

EFFECT OF BUSINESS DEVELOPMENT SERVICES ON THE PERFORMANCE OF SMALL SCALE ENTERPRENEURS IN KENYA. A SURVEY OF SMALL SCALE ENTERPRISES IN KENYA.

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Abstract

Small Scale Enterprises are acknowledged in Kenya as significant contributors to economic growth and are estimated to contribute 20% and 72% to the Gross Domestic Product and employment respectively. Despite this, it is estimated that they continue to have a deteriorating performance with 3 in every 5 failing within months of establishment. Likewise, the new jobs created by the sector declined from 485.5 thousand in 2007 to 467.3 thousand in 2008 and their contribution to the GDP of the country has only registered a marginal growth of 3.8% in the last 10 years. Poor management skills have been blamed for this wanting performance. Therefore, the purpose of this study was to investigate the effect of business development services on the performance of Small Scale enterprises in Kisii Town. The study found out that the entrepreneurs who received business development services recorded an improvement in the growth of sales and growth in market shares on the various businesses they were operating. The study recommended that Government of Kenya should establish micro and small centres of excellence in each county for information dissemination, research, and product development and program promotion. The Government of Kenya should develop and implement innovative curriculum materials and methods for training needs related to self employment and entrepreneurship. The findings of the study are expected to assert the importance of the provision of business development services in the enhancement of business performance.

Key words: Entrepreneur, Small Scale Enterprises (SSEs), Micro Finance Institutions, Business performance, Business Development Services (BDS)

1. Introduction

Small Scale Enterprises cut across all sectors of the country's economy and provide one of the most prolific sources of employment, not to mention the breeding ground for medium and large industries, which are critical for industrialization (GoK, 2005). The Micro and Small Enterprises are businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers (GoK, 2005).

Given the importance of this sector in areas of employment creation, growth and poverty alleviation, it is important that it is efficiently managed for effective results within the broader overall objectives. Efficient management has been lacking due to external factors that are beyond the owner-manager's control (Oketch, 2000). These factors are inherent in the institutional environment of Kenya which favours larger firms. In addition, ongoing changes in the business environment with regard to globalization of markets act as a further challenge to firms' growth prospects in Kenya. In addition, liberalization of markets has made competition real among firms and only those with a competitive edge can survive.

In Uganda, the Small scale enterprise sector has also contributed to the growth of the economy through employment creation and poverty reduction. The sector experiences many binding constraints that have inhibited the realization of its full potential.(Matovu,D.2006).

Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, et al., 2006). Lack of credit has also been identified as one of the most serious constraints facing SSEs and hindering their development (Oketch, 2000). However, the introduction of the Youth and Women Enterprise Funds and the involvement of MFIs in financing the SSEs has seen the access to microcredit increase from 7.5% in 2006 to 17.9% in 2009 (FSD Kenya, 2009) hence addressing the problem of access to micro-credit.

Policy recommendations of the government of Kenya as contained in its 7th National Development Plan on Divestiture and subsequently in Sessional paper No. 2 of 2005, advocates for the government to take the leading role by providing an enabling environment for MSE's market operations. This will require the establishment of infrastructure for access to markets, provision of work site structures, dissemination of market information through networks and innovation amongst other well-known strategies. The 2003–2007 Economic Recovery Strategy (ERS) for Wealth and Employment Creation provides the road map for economic recovery. The paper estimated that SSEs contribute 20 and 72% to the GDP and employment respectively. Hence, when the ERS anticipated creating 500,000 jobs annually, 88% of the targeted jobs were to be created in SSEs with the aim of reducing poverty rates from 56.7 to 51.8% (Ministry of Planning and National Development, 2003).

Despite the various policy interventions as outlined in the various strategy papers, majority of small scale enterprises fail to grow into medium and eventually large enterprises as envisaged in their conceptual plans. A recent study by Bowen et al. (2009) shows that over 50% of SSEs continue to have a deteriorating performance with 3 in every 5 SSEs failing within months of establishment. Likewise, the new jobs created generally in the whole country declined from 485.5 thousand in 2007 to 467.3 thousand in 2008 (GoK, 2008) and their contribution to the GDP of the country has only registered a marginal growth as it is estimated at about 22% in 2010 up from 18.2% in 1999 (Ministry of Labour Discussion Paper, 2010). This scenario may temper one's enthusiasm for the growth of SSE's as a solution to the country's poverty and employment problems.

According to Namusonge (2010) financial management need to be improved through provision of non-financial BDS and Entrepreneur Development program which is demand oriented. Another intervention strategy which have been advocated include training as it impacts positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. Therefore, the study sought to evaluate whether proper provision of business development services may have an influence on the performance of the SSEs in Kenya.

