



THE IMPACT OF SOCIO-ECONOMIC FACTORS ON THE PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES: THE CASE STUDY OF KERICHO COUNTY, KENYA

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Abstract

The Micro and Small Enterprises (MSEs) sector plays an important role in income and employment generation as well as poverty alleviation. As such, the study investigated the extent to which the socioeconomic characteristics of women influenced the performance of their Micro and Small Enterprises in Kericho County, Kenya. Small enterprises play a vital role in economic development as they can provide the economy with efficiency, innovation, competition and employment. Entrepreneurs are responsible for the performance of their businesses and have to face up with definite challenges in doing so. To know what constitute critical determinants of small business performance data were collected from 60 randomly selected respondents in the Kericho County, Kenya, who were administered with structured questionnaires. Regression analyses of the findings showed the positive and significant impact factors of investment, entrepreneurial experience, business profile and culture with $R^2=0.638$ and $F= 11.222$. The provision of ample opportunities to develop skills for business enhancement is suggested as the rational way forward.

Keywords: Business culture, business enhancement, business skills, investment, small Enterprise, Performance factors.

1. Introduction

According to Rose RC, Kumar N, Yen LL (2006) a small business is a business which is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, bakery shops, hairdressers, tradesmen, lawyers, accountants, restaurants, photographers, etc. A common definition provided by the Small and Medium Industries Development Corporation (SMIDEC) which defines SMEs according to two main factors, annual sales turnover and number of full time workers.

According to this definition, small business is one which has Between 5 & 19 employees and annual sales turnover Between RM200, 000 & less than RM 10million. Small business can provide the economy with efficiency, innovation, competition and job growth. Entrepreneurs are responsible for the promotion of enterprises and businesses and cause economic development as they infuse dynamism in economic activity within their territory; manage organizational and technical change; and also promote the innovation and learning culture on such environment Entrepreneurship is accepted as a driving force behind the economic and social development of countries But this depend upon the formal and informal attributes associated with the entrepreneurs. Therefore objective of this paper is to see determinants of business performance in such an economy like in Kericho County, Kenya.

Kericho County is one of the 47 counties in the Republic of Kenya. It is bounded on the north by Nandi and Kisumu Counties, on the east by Nakuru and Baringo Counties and on the south by Bomet County. Kericho County occupies an area of 7,326 squares Only 15 per cent of population lives in four urban centers, the rest 85 per cent lives in 344 rural localities. Total population of the County was 1,018,796 (2007 census).The average annual growth rate was 3.26 percent during this period. Overall literacy rate of the County is just 31.3 percent (2010 census). But in urban area literacy rate is 61%.

Agriculture is the major economic activity in the County, and the leading cash crop is tea production. Most part of the County is a fertile. Mostly urban people seek jobs in Government for their livings. Those who do business they are not skillful. They lack managerial skills, had no knowledge of modern business techniques. They had inadequate promotional activities or use available promotional facilities improperly. Socio-cultural and physical infrastructure is not well developed to support them. Disturbed political situation of the city is also a major hurdle in the way of investment. Quality assurance of the product can be acceptable in the market. At present local market has low demand due to the low purchasing power of the customer. Although government has given subsidies to promote investment, yet it has not given any attention to awareness and training programs for business class. Electricity is the only source of energy in Kericho County which is very costly and causes high cost.

2.0 Literature Review

Small business performance has been defined in a variety of scope by different scholars for example Paige and Littrell (2002), defined small business by intrinsic criteria including freedom and independence, controlling a person's own future, and being one's own boss and extrinsic outcomes including financial returns, personal income, and wealth. Masuo et al. (2001) told that small business performance is usually defined in terms of economic or financial measures which include return on assets, sales, profits, employees and survival rates; and no financial measures, such as customer

satisfaction, personal development and personal realization. Determinants of business performance also vary in nature. For example, Kraut and Grambsch (1987); Kallerberg and Leicht (1991) found size of investment and access to capital (Cooper, 1985; Hisrich, 1990; Krueger, 1993; Lussiers and Pfeifer, 2001; Raman, 2004; Panda, 2008) found experience of entrepreneur as factors affecting business performance. Meng & Liang (1996) found no impact of experience on business performance. Hisrich, 1990; Kallerberg and Leicht, 1991; Krueger, 1993 Rowe et al. 1993; Lussiers and Pfeifer, 2001; Masuo et al., 2001; Thapa, 2007; Indarti and Langenverg, 2008; found that the education has positive effect on business performance. Minniti and Bygrave (2003) have stated that people with more education are not necessarily more entrepreneurial. Kraut and Grambsch (1987), Hisrich (1990) Kallerberg and Leicht, (1991), Krueger (1993), Rowe et al. (1993), Masuo et al. (2001) found that age and support networks have positive contributions in business. Zimmerer and Scarborough (1998) pointed out that most of entrepreneurs in the United States start business during their 30s and 40s, many researchers founded that there is no limit of age for their entrepreneurial aspirations. Age difference at the start of business seems to have no association to business performance. According to Staw (1991), at the start of any business age is not a key factor, but with enough training and preparation, the earlier someone starts business the better. Staw (1991) also notes that age is related to business performance if it includes both sequential age and entrepreneurial age. This means that the older an entrepreneur is, the more experiences in business he has. Age thus implies wide experience. Kallerberg and Leicht (1991), Rowe et al.(1993); Masuo et al. (2001); Rose et. al. (2006) has stated that the performance of the business depends on skills, and training. Cooper (1985), Green and Pryde (1989), Raman (2004) found that motivational factors such as initiatives, third party assistance, encouragement by family and friends, skill and economic conditions leads to the performance of the entrepreneurs. Swunney and Runyan (2007) state that generating income and creating job for them, prop up from family and friends are the foremost factors for motivating the people to become successful entrepreneurs.

