shown satisfaction with the product, the salesperson has presented and is ready to place an order. Therefore, one or more of the following sales tactics is employed:

1. **Bait and Switch:** During the sales presentation, he/she offers an exceptionally lower price product. However, after the customer has accepted, the salesperson tells the customer that the product is out of stock for an unknown period of time. The customer is left with no other choice than to buy a higher price product.

2. **Cross-selling Tactic:** An investment representative creates a condition that if the investor wants to buy a lucrative financial product, he/she must buy a high premium life insurance. This will lead to the company receiving a sustainable income and the representative will in turn receive a high commission.

#### The Consequences

The mentioned sales tactics are illegal in certain territories. In some locations, they are simply unethical. In spite of that, the unsatisfied customer may leave for competitors. If the tactics is illegal, the company may be confronted with a fine. But if the salesperson uses these tactics to achieve sales goals, he/she will receive a reward. This could result in unfair competition among the salespersons.

## Probable Causes

### Salesperson

- The salesperson is gluttonous and wants to make more money at the expense of the customer.
- The salesperson tries to acquire additional income and rewards for going above sales goals.
- In some cases, the salesperson realizes that the sales goals are too high and may be unable to successfully achieve them through normal sales tactics.
- The salesperson fears retribution if he/she is unable to attain sales goals.

### Management

- Management sets very high or unrealistic sales goals, and forces the salesperson to deliver accordingly.
- Management coerces the salesperson to sell higher margin products or products providing sustainable and lucrative returns. However, management may offer very attractive commissions to the salesperson to popularize such products.

## Case Number 4: Bribery

### Case Scenarios

Bribery could be initiated by either a salesperson or a customer.

1. From the Seller: The salesperson, agent or distributor of the company, offers a kickback, with or without management's consent, to someone who is instrumental in awarding a sales order(s). This could either be a private or a public enterprise. The agreement has to be concluded prior to the time the customer places an order. The kickback will be secretly given to a purchasing agent or a committee, depending on illegal agreement.

2. From the Buyer: The purchasing agent or member of the procurement committee from a private or a public organization demands for money or an equivalent value of property from the salesperson in exchange for the order(s).

### The Consequences

Bribery is a serious crime and anyone involved in the bribery scam is on the losing end. This is because these individuals could face imprisonment and pay heavy fines if they are caught.

The following are possible consequences:

1. The public company may be suspended from trading on stock exchange.

2. The company may lose its credibility, because of the distorted financial statements involving financial institutions, stakeholders, the public, and the authorities.

3. The uncaught personnel will be given rewards, awards, and promotions, which could jeopardize the performance appraisal system.

#### Probable Causes

1. Anyone involved is insatiable and turns to bribery for personal gain. Thus, this is at the expense of others that are involved.

2. Upper Management Involvement: Since the amount of money is on the high side and beyond the ability of a salesperson to pay, upper management would need to authorize sales expenses for the scammed items, which the salesperson and the supervisor invented to use for bribery. (See case number six).

3. Upper Management Manipulation: Upper management may threaten the salesperson to engage in bribery, stating the fact that if he/she will not do it, someone else will.

### **Case Number 5: Manipulation of Sales Order**

#### Case Scenarios

The following fraudulent sales activities happen after sales transactions have been concluded.

1. Diversion of Sales Order: The customer places an order, but the salesperson diverts that order to his/her own company, a relative or friend's company, or even to a competitor. Accordingly, these companies which sell a similar product will deliver that similar product to the customer instead.

2. Withholding Sales Order: The salesperson keeps the customer's order for the next sales cycle which may provide more attractive commission. But when the salesperson is aware that obviously the current sales target cannot be achieved, he/she would rather keep it for the next sales cycle.

#### The Consequences

1. The company has to absorb selling expenses for nothing.

2. The company will lose market share to similar product.

3. The company will lose the most valuable asset, which is the customer.

4. The company will incur a replacement cost, if the salesperson is caught and terminated.

## Probable Causes

### Salesperson

- He/she may act for personal gain when there are some shares in another company.
- He/she may seek vengeance for the company or management considering a certain reason. For example, if there was any time the salesperson received unfair treatment or an unjustified performance appraisal, which may prevent advancement opportunities.

### Management

- Management may fail to ask the candidate for the sales position, or disclose outside business relationships that may cause conflicts of interest.
- Management Negligence: The sales manager may fail to monitor the entire selling process, and simply accept whatever the salesperson has reported.

## **Case Number 6: Overstated Expenses Report**

### Case Scenarios

At the end of the selling cycle, the salesperson is expected to submit the expenses to the supervisor for approval. He/she might do the following:

1. Alter the receipts to gain a higher reimbursement.
2. Issue fake receipts for reimbursement.
3. Create sham events for speakers and guests that did not take place at all to collect the expenses. The expenses will be diverted, such as the 'speaker fee', to bribe customer to either buy or use more products (Sagonowsky, 2016).
4. Spend the company's money to buy gifts or to entertain family members.
5. Inflate overtime hours to claim extra expenses.

### The Consequences

1. Sales expenses will increase.
2. The company will not get any financial returns from indulging in such malpractice.
3. The salesperson gives extra money directly or indirectly to induce the customer to buy or use more products, that constitutes bribery, for which the company is liable (See case number four).
4. The salesperson may derive extra sales from illegal acts, so that rewards and promotions can be given, which will destroy the credibility of the sales performance appraisal system.

