

## **Access to business information, business finance, managerial skills and performance of SMES in Kenya**

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### **Abstract**

*Many studies have established that Small and Medium Enterprises (SMEs) are becoming increasingly important in terms of development and innovations. However, many firms perform dismally and fail to grow. It has also been established that there is high mortality rate of SMEs within two years of their operations. Given this high failure rate, it has become necessary to conduct a study on the factors that affect SMEs performance and thus progress to the growth phase of organizational life cycle. This study sought to establish factors affecting performance of SMEs in Kenya. Its specific objectives were to investigate effect of access to business information on performance of SMEs in Kenya, to find out how access to finance affect performance of SMEs in Kenya and to establish the effect of managerial skills on performance of SMEs in Kenya. The study employed a descriptive research design based on desk research to achieve the objectives. Among variables that were found to positively affect business performance were access to business information and managerial skills. However, access to finance was found to negatively affect business performance. The study concluded that access to business information and managerial skills are key socio-economic factors affecting business performance of SMEs. A major recommendations of the study is that the government should start providing crucial business information and improve policies on SME's access to business finance as this will enable enterprises to make informed investment decisions as well as enhance their entrepreneurial skills to enable them recognize and exploit the available business opportunities.*

**Keywords:** *Small and Micro Enterprises, performance, Investment decisions.*

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Benard Kipkirui Ngetich is a management and leadership practitioner who currently works as a Major in the Kenya Defence Forces. He is an Engineer who is passionate about leadership with a national outlook and solid hands-on experience in the strategy formulation and implementation. He is enthusiastic for new challenges and opportunities. He is also an entrepreneur with interest in real estate's development in Kenya.



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Dr. Peter Paul Kithae is currently the Director, Research, Development and Innovations of the Management University of Africa; the honorary treasurer for the Kenya Red cross Society, Upper Eastern Kenya Region and a Senior Consultant with the Total Quality Management firm of Consultants. Among Dr. Kithae's published work include a Print book on "Technology adoption and its effect on performance of Youth-Led Micro and Small Enterprises, printed in June, 2015, a paper on the Extent the government has shaped MSE's destiny towards achievement of Kenya's vision 2030; A paper on the Effect of quality improvement practices on micro and small enterprise performance and another on Unleashing Potentiality of Our Youth through Entrepreneurship Training: A Must for Realization of Kenya's Vision 2030 among others.

Dr. Kithae is a career civil servant who has successfully worked as a Principal Youth Officer in charge of Youth Development services in Makueni and Kirinyaga counties respectively. He has attended a lot of seminars and workshops and has facilitated a number of them. Among these are project planning and management, performance contracting, capacity assessment training and disaster preparedness and response. He is a renowned educationist, having been a senior Lecturer at the Management University of Africa for over three years, a part-time lecturer at the University of Nairobi and a lecturer of Entrepreneurship, management and Business Studies in various tertiary institutions for over 18 years. Dr Kithae has also been a Senior Examiner and Team leader for Business Studies with the Kenya National Examinations Council for over 10 years and a Senior Examiner for Research methods with the Kenya Institute of Management for over five years.

## 1.0 Introduction and research objectives

In recent years, the role of small and medium enterprises (SMEs) in economic development and employment creation has occupied most of the discussions among government, policy makers, academicians, researchers, scholars and economists in Kenya as well as in other countries. A study by Kongolo (2010) established that small business owners globally have the same characteristics, face the same obstacles but differ in their understanding of how small businesses assist in economic growth. SMEs have the ability to fuel economic growth because they create new jobs, expand the tax base, and are drivers of innovations. According to Beck and Levin, (2005) SMEs enhance competition and entrepreneurship hence have external benefits on economy wide efficiency, innovation and aggregate productivity. They are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations (CACCI, 2003). Globally there is an agreement that micro, small and medium enterprises (MSMEs) hold the key to economic growth based on the fast growth of enterprises and the role of SMEs in generation of employment. According to Normah (2007), the concentration of SMEs has a close relationship with the dominant economic activities. SMEs dominate the world economies in terms of employment and number of companies, yet their full potential remains remarkably untapped (Schlogl, 2004; Omar, Arokiasamy & Ismail, 2009). This is due to a number of reasons such as legal, institutional, cultural and societal which make the role of SMEs on economic development different across countries.

### Statement of the problem

The First 1993 small and medium enterprises (SMEs) baseline survey in Kenya revealed that there were approximately 910,000 SMEs employing up to 2 million people. The second SME baseline survey (1995), estimated the size of the SME sector at 708,000 enterprises employing up to 1.2 million people. Compared to the other sectors of the economy, the contribution of the SME sector to the country's Gross Domestic Product (GDP) increased from 13.8% in 1993 to over 18% in 1999, (GOK, 2005). Currently, it is estimated that the contribution to the GDP by this sector stands at over 25% (GOK, 2012).