Rogoff et al. (2004) found that internal factors such as size and years in business, the ability to magnetize financing, marketing and human resource and external factors such as sales tax rates, infrastructure, market condition, business opportunity, and availability of resources, economic conditions, competition, and government regulation are determinants of business performance. The importance of government support to small business performance is reported in a number of studies. For example Yusuf (1995), Sarder, et al. (1997) found in their research work that the firms getting support services like financing, training, technical, extension and consultancy, information etc from the public or private agencies showed significant raise in sales, employment and productivity. On the opposing, some other studies like Mambula (2004) found that government support was minor to small business performance. Location of business also effect business performance (Kraut & Grambsch, 1987; Kallerberg & Leicht, 1991).

Sub-Saharan Africa (SSA) had high expectations at the beginning of the 1960s of making rapid progress in raising incomes, employment and improving welfare of its people. A number of the SSA countries performancefully expanded the basic infrastructure and social services. However, the beginning of the 1970s saw this initial growth faltering and a decline in growth set in. In the 1980s, the situation worsened as the region faced famine, hunger, malnutrition, disintegration of physical infrastructure and social and political instability (Ondiege, 1995). Thus, the region's economic performance was particularly dismal since the beginning of the last decade (1990-2000) with an average annual GDP growth rate of 0.4% for the period 1980-1987 and a declining per capita income of about 2.6% in the same period. The increasing poverty levels and the disintegration of the productive and infrastructural facilities fuelled the worsening of this situation (World Bank, 1994).

In the past, African economies have tended to ignore the Micro and Small Enterprise (MSE) sector, which in the middle of the last decade were estimated to account for 20% of total output and over 20% of the total labour force. Estimates by the International Labour Organization (ILO) indicate that the MSE sector accounts for 59% of Sub-Saharan Africa's urban labour force. An ILO survey of 17 African countries found that the MSE sector contributes, on average, 20% of GDP (or US \$15 billion a year) to the economies studied (World Bank, 1994). As such, this sector, which has a majority of the women and disadvantaged groups participating as entrepreneurs, employees and customers plays an important role in production, distribution, finance and employment creation in the African economies and therefore, needs to be given serious consideration to help reform Africa's economic structure (Ondiege, 1995).

2.1 Role of Credit and Finance in the Development of Micro-Enterprises

Lack of adequate finances has been cited in various studies as one of the key constraints towards the development of enterprises (McCormick, 1988). Similarly, lack of training and business counseling is the key limitations to the growth of SSE sector (Nafukho, 1998). With adequate provision of these service programmes, it is expected that enterprises do increase the number of jobs created (provide employment), increased sales volumes and incomes.

Rhyne and Otero (1994), in their discussion on financial services for micro-enterprises, state that "mainstream financial institutions cannot easily serve microenterprises... micro-enterprises have established no credit rating. They lack collateral. These factors keep commercial banks out of small-scale enterprise lending". The NGOs, however, are in the forefront in lending to these small-scale enterprises using funds mainly from donor agencies. Research reports from NGOs involved in the financing of small-scale enterprises show that there is a positive impact created by credit interventions.

In their survey in Indonesia, Boomgard and Angell (1990) have reported that the loans borrowed by enterprises are spent primarily for working capital requirements. Profits earned are reported to have grown at an annual rate of 24.6%, total household income at a rate of 20.7%, and total employment increased at a rate of 18.2% per annum. The survey also reveals that loan size appears to be a strong predictor of both net enterprise income and household income. There appears to be insufficient and specific empirical studies in the Kenyan context that have attempted to establish the degree to which women controlled the actual use of the loan money. Such control being in terms of managerial control over the initial loan proposal, investment in productivity assets, labour inputs marketing and use of profits.

3. Methodology

Primary data from 60 businessmen who were randomly selected using stratified sampling technique and had more than Rs500000/- investment and at least five employee was collected with the help of structured questionnaire. A five-point Likert scale was used in questionnaire on different attributes (innovativeness, business knowledge, hard work, strong financial resources, product competitiveness and business networking. Government assistance, training and extension services, marketing, moral support, technical assistance, infrastructure, and business-related policies etc) regarding business profile, skill, socio cultural environment and business environment and Govt policies. Regression impact was seen on average profit per month for knowing performance ness of business. ANOVA test was also applied to know impact of group differences.