### Probable Causes

1. The salesperson acts for his/her personal gain.
2. The salesperson also uses the extra money to buy gifts for the management or personnel in other areas with the intention to gain 'favor'.
3. Upper management conspires with the salesperson to use the extra money to bribe customers.

### Fraudulent Sales Activities Outside the Sales Process

#### **Case Number 7: Stealing of Company's Property**

##### Case Scenario

1. Stealing of a company's intellectual property such as trade secrets. Here, a salesperson is performing a type of espionage by selling the company's marketing plan or customer list to a competitor.
2. Stealing of the company's physical property such as; product samples, promotion gimmicks, communication equipment, gasoline, and so on for reselling or personal use.

### The Consequences

The company may encounter loss of competitive advantage to the competitor. As a result, the company may lose income.

### Probable Causes

Crime is unpredictable. Thus, the following are probable causes:

1. Management Negligence: When management fails to classify the information, this allows the salesperson to access limited information.
2. Salesperson: A greedy salesperson may sell the company's intellectual property for monetary gain with the hope that the competitor will hire him/her for a higher position with better incentive.

### **Summary of Possible Consequences and Probable Causes of the Seven Case Studies**

#### Consequences

1. Quantifiable : losses of income, customers, and competent salesperson.
2. Unquantifiable internal damages : performance appraisal system and competitive advantages.
3. External damages such as the image of the corporation, health and welfare of consumers, environment, economic, laws, and political systems.

#### Causes

1. Management: managerial incompetence, manipulation, negligence, greed, and leniency.

2. Salesperson: greed, fear of retribution, and vengeance.
3. Inefficient bureaucratic system.

## **PART 2: SALES GOVERNANCE**

### **Objective**

1. To reduce risk that helps in minimizing potential loss and damage from fraud.
2. To enhance an effectiveness of the sales management, such as creating a fair performance appraisal system in order to retain the best salespeople.
3. To support the corporate governance policy and procedures
4. To maintain credibility among the stakeholders, authorities, and the general public.

### **Sales Governance Management**

Top management has to do the following;

1. Initiate the following sales governance platforms
  - The Preventive Platform: This platform will prevent the occurrence and reoccurrence of sales fraud.
  - The Surveillance Platform: This platform will ensure that everyone in the organization complies with the preventive procedures and as well discover existing but un-caught sales fraud.
  - The Responsive and Remedial Platform: This platform will deal with existing fraud and offer remedy to victims.

However, these procedures must adhere strictly to local employment laws, rules, and regulations and conform to corporate governance policy and the company's employment policy.

2. To set up the sales governance committee that will execute the sales governance policy and procedures.

### **The Sales Governance Committee**

This committee has the ultimate responsibility for the entire sales operations of the corporation. Sales governance is under the corporate governance umbrella, and it must be integrated with other functions alongside corporate leadership. The following are the roles and responsibilities of the committee;

1. Ensure that all the sales activities are in compliance with the legal, ethical, and moral standards of the company, and the community within which the company operates.
2. Protect the company's interests in the financial sector and in terms of brand image, credibility among stakeholders and the local community.

3. Make decisions regarding ambiguous and uncertain circumstances without been bias, exhibiting unfairness, favoritism, or nepotism.

4. Ensure that the performance assessment is fair, reliable, and unquestionable. Also, the assessment should include valid reasons and evidence to keep rule-abiding and effective salespeople, as well as prevent rule-breaking salespeople from obtaining promotions.

5. Intervene, where necessary, and take corrective action to protect the interests and stability of the company, if the sales management is failing to do so.

6. Act as a center of information exchange.

7. Coordinate and integrate the efforts of other functions with the sales function. This is carried out to ensure the effectiveness and transparency of sales activities.

8. Provide adequate training and development programs to every level of the organization, so that sales governance procedures are executed successfully.

9. Provide regular reports to the board of directors about incidents, and ask for recommendations to further ameliorate sales governance platforms.

10. Set a job rotation policy for sales personnel, ensuring that everyone is interchanged for a certain period.

11. Create a compensation policy that is fair, competitive, and adequate.

12. Establish criteria to ensure that the right salesperson enrolls in human resource development programs, which will lead to personal development and preparation for further advancement.

13. Set the following procedures to deal with the existing sales fraud; disclosure, witness, whistleblower protection, disciplinary measures, and victim recourse.

14. Make certain that the research, development and regulatory affairs personnel have validated all data prior to use for commercial presentation and communications.

15. Regularly review the current sales governance system and provide feedback, together with recommendations, to the board of directors for further modification.

### **The Preventive Platform**

At each level, the committee, the sales management, and the sales personnel will have its own procedures to follow.

### **Sales Governance Committee Level**

In the absence of a committee, upper management or the owner will take full responsibility to prevent sales fraud.



The following preventive procedures are intended for internal use only.

1. The company must provide its own or from a whistleblowing service provider, a secured, confidential, and toll free hotline. The essence of doing this is to allow any person whether inside or outside the organization to be able to send information, such as suspicions of fraud, grievances, evidence of unlawful acts, and questionable product information. Hence, management must make a thorough investigation promptly.

2. Decision-making and authorization procedures should be in place regarding sales activities, such as; opening of a new account, setting a credit limit and other conditions, and sales and entertainment expenses. A limit must exist for every level on authorization power, and a policy should be in place outlining how to advance to a higher level.