1.1 Statement of the Research Problem

Small Scale Enterprises (SSEs) in Kenya do significantly contribute to the country's economic growth through employment creation, poverty reduction and their acting as intermediaries in trade. According to the Economic Recovery Strategy (ERS) of 2003-2007 for Wealth and Employment, SSEs contribute about 20% to the GDP of the Kenyan economy. Despite this tremendous expansion of the sector, its contribution to the economy has not translated to real economic value since its contribution to the National economy has only shown marginal growth at about 22% in 2010 up from 18.2% in 1999 (Ministry of Labour, 2010).Research findings have shown that over 50% of SSEs continue to have a deteriorating performance with three in every five SSEs failing within months of establishment. This implies that the sector has been experiencing stagnation with no significant graduation from one enterprise level to the next. Lack of adequate business development services such management skills and extension services have been touted as major drawbacks in the growth and development of the SSE sector. This is despite assertions that effective provision of business development services does enhance productivity and competitiveness of the SSEs. Therefore the purpose of the study was to find how the business development services offered to SSEs influenced the performance of their businesses.

2. Concept of Business Development Services

Business Development Services (BDS) may be defined as those services and products offered to entrepreneurs at various stages of their business development journey, from business idea development all the way to growth and maturity of the business (UNDP,2004).

2.1 Training services

A key factor in financial success is financial literacy or financial education. Financial education programs teach the knowledge, skills and attitudes required to adopt good management practices for earning, spending, saving, borrowing and investing. Participants in these programs become equipped with information and tools to make better financial choices, work towards their financial goals and ultimately enhance their economic well-being.(Henry, 2006).

2.2 Technical services

Many countries envisage to provide SSEs with marketing and advertising supports. These services are supposed to help them in selling their products on local and export markets at the request of the suppliers by organising exhibitions and trade fairs, and by facilitating the exchange of experiences among enterprises through seminars and workshops(UNDP,2004). In Kenya provision of marketing services to SSEs exists but its

overall effectiveness tends to be low. The country lacks trade point facilities and support for obtaining information on export markets. Although the flow of information on SSEs has slightly improved ,many SSEs still do not know where and how to access existing and relevant marketing information. As a result, majority rely on informal feedback from customers.Competitiveness of the SSEs remains weak due to poor product quality,packaging,advertising and distribution(GoK,2005).

As observed by Okwena et al (2010), book keeping practices among the small businesses in Kisii Municipality are not effective and this has had a negative effect on the financial performance of these enterprises. The poor bookkeeping skills are associated to little knowledge. SSEs therefore require bookkeeping services to be able to have accurate financial records that can enhance decision making.

2.3 Review of related empirical literature

Simeyo et al (2011) in their study of the effect of provision of micro finance on the performance of youth micro enterprises under Kenya Rural Enterprise Program (K-REP) in Kisii County using a sample of 86 youth micro enterprises established that training in micro enterprise investment had a significant positive impact on the performance of the microenterprises with a standardized beta coefficient of 0.281 which indicated that a unit increase in the provision of training to SSEs resulted to a 28.1% increase in performance. The study further established that majority of the respondents were very satisfied with the provision of capital investment and basic business skills training in micro enterprise investment. This suggests that the business skill training accompanying the provision of micro loans most likely improves the capacity of the entrepreneurs to use funds and hence impacts on business performance. In terms of business risk management, the results showed that respondents were moderately satisfied in terms of achievement of business risk management skills With the implication that the youth micro entrepreneurs were inadequately equipped with knowledge and skills of business risk management hence are unable to adequately deal with business risks and therefore in the event that such risks occur, their micro enterprises are significantly affected. They recommended that similar studies be carried out but using a larger sample size so as to have an in-depth understanding of the effect of non-financial services on business performance.

Fidler and Webster (1996) advocate that in many cases, basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use funds. Micro enterprise investment training mainly addresses capital investment decisions, general business management and risk management. Capital investment decisions include allocation of the microenterprise limited capital funds most effectively in order to ensure the best return possible. Therefore, a wrong decision can have long lasting effect not only on the profits but on very survival of the enterprise.

Nyabwanga (2011) in his study of the effect of working capital management practices on the financial performance of small scale enterprises in Kisii South district using a sample of 113 small scale enterprises and using a survey design established that majority of the small business owners or managers had just basic education and over 57% of these business operators hardly attend any business training programmes despite the establishment that over 60% of them had little or no knowledge in business management hence were void of management skills vital in the running of their enterprises. The study also established that the performance of small scale enterprises was on average low. The study recommended a study that will unravel the impact of training on the performance of businesses.