Despite these statistics, the Kenyan SME sector usually operates on small-scale, locally and at a subsistence level. They have fewer employees (especially home based enterprises), they operate for a shorter period, and have poor access to water and electricity and few sell outside the establishments where the entrepreneurs live (World Bank, 2006).

Majority of the SMEs are micro enterprises with fewer than 10 employees, while 70 per cent of them are one person, own account workers. This means that majority of SME entrepreneurs are operating at the bottom of the economy, with a significant percentage falling among the 53 percent of Kenyans living below the poverty line of USD 1 per day. The latter are largely for subsistence and engage in economically uncompetitive activities both in urban and rural areas (Kihonge, 2014). This study therefore sought to establish factors affecting performance of SMEs in Kenya.

### Research objectives

This study's general objective was to find out factors affecting performance of SMEs in Kenya while its specific objectives were to investigate effect of access to business information on performance of SMEs in Kenya, to find out how access to finance affect performance of SMEs in Kenya and; to establish the effect of managerial skills on performance of SMEs in Kenya

Findings from this study are expected to be used by the government to formulate good policies to assist the SME sector, by practicing entrepreneurs to perfect their business operations and finally by academicians and researchers to form bases for further research on the SME sector.

The study focused on the three major factors that are deemed to have major impact of SME performance and which are access to business information, business finance and managerial skills. It concentrated on SMEs in Kenya, and assumed that information generated from papers reviewed during desk research would fairly represent information from the target population and would be adequate to make conclusions and recommendations necessary for generalization to the rest of the SMEs in Kenya

## Definition of terms

### A small and medium enterprises (SME)

A small and medium enterprise is an undertaking, which employs between 1 and 99 employees, with capital investment of not more than KSh 50 million.

## 2.0 theoretical background and informing literature

This study is based on opportunity-based theory which was put forward by the prolific business management author Peter Drucker in the years (1909-2005). According to Peter Drucker, entrepreneurship evolves, increases the value or satisfaction to the customer from the resource, and creates new values from combination of existing materials or resources in a new productive combination.

This implies that entrepreneurs excel at seeing and taking advantage of possibilities created by social, technological and cultural changes - which come through innovative processes (Timmons and Spinelli, 2003, Lacka, 2017).

Innovation has been defined as improving business processes to increase efficiency and productivity, developing new or improved products, as well as adding value to existing products, services or markets to differentiate them from competitors (Lord Y., 2013; Guday, *et al.*, 2011; & Lin *et al.*, 2008;). Thus, implementing processes involves effective business information and helps organizations to improve productivity, reduce costs, increase turnover with improvements in profitability and hence competitiveness. However, for any innovation to be considered successful it must have a positive impact on performance of a firm (Guday *et al.*, 2011 & Kiraka, *et al.* 2013).

Regardless of the high failure rate by SMEs in Kenya, their enormous contribution to the entire economy cannot be overlooked (Mbogo, 2011). SMEs have been identified the world over as the stepping stones for industrialization. Robust economies like the United States of America and the United Kingdom trace their development from growth and development of their SMEs. Studies by Hatega (2007), Kauffmann (2005) attest that SMEs cover more than 95% of all firms in Sub-Saharan Africa and their importance cannot be overestimated. Small and Medium Scale Enterprises are mostly found in the service sector of various economies which in most countries account for two-thirds of employment levels. In Kenya the SME sector contributes an estimated 18% of the GDP as well as creating employment for 80% of the workforce population (Kithae, 2012). Small and medium enterprises are widely recognized for their role in the social, political and economic development. Their importance is particularly apparent in its ability to provide reasonably priced goods, services, income and employment to a number of people (Kauffmann, 2006). There has therefore been a growing concern and interest by the government and development agencies for the improved survival and growth of the small and medium enterprises.

## 3. Research methodology

This paper sought to conduct a review of existing literature on the effect of business information, business finance and managerial skills on performance of SMEs in Kenya. The authors conducted a review of literature and documentary evidence related to the variables of the study to achieve the study objectives. The paper is therefore based on desk research methodology.

## 4. Research findings and discussions

According to a number of scholars (Harris and Gibson, 2006; Monk, 2000; Sauser, 2005), positive relationship has been found to exist between small business development and economic growth in developed countries. However, not much research has been conducted on this relationship in developing countries (Sauser, 2005). Studies in small-business development and performance are necessary in countries like Kenya because of the dissimilarities in the process between developed and developing countries (Arinaitwe, 2002). It is also essential to understand the factors influencing small-business performance in African countries because they are significantly different from those facing developed

countries. These factors include: Availability of business information, Access to finance, Availability of managerial experience and access to infrastructure among others.