3. The committee will not manipulate salespeople into committing fraud.

4. A policy must be inaugurated for the handling of classified information.

5. Prompt corrective action must be taken in the case of questionable performance assessments.

### **The Sales Management Level**

The sales manager or the supervisor has the following roles and responsibilities to carry out, alongside the three stages of the preventive platform.

#### **The Sales Planning Stage prior to Sales Activities**

1. Organizing the Sales Force: The sales manager must cooperate with the human resources manager and obtain the final approval of the sales governance committee or upper management regarding the following:

a) Recruitment and Selection of a Salesperson: Not only must the personal qualifications meet the company's criteria, but it must also be revealed, except in cases where the human rights would be violated, his/her relationship with someone in and outside the organization, especially if that relationship may create a conflict of interest (Cassin, 2018).

b) Compensation: The compensation level and the total remuneration package, including incentives, commissions, awards, and benefits, must be adequate and competitive to attract the new sales personnel, as well as to retain existing salespeople.

2. Setting up a sales goal for the sales team and individual salesperson. Sales goals confine the salesperson's performance with financial gain, advancement, promotion, and recognition, if the salesperson is not satisfied, which may be a major demotivating factor. If possible, with approval from the

committee, a representative from the sales force should participate in setting and allocating sales goals.

3. Training: Regular training will be allotted to every salesperson with the aim to increase competency and compliance with the company's rules, regulations, code of conduct, and related laws.

The following are examples of episodic training agendas (Suvagondha, 2007):

- a) Orientation training for new salespeople.
- b) Sales presentation training, which includes product knowledge, competitor or alternative product knowledge, legal sales tactics in negotiations with the customer, and strategies for making use of promotional materials.
- c) Practical training in the form of simulations or role playing to ensure that the salesperson will be able to integrate knowledge effectively and legally during the sales presentation.

Implementation of Sales Activities Stage: The sales manager shall employ the following procedures to control the salesperson as well as activities involved,

- Verify the genuineness of the customer via the manual and electronic techniques the surveillance platform section mentions.
- Validate the sales presentation.
- Track through manual and electronic devices, the movement of the salesperson and match that with the location of the customer, without violating privacy or human rights.
- Engage in field coaching, which provides the golden opportunity for the sales manager to also meet with customers in order to enhance relationship.

Evaluation and Feedback Stage

- Evaluate the salesperson's competence in dealing with the customer to take corrective action later.
- Engage in counseling with the objective to improve sales performance by eliminating negative factors, including personal problems and obstacles. Obstacles may include unfair and illegal practices by other salespeople and the supervisor. The sales manager should however seek advice from the committee to get rid of these negative factors.
- Continue motivating the salesperson to keep engaging in legal and moral practices.
- Provide instant evaluation and monitoring of sales performance, through the current information technology. This should start from the submission of the travel plan and the sales call plan until the end of the sales cycle.

- Evaluate the current procedures and recommend changes where necessary for improvement of the committee.
- Ask for feedback from the customer to use for improvement of the quality of the sales call and other services, ultimately to enhance customer satisfaction.

### **Sales Personnel Level**

The salesperson must conduct the following self-control procedures:

#### 1. The Righteous Sales Call:

##### 1.1 Existing Customers

- a) He/she must place a call to customers within the company's active customer list.
- b) The sales personnel must only call customers assigned to him/ her.
- c) He/she should not call customers who belong to another salesperson without the supervisor's authorization.
- d) He/she must follow the terms and conditions that have been set for a particular customer. However, recommendations can be made to management to change the conditions, with the support of sound reasons.
- e) He/she must report to the sales manager when customers become inactive, especially when customers have not bought within the certain period set by management.
- f) He/she can reactivate inactive customers with new terms or conditions, but must first obtain approval from the sales manager.

1.2 New customer: The salesperson has to make a request to the sales manager to open a new account and must provide the following information, having gained the customer's consent and acknowledgement, such as estimation of sales potential and credit rating, customer's business and current suppliers, key personnel, location, and so on.

#### 2. Validation of Sales Presentation.

- The salesperson is allowed to present approved information.
- The salesperson must report or give feedback if the customer is in doubt about product information to ensure further validation.

3. Handling of Customer's Identity and Relevant Information: The customer's information must be strictly kept in a confidential manner and must not be revealed to anyone inside and outside the organization. If such information warrants other purposes, an approval from the supervisor or the committee should be given. Consequently, permission from the customer cannot be overlooked.

4. Bribery: If a customer asks for a kickback, such request must be denied and promptly reported to the sales manager or the committee.

### **The Surveillance Platform**

The objectives of this platform are to enforce the preventive platform and discover existing but uncaught fraud. In a particular case, it took decades to discover the sales fraud. (Shane, 2018)

### **Enforcement of the Preventive Platform**

The following procedures will be applied to the salesperson, the sales manager, and the committee, to ensure that everyone complies with the preventive platform:

1. Internal control conducted by internal auditors.
2. Training on preventive procedures.
3. Use of the surveillance mechanism for close observation and supervision.