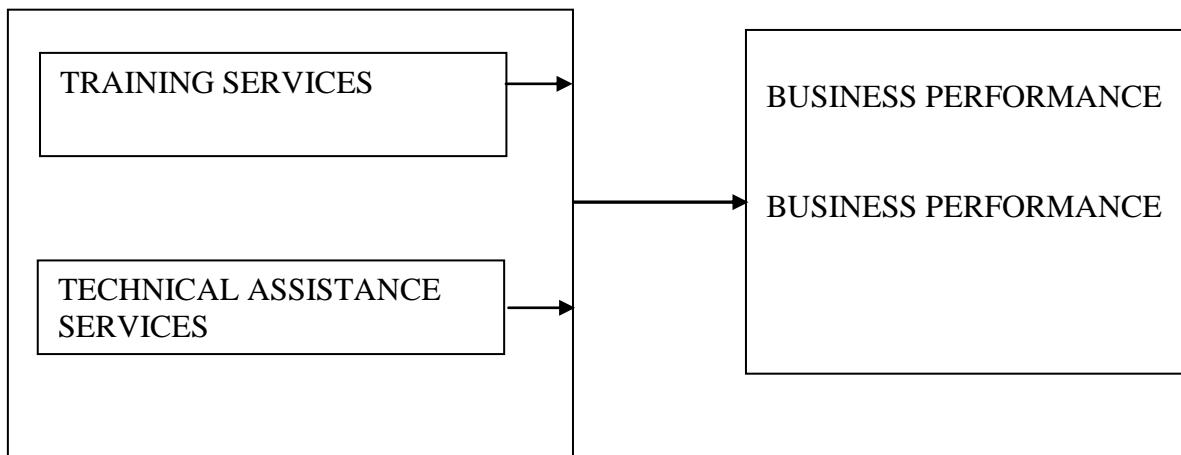
Aczel (2000) in his study on the role of microfinance in supporting micro entrepreneurial endeavor in Thailand. indicated that the involvement of microfinance institutions in promotion of micro enterprise and processing industry through the provision of information, knowledge, skills and linking the entrepreneurs to information service providers plays a key role in economies of developed countries as a source of goods and services, income, savings and employment and their overall performance.

Mochona (2006) studied the impact of microfinance in Addis Ababa-Ethiopia. He assessed the impact of microfinance on women micro enterprises that were clients of Gasha Microfinance Institution. The research findings indicated that only a few of the women clients of the Gasha Microfinance Institution reported increased incomes from their micro enterprise activities. It was also noted that majority of the clients faced major risks in running their businesses and therefore dropped out of the micro finance program as they were pushed into indebtedness and could not repay the loans. Majority of the women clients of Gasha Microfinance Institution were also unable to build key assets since the savings were dismal. The study recommended that, improving technical and business skills of clients through training will enhance their business skills hence their performance. Also, it recommended that the women microenterprises should be assisted to establish market channels for their products until they do that independently.

Bowen et al. (2009) researched on Management of business challenges among small and micro enterprises in Nairobi Kenya. The findings of the research indicated that over 50% of SSEs continue to have a deteriorating performance with 3 in every 5 SSEs failing within months of establishment. Only 2.5% respondents saying their businesses were very successful. The results also showed that 49.5% of those who had received training in their areas of business reported that their businesses were doing well hence the conclusion that relevant training or education is positively related to business success and recommendation that of the need for SSEs owners to get trained in an area that is relevant to the business carried.

2.4 Conceptual Framework

- . The study postulates that effective provision of training will enhance the owners' or managers' business management and investment knowledge and skills which are vital for the improvement of the performance of the SSEs.



3. Results and discussion

3.1 Training Programs

The results of analysis on attendance of management training programs as indicated that 17.3% of the respondents have never attended any training services; 40.7% rarely attend training services while 34.6% sometimes attend training services. These results show that SSEs owners seldom attend training programmes. The results are consistent with those observed by Nyabwanga (2011) that majority of the small business owners or managers had just basic education and over 57% of these business operators hardly attend any business training programmes despite the establishment that over 60% of them had little or no knowledge in business management hence were void of management skills vital in the running of their enterprises. Generally, most of the SSE's were least satisfied with the training services as compared to those who were satisfied. Only very few were satisfied in all the areas of training. This could be attributed to the fact that the trainings were not customer tailored or the training agencies had poor quality programmes and also lack of enterprise culture contributed to these as attested by the Sessional Paper No.2 of 2005 on the Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. 55.6% of the respondents were least satisfied with the training they received on basic business management skills while 45% reported to be satisfied on the investment skills they were trained on. Those respondents satisfied with training received on business risk management were slightly higher as opposed to those who were least satisfied