According to Corps (2005), effective business information has been crucial in enhancing SME performance and that limited access to relevant business information is one of the major obstacles to the competitiveness of SMEs (Hatega, 2007). According to a number of scholars (Jorosi, 2006; Moyi, 2000; GOK, 2005; KIPPRA, 2006 & Schleberger, 1998), entrepreneurs rely on diverse sources of information; and that limited access to market information remains a severe constraint to SME growth and competitiveness. Finally, Ntakobajira (2013) while exploring performance of SMEs concluded that access to business information services affected the performance of business to a great extent and that access to finance affected performance of SMEs because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose. The study further concludes that technology affected the businesses to a very great extent by facilitating communication with both the supplier and customers, by easing the transportation of goods and by easing the marketing of the products. As a result, Schleberger (1998) recommended that the scope of business information services should include Information on business trends and markets, information on business organization as well as advisory services on legal and regulatory aspects among others.

On business finance, studies by Dia (1996), Godsell (1991), Hart (1972), and Harper (1996) found that additional capital is often not required and can be overcome through creativity and initiative. Kallon (1990) found that the amount of capital needed to start a business is significantly negative when related to the rate of growth for the business.

He also found that access to commercial credit did not contribute to entrepreneurial success in any significant way, and, if it did, the relationship would be negative (Kallon, 1990). On the other hand, some researchers have argued that small businesses are undercapitalized. Business owners in Africa tend to depend upon their own or family savings and access to capital remains a challenge. Most of them cannot meet the requirements for commercial loans, and those who do find such loans expensive (Gray, Cooley, and Lutabingwa, 1997, Kiggundu, 1988, Trulsson, 1997 and Van Dijk, 1995). For example, Kallon (1990) found that 65.6% of the firms studied depended entirely upon personal savings for capital, 10.9% had access to family savings, 9.4% used commercial banks, and 7.8% drew resources from partners, shareholders, and other sources. Keyser *et al.* (2000) found that in Zambia, a lack of starting capital was a common problem for entrepreneurs, as only 24% received a loan to start their business. Another study by Koop, de Reu, and Frese (2000) found that the amount of starting capital was positively related to business success. However, Dia (1996) found that additional capital and finance can be overcome through innovation and creativity. Kallon (1990) also found out that access to commercial credit did not contribute to entrepreneurial success in any significant way. Some researchers argue that small businesses are undercapitalized while others argue that business owners in Africa tend to depend upon their own family savings and access to capital remains a challenge. Most of them cannot meet the requirements for commercial loans, and those who do find such loans expensive. In summary, research on the role of capital in determining the success or failure of small businesses in Africa is contradictory, thus magnifying the importance of this study as aiming to provide a better understanding of the role of capital in the success or failure of small business in Africa.

On managerial skills, a number of studies (Godsell, 1991; Hart, 1972; and Harper, 1996) have shown that administrative problems have been a major cause of failure for small businesses. A study by Kazooba (2006) revealed that poor record keeping and a lack of basic business management experience and skills were major contributors. Researchers also identified inexperience in the field of business, particularly a lack of technical knowledge, plus inadequate managerial skills, lack of planning, and lack of market research (Lussier, 1996, Mahadea, 1996 and Murphy, 1996). Other negative factors that have been identified by the same authors include corruption and mismanagement of resources. However, according to Hatega (2007), obstacles that affect SMEs' ability to compete favorably include limited information on financing products and an inadequate and expensive supply of power and telecommunications. Rural enterprises are equally unable to interpret statistical data (Muteti, 2005) a phenomenon worth noting.

According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential

clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone (Bowen, Morara & Mureithi, 2009). Lack of planning, improper financing and poor management have been cited as the main causes of failure of small enterprises (Longenecker, 2006).

## 5. Conclusions and recommendations

According to research objectives, the study conclusion that the business information though crucial is not readily available to many SMEs. Even the available information is not deemed to be relevant nor does it inform the respondents of the changes in the business environment on time. Thus access to business information affected SME performance to a moderate extent.

On access to business finance, the study established that SMEs with adequate finances can be able to access to better business opportunities to a great extent which will lead to improved business survival. However, it was established that access to capital for SMEs is very challenging.

On availability of Managerial skills, the study found out that managerial skills and experiences are very important to SME performance, and that managerial skills training are required in businesses to a great extent. However, as SME operators in Kenya have limited managerial skills, these have affected their business performance only to a moderate extent.

The overall conclusion of the study is that access to finance and availability of management experience are the key socio-economic factors affecting survival of businesses in Kenya. These two have potential for improved business survival.

### Recommendations

In line with the research objectives, the study recommends that the government should start providing relevant and up-to-date business and market information to SME operators through its ministry of trade and other relevant organs.

The study found out that most SMEs prefer use of personal savings and contributions from relatives because they find it difficult to access financing from commercial banks. The study therefore recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing with minimal collateral.

Finally, the study recommended that the government should start offering basic business and financial management skills as this will enable SMEs to make informed investment decisions. This will enhance their entrepreneurial skills to recognize and exploit the available business opportunities.

### Areas for further research

The study recommends a comparative study between financial performance of SMEs that have received micro-credit financing and those that have not.

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