### **Discovering Existing Fraud**

The following are the mechanisms for detecting existing fraud:

Manual techniques

1. Observation
  - Document handling, for example, submitted reports are messy and delayed.
  - Behavioral changes, for example, in lifestyle, questionable and secretive practices, and unusually close associations with customers and credit controllers. (Suvagondha, 1985)
2. Callback verification using the following contents, such as; showing appreciation to customers for their patronage, introducing a new salesperson to collect an outstanding payment, and accept returned goods. If the company receives an unusual response that the customer has never had a relationship with the company, the management must quickly spring into action and carry out prompt investigation. This method is one of the cheapest and most effective surveillance method.
3. Job Rotation: The replacement salesperson may report an unusual practice and the activity is brought to the knowledge of the supervisor to take responsive and immediate action.
4. By Accident: During the original salesperson's vacation or reward trip, a replacement salesperson may discover something unusual and report to the sales supervisor.
5. Tip from an anonymous person, whistleblower, customer, competitor, and so on.

6. The media is another source of information. A disgruntled salesperson or employee could reveal the harshest sales conditions to the investigative journalist, and general public via social media. (Reckard, 2013; Hotten, 2015)

### Electronics

1. For verification purposes
  - The simplest method is to simultaneously respond to customer communications, regarding orders, delivery schedule, payments, etc., via emails.
  - Using a service from a service provider to check the truthfulness of the email address, website, electronic signature, and so on, of the customer who places an order.
2. Analyzing the data to find discrepancies or to ensure correctness.
3. Analyzing and thoroughly screening the information from the secured hotline or anonymous letters prior to when responsive actions will be taken.
4. The data protection officer (DPO) must alert salesperson, management, and the committee immediately, when someone tries to hack or steal the company's confidential or classified information. (edps.europa.eu)  
Warning: Privacy intrusion and evasion are subject to civil liabilities.

### **The Responsive Platform**

The purpose of a responsive platform is to stop the spread of newly discovered fraud and to provide remedial action to the victims of the fraud. However, the procedures will be divided into four levels of accountability and responsibility.

### **Salesperson**

1. He/she must act in good faith to promptly inform the supervisor about any form of misbehavior and suspicious acts put up by other salespeople, the customer, or the competitor, so that further investigation can occur.
2. The salesperson must give full cooperation to the investigation team.
3. The salesperson must not conspire with a group of dishonest salespeople within or outside the business unit or organization, as this could lead to obstruction of justice.
4. The salesperson can suggest to the supervisor to make necessary changes that would be useful to the organization, in dealing with existing fraud.

## **Sales Management**

1. The sales manager must make a prompt initial investigation after receiving information about possible fraud from any source and from personal observations and investigations.

2. He/she must report an incident to the committee or upper management, and ask for their permission to initiate the following internal investigation procedures.

- Question the suspect, conspirators, and witnesses.
- Collect forensic evidence that will be functional to investigate the case, such as receipts and sales reports.

3. The sales manager must also give full cooperation to the investigation team.

4. He/she must ask the committee for permission to suspend or terminate the suspected salesperson and conspirators from sales duties.

## **Sales Governance Committee**

1. Collaborates with the local authorities if the case involves the public sector, such as; damaging the consumer's health, environment and bribing the government officers.

2. Inform the insurance company to recoup the financial losses, according to the conditions in the fidelity or crime insurance policy, if the company has insurance.

3. When the sales manager and the assistants are found to be actively involved in the fraud, then the committee, after consulting with the legal and human resources departments, must suspend them from duties until the investigation is complete.

4. After the case is closed, the committee must submit a report that shows thorough analysis and recommendations to the board of directors or the owner for final ruling.

5. Ensure that everyone complies with the terms and conditions of the court or authority's verdict. Otherwise, the firm may face hefty and heavier punishment. (commerce.gov, 2018)

## **Board of Directors or the Owner**

When the members of the committee are found to be involved in the fraud, the board of directors or the owner of the company must decide whether to eliminate them prior to conducting an in-depth investigation, or ensure that apologies are rendered to the victims and the public for any inconvenience or mishaps, after the dispute has been settled. (gsk.com, 2014)

## Summary and Conclusions

Sales fraud is no longer an individual salesperson's crime. It could extend to the entire organization. Therefore, corporations need effective and dynamic sales governance systems to deal with fraud. The objective of sales governance is not limited to combating sales fraud. Additionally, it also has an aim to enhance sales productivity throughout the sales management process. It starts from recruitment and selection of a competent salesperson that has no conflicts of interest. Then the company must provide adequate compensation and appropriate training and development. However, the training will emphasize the legal and moral way to make a sales presentation from validated product information. Salespeople will not bully, use unlawful tactics or bribe the customer to get an order. The righteous salesperson will be loyal to the company by not diverting sales orders or selling the company's intellectual property for profit to competitors or customers.

The sales governance has three linked platforms; the preventive platform to avert new sales fraud and the recurrence of existing fraud, the surveillance platform to control the preventive platform and discover existing but uncaught sales fraud, and finally the responsive platform to deal with existing or caught fraud and offer remedies to the victims.

To sum it all up, a well-developed with meticulous execution and continuous improvement of the novel system could minimize financial losses and damages, and intensify productivity of the sales operation.