Cross tabulation between training attendance and quality of products showed that there was a statistically significant difference between those respondents attending trainings as compared to those who were not. 100% of the respondents who always attended trainings ranked the quality of

their products to be good whereas only 47.1% of those not attending any training reported their quality of products to be fair. It was evident from the study that training affects the performance of SSE's in Kisii municipality. 50% of those that always attended training report their growth of sales to be good as compared to only 16.7% that had never attended any training. These results corroborate the findings of Simeyo *et al* (2011) in their study on the effect of provision of micro finance on the performance of youth micro enterprises under Kenya Rural Enterprise Program (K-REP) in Kisii County using a sample of 86 youth micro enterprises established that training in micro enterprise investment had a significant positive impact on the performance of the microenterprises. Henry *et al* (2003) are of the opinion that training for entrepreneurs is desirable as it provides necessary skills required to set up business. Poor growth of market shares was reported by 23.5% of the respondents that had never attended training whereas none of those always attending trainings reported poor growth of market shares. This was shown by cross tabulation between growth of market shares and training attendance

3.2 Technical Assistance Services

The second objective of the study sought to determine the influence of technical assistance services on the business performance of SSEs. Respondents were rated on their level of satisfaction with the provision of marketing and advertisements services; extension services; consultancy services; accounting and bookkeeping and technology use. The results of the analysis as shown in table 4.6 below indicated that 63.4% of the respondents were least satisfied with the marketing and advertisement services they were provided with while 4.2% were very satisfied with them. therefore require bookkeeping services to be able to have accurate financial records that can enhance decision making.

Generally marketing and advertisement influences the performance of the SSE's in Kisii County. 100% of the respondents that were least satisfied with marketing and advertisement services reported poor sales. It was also evident from the study that a higher percentage of those that had good sales were those satisfied with this service as opposed to those that were least satisfied. The frequency of respondents that were satisfied with book keeping and accounting services and had good sales was higher than those that were least satisfied. This findings corroborate with those highlighted in Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. The Paper highlighted that the institutions providing entrepreneurship and business development training suffer from inadequate capacity. They are therefore, unable to offer training in a wide range of trades leading to unsatisfied clients.

A cross tabulation between Bookkeeping and accounting services and performance of the SSE's showed that this service significantly increased the growth market shares of the SSE's 100% of those not satisfied with this service reported to have poor growth of market shares. Good growth in profits for those satisfied with book keeping and accounting services was higher as compared to those that were not satisfied. These findings are consistent with those observed by Okwena *et al* (2010), that book keeping practices among the small businesses in Kisii Municipality were not effective and this has had a negative effect on the financial performance of these enterprises. The poor bookkeeping skills are associated to little knowledge. SSEs therefore require bookkeeping services to be able to have accurate financial records that can enhance decision making.

Majority of the respondents had fair growth of sales. The growth in market shares and profits was also fair as reported by most of the respondents. It was also observed by the study that most of the respondents had a good quality of products and services and business image. The fair growth in sales, market shares, quality products and services revealed that provision of the BDS was still inadequate. The findings are consistent with the Sessional Paper No 2 of 2005 on the Development of MSEs which highlighted that there existed no provision in the curricula for appraising the BDS programmes at business start-up, survival and growth stages to establish the extent to which these programmes are demand –driven, value –adding and address the specific

4. Conclusion

The study established that most of the entrepreneurs did not attend training services regularly with the results indicating least satisfaction with the with training services in relation to the achievement of basic business management skills, business risk management skills and investments skills. Only very few were satisfied in all the areas of training. 55.6% of the respondents were least satisfied with the training they received on basic business management skills while 45% reported to be satisfied on the investment skills they were trained on. Further the results showed that those who attended the training services recorded an improvement in their businesses in terms of growth in sales and profits with 83.3% of the respondents who always attended training reporting to have good growth in profits as opposed to only 41.2% of those who never attended training.

The study established that majority of the respondents were least satisfied with the marketing and advertisement services they were provided with the provision of the provision of marketing and advertisement services indicating an influence on the performance of the SSE's in Kisii County..

Since the study findings have shown that business development services have an influence on business performance the study recommends that the Kenyan government through the Ministry of Trade should provide training programs for the owner-managers and

managers of SSEs so as to help polish their knowledge in financial management and other managerial skills. Field officers should be recruited to coordinate and monitor the provision of training, advice, counsel and provide other non-financial services to these small business operators.

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