4. Modeling

The General Linear Model is commonly estimated using ordinary least square has become one of the most widely used analytic techniques in social sciences (Cleary & Angel, 1984). Most of the statistics used in social sciences are based on linear models, which means trying to fit a straight line to data collected. Ordinary least square is used to predict a function that relates dependent variable (Y) to one or more independent variables ($x_1, x_2, x_3 \dots x_n$). It uses linear function that can be expressed as

$$Y = a + bX_i + \epsilon_i$$

Where;

- a** : Constant
- b** : Slope of line
- X_i** : Independents variables
- ε_i** : Error term

Hence to assess contribution of different determinants in business performance Linear Regression Model was expressed as follow:

$$Y \text{ (Average profit per month)} = a \text{ (constant)} + X_1 \text{ (Age)} + X_2 \text{ (Education)} + X_3 \text{ (Experience)} \\ + X_4 \text{ (Business profile)} + X_5 \text{ (Skill)} + X_6 \text{ (Socio cultural factors)} \\ + X_7 \text{ (Business environment and Government policies)} \\ + X_8 \text{ (Investment)} + \epsilon_i \text{ (Error term)}$$

5. Analysis and Interpretation

Estimation of the business performance using original variables showed moderate to strong multicollinearity among the independent variables (Table 1).

Table 1. Regression impact of following independent variables on dependent variable average profit per month

Model	R	R Square	Adjusted R Square	F	Sig.
1	.799	.638	.581	11.222	.000
Independent Variables	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-34.668	17.096		-2.028	.048
Age	-.280	.267	-.158	-1.050	.299
Education	.355	.365	.090	.973	.335
Experience	1.052	.290	.547	3.628	.001
Business profile	1.781	.465	.411	3.833	.000
Skill	.427	.298	.144	1.435	.157
Culture	-.629	.237	-.246	-2.655	.011
Business environment	-.357	.389	-.089	-.917	.363
Investment	.004	.001	.329	3.382	.001

The large value of F-statistics shows that the explanatory variables included in the model collectively had significant impact on profit. The high R² and Adjusted-R² values suggest that 80 percent variations in the profit were explained by the explanatory variables included in the model. The coefficient for experience, business profile, culture and investment was positive and significant below 5 percent level and suggests that experience, business profile, culture and investment affected profit positively. One percent increase in experience, business profile, culture and investment increased profit about 80% percent. Remaining explanatory variables i.e age, education, skill, and business environment had no significant impact on profit. Same results can be seen in Table 2 on, experience and investment using ANOVA.

Table 2. Impact of following explanatory variables on profit using ANOVA

Variable	Levels	Sum of Squares	df	Mean Square	F	Sig
Investment	Between Groups	5728.425	2	2864.212		
	Between Groups	7426.509	57	130.290	21.983	.000
	Total	13154.933	59			
Age	Between Groups	2.489	1	2.489		
	Between Groups	13152.444	58	226.766	.011	.917
	Total	13154.933	59			
Experience	Between Groups	3277.344	2	1638.672		
	Between Groups	9877.589	57	173.291	9.456	.000
	Total	13154.933	59			
Education	Between Groups	13154.933	2	922.300		
	Between Groups	11310.333	57	198.427	4.648	.013
	Total	13154.933	59			

However higher education level also had positive and significant impact on profit. Descriptive statistics in Table 3 shows that 70% respondents were educated above secondary level. Fifty three percent had entrepreneurial experience of 11 years to 20 years. Forty percent had investment between 1 million and 2 million.

Table 3. Descriptive statistics

Variables	Attributes	F	%age
Age	Below 20 Years	0	0
	21-40 years	42	70.0
	Above 40 years	18	30.0
	Below primary level	4	6.7
Education	Between primary and secondary levels	14	23.3
	More than secondary level	42	70.0
Experience	1-10 Years	14	23.3
	11-20 Years	32	53.3
	21-above	14	23.3
Investment	Up to Rs 1million	22	36.7
	Between Rs 1million and Rs 2million	24	40.0
	Above Rs 2million	14	23.3

Strong and positive correlation can be seen in Table 4 between profit and experience, business profile, investment.

Table 4. Correlation between explanatory variables on profit

Variables	Age	Education	Experience	Business profile	Skill	Culture	Business environment	Investment
Profit	.224	.054	.432**	.465**	.376**	-.021	-.014	.547**
Sig. (2- tailed)	.085	.681	.001	.000	.003	.874	.913	.000

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

6. Conclusion

Major cause behind this was non availability of advisory services from where businessmen could develop business skill among them. Businessmen were doing business on the basis of their experiences in those business profiles (Nature of goods) which were either sold more frequently or had much profit per unit and were according to existing culture. Businessmen were not more initiative in bringing positively change in the existing culture and could not motivate customers well or adopt promotional activities effectively in order to enhance sale. Businessmen were also not able to do SWOT analysis well on and hence could not manage their business as it should be. Higher general education enabled businessmen to understand business world but due to lack of business back ground they could not understand business world technically. However collectively all explanatory variables had significant impact on profit and revealed findings that rejected null hypothesis and confirmed that all explanatory variables used in the model were very important for performance of business. At the end it is suggested that Government should provide opportunities to businessmen for developing skill to promote their businesses.

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