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# The Impact of Access to Microcredit Programme on Women Empowerment: A Case Study of Cowries Microfinance Bank in Lagos State, Nigeria

*Adijat Olubukola Olateju*

Faculty of Social Sciences, Department of Economics,  
Lagos State University, Ojo, Lagos, Nigeria

Doi: 10.19044/elpl.v5no2a2

[URL:http://dx.doi.org/10.19044/elpl.v5no2a2](http://dx.doi.org/10.19044/elpl.v5no2a2)

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## Abstract

Women empowerment is an essential developmental tool in every economy especially in less developed countries, as it helps to enhance women's socio-economic well-being. Empirical evidence has shown that microcredit is an effective tool in enhancing women empowerment, especially in developing countries. This paper, therefore, investigates the impact of microcredit programme on women empowerment in Lagos State, Nigeria. The study used Cowries Microfinance Bank (CMB) as a case study and a total of 359 women entrepreneurs were selected by simple random sampling technique from the list of Cowries Microfinance Bank's customer. Selection bias which could arise from non-random selection of participants or non-random placement of programme was adjusted for by dividing the sample into participant women entrepreneurs and non-participant women entrepreneurs. The data obtained were analyzed with Propensity Score Matching (PSM) technique. However, unlike most findings in the literature, the result of the Average Treatment Effect on the Treated (ATT) obtained from the PSM indicates that the credit programme has a significant effect on the empowerment of women in the study area. It is therefore, recommended that microfinance banks should be encouraged to give loan to women and for more impact of the loan to be felt by the beneficiaries, the loan programme should be complemented with other programmes such as training, grant, and periodic monitoring of the business of the recipients of the programme.

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**Keywords:** Empowerment, Microcredit, Social, Economic, Political, Development

## Introduction

Women are more vulnerable to poverty than their male counterpart most especially in developing countries like Nigeria where gender stereotype

is high. In spite of Nigeria's enormous resources the country still ranks 152 out of 188 countries according to the report on Human Development Index. (HDI) (Olawoyin, 2017). Also, almost 80% of her population is living in abject poverty from this figure; more than half were women (60%) (Gender in Nigeria Report, 2012). In Nigeria, women are more vulnerable to poverty; because they are often limited in their ability to securing white collar jobs due to their reproductive role, domestic role, cultural stereotype which in most cases put women at disadvantage when compare to their male counterpart.

However, in spite of these obstacles the role of women in development and in ensuring sustainable development cannot be overemphasized. Given the vital roles played by women in the economy and also to ensure inclusive growth, women need to be empowered. For instance, it has been emphasised that investing on women is an avenue to sustainable peace in DR Congo and Nigeria (Alliance for Financial Inclusion (AFI), 2014).

Women empowerment can transpires in different dimensions such as economic, social, cultural, moral, legal, political, etc. (Malhotra, Schiler & Doender 2002). It has been observed that women position in the society is of paramount importance as it has a direct and high relationship with economic development (Duflo 2012, Doep, Tertilt and Voenna, 2012). Empowering women is not only an essential developmental policy, but it can also help to enhance economic growth (Doepke & Tertilt, 2014).

Entrepreneurship development which is an economic dimension of women empowerment is vital and to empower women in this area, capital is imperative. Capital can come in the form of personal efforts, grant, formal financing or informal financing. However, getting access to capital through formal funding in the form of loan is often difficult due to some stringent requirements imposed by some conventional banks, money lenders, etc.

Given the important role played by women in economic development, coupled with their contributory role in the family, various governments in Nigeria have embarked on many developmental programmes both in the past and in the present time in order to empower and better the lives of women. Some of these developmental programmes used in the past are Family Support Programme (FSP), Better Life for Rural Women (BLRW), National Economic and Empowerment Development Strategy (NEEDS), etc.

In addition, based on the resolution at the United Nations in 2005 on the need to eradicate poverty especially in less developed countries, this made the Nigeria government to focus on microfinance programme as a developmental tool that can help to alleviate poverty, especially among women. To complement these efforts in recent time, and to ensure the continuation of the programme of past administration, the current government has implemented the Micro Small and Medium Enterprises Development (MSMED) fund which was introduced in 2014 with a share capital of N220

billion, from this fund, microfinance banks are required to lend 60% of this fund to women.

Furthermore, other intervention funds were introduced recently to boost women empowerment by the government; these are the N140 billion Federal Government Enterprises Empowerment Programme (GEEP) and the N1.6 billion National Women Empowerment Fund (NAWEF) that is set aside from the GEEP fund exclusively for women (Kolawole, 2017). To complement these, an individual initiative was introduced in the name of Aliko Dangote foundation, which is a private initiative that involves the injection of N10 billion to Alleviate the poverty of some one million women known as Dangote Foundation micro-grants programme which aims at providing cash transfer to selected poor and vulnerable women and youths in the society (Okoro, 2016).

However, among the developmental programmes introduced by the government, more attention has been placed on microfinance as a source of providing finance for entrepreneurs most especially women, and also due to the fact that majority of the clients of microfinance are often women.

In Nigeria, given the high population of women with majority of them in poverty and they often participate more in microcredit programme than their male counterpart; there is a need to assess the impact of microcredit on women empowerment. The study will also help to determine whether to put in more efforts on the policies that are on the ground or to make some adjustment on the available policy so as to ensure that the right and effective programmes are used.

Results from studies on the impact of microcredit on women empowerment are mixed as some studies found a negative impact of microcredit on women empowerment while some found a positive effect of access to microcredit loan on women empowerment. This study will add to the existing literature by examining the impact of microcredit on women empowerment in Lagos State, Nigeria using Cowries Microfinance Bank (CMB) as a case study bank. Therefore, the objective of this study is to examine if microcredit given to women in the study area has an impact on women economic development in terms of empowerment.

Given the introductory part of this paper, the rest of this paper is divided into four parts. Part two provides the literature review on women empowerment. Part three, indicates the methodology employed by the study. Part four presents the result and discusses the findings from the result. Finally, Part five gives the conclusion, recommendation/policy implications, and some suggestions for further Study.

### **Literature Review**

Some studies have shown the significance impact of access to microcredit on women empowerment. For instance, Hashimi, Schuer, and

Relay (1996) in their study of Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) credit product, found that the two programmes have a significant impact on all the eight indices used in measuring empowerment. Also, in Pitt, Khandker, and Jennifer (2006) the authors found that access to microcredit by women has increased their empowerment.

A Correlation relationship was found between access to microcredit programme and women empowerment, for instance, Yogendrarajah (2011) study showed a direct correlation between micro-credit and empowerment. In the same vein, a correlation relationship was also found between micro-lending and empowerment (Ndubi, 2008). Nessa, Ali, and Abdul-Hakim (2012) found a high positive impact on women empowerment through participation in microcredit programme.

Habib and Jubb (2012) examined the socio-political empowerment and social participation of women. The study opined that microcredit is an important development programme that has helped to enhance women empowerment. Mamin (2013) used anecdotal evidence and was able to conclude that microcredit has a high impact on women empowerment. However, the author cautioned that for the programme to be effective welfare microcredit approach and not commercial microcredit approach should be used. Also, the author further explained that the approach should be accompanied by frequent counseling. Chowdhury (2013) in his study in Bangladesh found a strong evidence of participation in microfinance programmes on women empowerment. The author, however, emphasized that microfinance programme should be mixed with other programmes to achieve an effective impact.

Some studies conducted in Africa on women empowerment also show a significant and positive impact of access to microcredit on women empowerment. For example, in a research conducted in the two suburb areas of Accra, Ghana the author employed the contraceptive use by women as a measure of women empowerment, the study found that access to microfinance credit has helped women to improve their contraceptive use (Norwood. 2011). Oladejo (2014) opined that participation in microfinance programmed had a significant impact on the household well being, income, job creation, and women empowerment. Although, the author identified and stressed the need for a reduction in the interest rate as reacted by the respondents

Idris and Agbim (2015) in a study conducted in Nasarawa State, Nigeria found a significant impact of microcredit on economic empowerment. Arora and Meenu (2010) emphasised that the provision of financial and non-financial assistance to women entrepreneurs due to an increased in the number of microfinance programmes had enhanced their empowerment.

Similarly, Jack and Roland (2016) in a study in Yenogoa, Bayelsa State, Nigeria found that due to financial and cultural constraints market women in the study area were impeded in their entrepreneurial development which had in turn negatively affected their economic empowerment. The authors, therefore, concluded that with access to finance women empowerment in the study area will be improved.

However, in spite of the support for microfinance as a tools for women empowerment some studies (Seta, 2014; Ngo and Wahha, (2012); Hashimi, (2012); Kabeer (2005);Ali and Hatta, 2012) concluded that microcredit programme like some other developmental programme cannot bring about women empowerment. Ngo and Wahha (2012) also stressed the importance of women autonomy in the control of microcredit as the study found that women who had no free control over their loan product often find it difficult to be empowered. Similarly, the study by Garikipati (2008) emphasized on the issue of patriarchy as a challenge to women empowerment which the author believed should be eradicated for women to gain ownership over an asset. In a later study by Hashimi (2012), the author gave a strong criticism that microcredit has no impact on women empowerment.

Furthermore, Seta (2014) emphasized that both the period of involvement and credit access by female do not have any significant impact on female empowerment indicators. Similarly, in a study by Kabeer (2005), it was found that participation in microcredit programme like other developmental programmes did not empower women. Also, Mukhtaer et al. (2015) in their study in Tangerang, Indonesia found a negative impact of access to microfinance programme on the lives of women entrepreneurs concerning women empowerment.

## **Methodology**

### **a) Study Area**

This study was conducted in Lagos State, Nigeria. The state is the largest city in African and one of the most populous states in Nigeria after Kano and Oyo State; the state is also the commercial centre of the country and has a high population density. Lagos State is also blessed with a high number of microfinance banks and microenterprises due to the high level of business activities in the state. The Cowries Microfinance Bank (CMB) which is situated in Lagos was used as the case study bank due to its collaboration with the Lagos State Microfinance Institution (LASMI) in reducing poverty especially among women and youth, coupled with its focuses on women empowerment programmes.

### **b) Sources of Data**

The data for the study was collected through a systematic sampling from the list of CMB's clients and compose of those already taking part in the

programme and those that are in the pipeline to participate in the programme as soon as they have completed their documentation with the bank. Therefore, 359 women entrepreneurs were selected and this consists of 183 participant women entrepreneurs and 176 non-participant women entrepreneurs.

### c) **Model Specification and estimation technique**

The model for the impact of microcredit program on women entrepreneurs is specified as:

Women Empowerment = F(Women's demography and socio-economic characteristic, Access to microcredit;)

$E = F(C, A)$

$E = f(\delta_0 + \delta_1 C + \delta_2 A + \mu)$

Where:

E represents women empowerment indicators

C represents demographic and socio-economic characteristics of women entrepreneurs

A access to credit which is equal to 1 and 0 otherwise

$\delta_0$  is the constant term

$\delta_i$  is the vector of coefficients for women entrepreneur's demographic and socio-economic characteristics

$\delta_2$  is the coefficient for the variable access to or no access to microcredit.

$\mu$  is the error term or error committed by our regression.

The study used seven indicators to measure women empowerment and these indicators are the ability of women to (a) Make decision in the family (b) Contribute to financial expenses in the family (c) Freedom to visit friends and make additional friends (d) Right to increase the level of their education and skills (e) Freedom to participate in workshops, seminars or other education or skills enhancement programmes (f) right to participate in politics (g) Liberty to take part in politics

To analyse the model, Propensity Score Matching (PSM) technique was used. The PSM is the conditional probability of participating in a programme given some pre-treatment characteristics of the participants. The PSM compares the effect of access to microcredit program of the participant women entrepreneurs with the non-participant women entrepreneurs (counterfactual) in the programme. The essence of propensity score matching is to match those in the treatment group with those in the control group that have the same or similar characteristic so that the self-selection bias can be eliminated. It is possible in some cases not to use all the observations in the control group. Hence, we matched the participant women entrepreneurs with the non-participant women entrepreneurs based on their propensity score

The propensity score is calculated with a probit/logit regression. In the equation 1 below,  $y$  is given as the dependent variable and  $x$  as the independent variable. It is thus stated as:

$$P(x) = \text{Prob}(y=1 \mid x) = f(y \mid x)$$

.....Equation 1

Where  $x$  is the pre-treatment characteristics of the respondents

The main focus result in PSM for an observational study is the Average Treatment Effect (ATT) because it takes care of the dissimilarities between the control and treatment group. (Becker and Ichino, 2012). Thus, the ATT is the difference between the outcome of the treated observation and the treated observation if they had not been treated.

$$ATT = E(y_1 \mid x, D=1) - E(y_0 \mid x, D=1)$$

.....Equation (2)

The counterfactual is represented by the second term on the right-hand side of the equation 2; which is not observable and needs to be calculated. Therefore, in this study,  $E(y_1 \mid x, D=1)$  is the expected outcome of women entrepreneurs participating in the microcredit programme on their empowerment, while  $E(y_0 \mid x, D=1)$  is the expected outcome of participant women entrepreneurs on their empowerment given that they had not participated in the credit programme.

In the literature, some matching techniques are available such as radius matching, neighbor matching, Kernel matching etc that can be used to match the characteristic of the participants group with the non-participants group. For this study, we employed the Radius matching technique, which was used to match the characteristic of the participant women entrepreneurs with the non-participant women entrepreneurs on the same propensity score.

## Result and discussion

(a)Table1: Descriptive Statistics

Variables	Treated:		Untreated:	
	Freq	%	Freq	%
<b>Treat</b>	183	50.07	176	49.03
<b>Marital:</b>				
<i>Married</i>	118	64.48	105	59.66
<i>Not married</i>	65	35.52	71	40.34
<b>Mem_ political:</b>				
<i>political party</i>	127	69.40	97	55.11
<i>No political party</i>	56	30.60	79	44.89
<b>Education:</b>				
<i>Illiterate</i>	20	10.93	2	1.14
<b>Literate:</b>	163	89.07	174	98.86
<i>Undergraduate</i>	150	81.97	140	79.54
<i>Graduate</i>	13	7.10	34	19.32
<b>Age:</b>				
<i>Active working Age group</i>	135	73.77	153	89.93
<i>Non- active working age group</i>	48	26.23	23	13.07

From the descriptive statistic, out of the total number of 359 women entrepreneurs, 183 (50.07) have accessed the loan facility while the remaining 176 (49.03) have not been given loan. Majority of the women entrepreneurs are married with more married women among the treated group than the untreated group. This is provided by the percentage and frequency of 118 (64.48%) and 105 (59.66%) respectively for the married while the percentage and frequency for unmarried are 65 (35.52%) and 71 (40.34%) for the treated and the untreated group respectively. Furthermore, most of the women entrepreneurs belong to a political party with more as a member of a political party among the treated group than the untreated group, and this is given by the frequency and percentage of 127 and 69.40% respectively for those that accessed the loan and 97 and 55.11% for those that have not yet accessed the loan but are slated to access the loan in the future.

Regarding education, almost 90% (89.07) of the participant women entrepreneurs are educated and with majority falling within the range of primary school - OND education (undergraduate). This is given by a total of 81.97% which falls within the range of primary - OND education for those that have accessed the loan, while for the non-participant entrepreneurs, 98.86% are educated and 79.54% falls within the range of primary- OND (undergraduate). However, the number of illiterate for the treated which stood at 20 (10.93%) outweighed the untreated which was at 2 (1.14%). Majority of the women entrepreneurs for both treated and untreated are within the age group of 26-44. This indicates that most of the women entrepreneurs are still within their active working age.

### **(b) Propensity Score Matching (PSM) - Results**

The result of the probit model indicates that almost all the variables have a significant impact on women empowerment except the variable age. The common support region is given as 1.13368517 and 0.99126545; this is the point where the characteristics of those involved in the credit programme matched with the characteristics of the non-participant. It is also called the overlapping region. The optimal number of block is 4 and the balancing property is satisfied at this point. This number of block ensures that the mean propensity score is not different for participants and non-participants women entrepreneurs.

Figure 1 below shows the distribution of the conditioning covariate across matched participant women entrepreneurs and the non-participant women entrepreneurs in the credit programme. The distribution indicates that the covariate did not differ across the matched participants and non-participant women entrepreneurs.



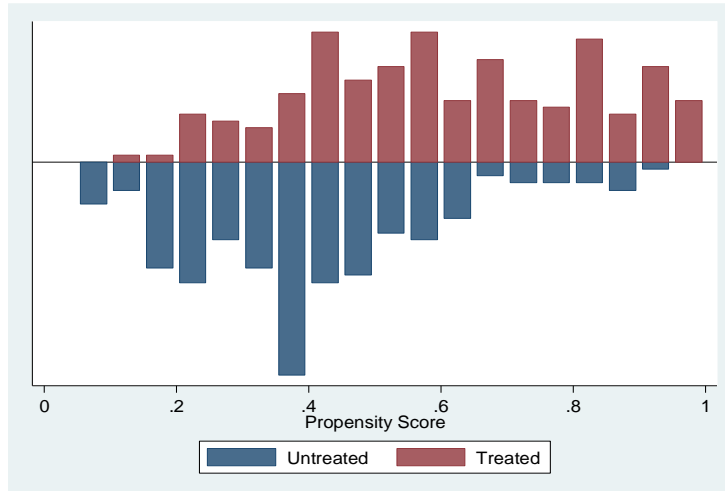


Figure 1: The Distribution of the conditioning probability

In addition, the indicator of the matching quality is also presented in Table 2; this table also helps to confirm that there are no pretreatment programme differences between those that access the microcredit and those that did not access the loan in the sample.

Table 2: The indicator of Matching Quality before and after Matching

Sample	P-value	Mean bias	Mean bias Reduction (%)
Unmatched	0.000	35.1	65.2
Matched	0.208	12.2	

This is indicated by the P-value (matched) in Table 2, Column 2 which is insignificant for the matched sample; this shows that there is no pretreatment difference between the participant women entrepreneurs and the non-participants women entrepreneurs after the match. Column 3 of the table shows a substantial drop in the mean bias of the covariate X after the matching has been done and this lies below the 20% suggested by Rosembaum and Rubin (1985). Besides, the mean bias reduction shows a substantial fall in the mean bias and this is indicated by 65.2% in Table 2 Column 4 above. This implies that the self-selection bias has been removed and the matching requirement has been satisfied.

Furthermore, the radius matching technique was used among other matching techniques to match the characteristics of the participant women entrepreneurs with the attributes of the non-participants ones. This matching method was used because of some advantages it has over some matching techniques (Khandker, Koolwal, & Samad 2010). To assess the impact of microcredit programme on women empowerment propensity score matching analysis was carried out based on the use of the Average Treatment effect on

the Treated (ATT). The result of the ATT using radius matching technique depicts that access to Cowries microcredit programme has a positive and significant impact on women empowerment in the study area. This is indicated by the estimate from the ATT result in Table 3 which indicates that those that have access to the programme have on the average a higher empowerment of 0.27 than those who did not access the program. This implies that those women entrepreneurs that participated in the credit programme are better-off regarding being empowered than those who did not participate. This is given by the magnitude of over 27% of empowerment for the women participant entrepreneurs over those non-participants ones. This result is consistent with the findings in the literature (Idris & Agbim, 2015; Arora & Meenu, 2010; Chowdhury, 2013) which shows that access to microcredit programme has a positive impact on women empowerment. Although, the magnitude of those that access credit over those that did not are not too high, which implies that other factors could be responsible for this, as the loan amount may be too small to bring about high impact between those who access the credit and those who did not access the loan not. Also, repayment time could be too short for the loan amount to have a huge impact on the beneficiaries. Nevertheless, the study still records a significant result of the programme on the beneficiaries in the study area.

Table 3: Average Treatment Effect on the Treated (ATT)

Outcome variable	Matching Techniques	Result	Treated Control		
			On support	off support	on support
Empowerment	Radius	0.2702***	172 8	11	168
Empowerment	Neighbor	0.16175**	183 -	-	176
Empowerment	Kernel	0.1038	183 -	-	176

Significant level; 1% \*\*\* 5% \*\* 10% \*

Finally, the study confirms if the radius matching result obtained in Table 1 is robust to other matching technique – Kernel and Neighbor. This was done with the use of sensitivity analysis. The results of the sensitivity analysis for Neighbor matching and Kernel matching as shown in Table 3 (Row3, and Row 4), indicate that radius matching technique is robust and consistent with the other matching technique and also higher in magnitude than Neighbor and Kernel matching techniques.

### Conclusion and Recommendation

The study concludes that the credit programme by Cowries Microfinance Bank has improved the empowerment of women entrepreneurs

in the study area. However, the impact of the microfinance programme on women empowerment is not high enough, it is therefore, recommend that the credit programme should be complemented with other programmes such as grants, training, also active monitoring of the credit should be done so as to avoid fungibility of the loan (loan used for what it is not meant for).

### **Suggestion for further study**

Further studies can complement their assessment of the impact of the micro credit programme on women empowerment by looking at some subjective findings (anecdotal evidence) from women entrepreneurs so as to support their findings, especially in the area of empowerment that cannot be measured objectively.

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